NEW ISSUE
FULL BOOK-ENTRY

RATINGS: Moody's and
Standard & Poor's
See "RATINGS"

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Series 2005A Bonds, interest on the Series 2005A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Series 2005A Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Series 2005A Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Series 2005A Bonds received by certain S corporations may be subject to tax, and interest on the Series 2005A Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Series 2005A Bonds may have other federal tax consequences for certain taxpayers. See the caption "Tax Exemption" herein.

SOUNDTRANSIT

$422,815,000
The Central Puget Sound Regional Transit Authority
Sales Tax Bonds, Series 2005A

Dated: Date of Initial Delivery **Due: November 1, as shown on inside cover**

The above-captioned bonds (the "Series 2005A Bonds") are being issued by The Central Puget Sound Regional Transit Authority ("Sound Transit"), a Washington regional transit authority, under a book-entry system, initially registered to Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as initial securities depository for the Series 2005A Bonds. Individual purchases of Series 2005A Bonds will be made in the principal amount of $5,000, or integral multiples thereof within a single maturity, in book-entry form only, and purchasers will not receive certificates representing their interest in the Series 2005A Bonds, except as described herein. Interest on the Series 2005A Bonds will be payable commencing on November 1, 2005, and semiannually thereafter on each May 1 and November 1. For so long as the Series 2005A Bonds are held in book-entry form, principal of and interest on the Series 2005A Bonds will be remitted to beneficial owners through DTC. See Appendix E–"Book-Entry Only System."

Certain of the Series 2005A Bonds will be subject to redemption prior to maturity upon the terms and at the prices set forth in "THE SERIES 2005A BONDS–Redemption and Purchase Provisions."

The Series 2005A Bonds are special limited obligations of Sound Transit payable from and secured solely by a pledge of Sound Transit's sales and use tax and rental car tax imposed at the rates specified herein (collectively, the "Pledged Taxes") and certain amounts, if any, in the "Pledged Accounts" (as herein described). The Series 2005A Bonds are not obligations of the State of Washington or any political subdivision other than Sound Transit. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005A BONDS" and "SOUND TRANSIT TAXES."

THE PLEDGE FOR THE PAYMENT OF THE SERIES 2005A BONDS OF THE PLEDGED TAXES AND CERTAIN AMOUNTS IN THE PLEDGED ACCOUNTS IS SUBORDINATE TO THE PLEDGE THEREON IN FAVOR OF THE PRIOR BONDS (AS DEFINED HEREIN). SOUND TRANSIT HAS RESERVED THE RIGHT TO ISSUE OBLIGATIONS IN THE FUTURE THAT ARE SECURED BY PRIOR OR PARITY PLEDGES OF THE PLEDGED TAXES AND CERTAIN AMOUNTS IN THE PLEDGED ACCOUNTS.

Payment of the principal of and interest on the Series 2005A Bonds when due will be insured by a financial guaranty insurance policy (the "Series 2005A Bond Insurance Policy") to be issued by Ambac Assurance Corporation ("Ambac Assurance"), a Wisconsin-domiciled stock insurance company, simultaneously with the delivery of the Series 2005A Bonds. See "THE SERIES 2005A BOND INSURANCE POLICY" and Appendix F—"Specimen Series 2005A Bond Insurance Policy."

Ambac

MATURITY SCHEDULE LOCATED ON INSIDE COVER

This cover contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2005A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for Sound Transit by its General Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Preston Gates & Ellis LLP, Seattle, Washington. It is expected that the Series 2005A Bonds will be available for delivery in New York, New York, through the facilities of DTC, or to the fiscal agent of the State on behalf of DTC by Fast Automated Securities Transfer (FAST), on or about March 31, 2005.

Citigroup

Lehman Brothers **Merrill Lynch & Co.** **UBS Financial Services Inc.**

Banc of America Securities LLC **Siebert Brandford Shank & Co., L.L.C.**

March 2, 2005

$422,815,000
The Central Puget Sound Regional Transit Authority
Sales Tax Bonds, Series 2005A

Due Nov. 1	Principal Amount	Interest Rate	Yield or Price	CUSIP	Due Nov. 1	Principal Amount	Interest Rate	Yield or Price	CUSIP
2011	$ 5,810,000	3.30%	3.39%	15504RAA7	2020	$ 215,000	4.125%	4.20%	15504RAT6
2012	2,605,000	3.50	3.58	15504RAB5	2020	22,250,000	5.00	4.20	15504RAU3
2012	3,410,000	5.00	3.58	15504RAC3	2021	160,000	4.20	4.24	15504RAV1
2013	820,000	3.625	3.73	15504RAD1	2021	18,240,000	5.00	4.24	15504RAW9
2013	8,855,000	5.00	3.73	15504RAE9	2022	19,315,000	5.00	4.29	15504RAX7
2014	75,000	3.75	3.83	15504RAF6	2023	20,285,000	5.00	4.33	15504RAY5
2014	13,125,000	5.00	3.83	15504RAG4	2024	21,300,000	5.00	4.38	15504RAZ2
2015	315,000	3.875	3.92	15504RAH2	2025	40,000	4.375	4.41	15504RBA6
2015	12,105,000	5.00	3.92	15504RAJ8	2025	22,325,000	5.00	4.41	15504RBB4
2016*	25,000,000	*	100	15504RAL3	2026	23,480,000	5.00	4.45	15504RBC2
2017	875,000	4.00	4.07	15504RAM1	2027	24,645,000	5.00	4.49	15504RBD0
2017	18,980,000	5.00	4.07	15504RAN9	2028	25,875,000	5.00	4.51	15504RBE8
2018	270,000	4.00	4.12	15504RAP4	2029	47,150,000	5.00	4.53	15504RBF5
2018	14,405,000	5.00	4.12	15504RAQ2	2030	50,000	4.50	4.55	15504RBG3
2019	425,000	4.125	4.17	15504RAR0	2030	49,290,000	5.00	4.55	15504RBH1
2019	21,120,000	5.00	4.17	15504RAS8					

* Muni-Steps.SM These Bonds bear interest at 3.45% per annum to and including November 1, 2008, at 3.95% per annum to and including November 1, 2011, at 4.40% per annum to and including November 1, 2014, and thereafter at 4.80% per annum. (Muni-Steps is a service mark of Merrill Lynch & Co. Inc.) The Series 2005A Bonds are term bonds and are subject to mandatory redemption in 2015 and 2016. See "THE SERIES 2005A BONDS–Redemption and Purchase Provisions."

The initial CUSIP numbers assigned to the Series 2005A Bonds are included on this page for the convenience of investors. No assurance can be given that the CUSIP numbers for the Series 2005A Bonds will remain the same after the Series 2005A Bonds are issued.

Sound Transit

(The Central Puget Sound Regional Transit Authority)
401 South Jackson Street
Seattle, Washington 98104
(206) 398-5000
http://www.soundtransit.org*

Board of Directors

Name (Board Position)	Entity Representing	Elected/Appointed Position
John W. Ladenburg (Chair)	Pierce County	County Executive
Greg Nickels (Vice Chair)	City of Seattle	Mayor
Mark Olson (Vice Chair)	City of Everett	Council Member
Fred Butler	City of Issaquah	Deputy Council President
Jack Crawford	City of Kenmore	Council Member
David Enslow	City of Sumner	Council Member
Douglas MacDonald	State of Washington	Secretary of Transportation
Connie Marshall	City of Bellevue	Mayor
Richard McIver	City of Seattle	Council Member
Julia Patterson	King County	Council Member
Dwight Pelz	King County	Council Member
Kevin Phelps	City of Tacoma	Council Member
Larry Phillips	King County	Council Chair
Aaron Reardon	Snohomish County	County Executive
Jack Start	City of Mill Creek	Council Member
Ron Sims	King County	County Executive
Claudia Thomas	City of Lakewood	Council Member
Pete von Reichbauer	King County	Council Vice Chair

Principal Administrative Officers

Joni Earl	Chief Executive Officer
Vernon Stoner	Deputy Chief Executive Officer
Desmond Brown	General Counsel
Ahmad Fazel	Director, Link Light Rail
Agnes Govern	Director, Regional Express and Sounder Commuter Rail Capital Projects
Ric Ilgenfritz	Chief Communications Officer
Paul Matsuoka	Chief Policy and Planning Officer
Marty Minkoff	Director, Transportation Services
Phil O'Dell	Director, Project Delivery Support Services
Hugh Simpson	Chief Financial Officer
Marcia Walker	Board Administrator

Advisors and Consultants

Foster Pepper & Shefelman PLLC	Bond Counsel
Public Financial Management, Inc. and Hattori & Associates, LLC	Financial Advisors

* Information on Sound Transit's web site is not part of this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor can it be relied upon to make investment decisions regarding the Series 2005A Bonds.

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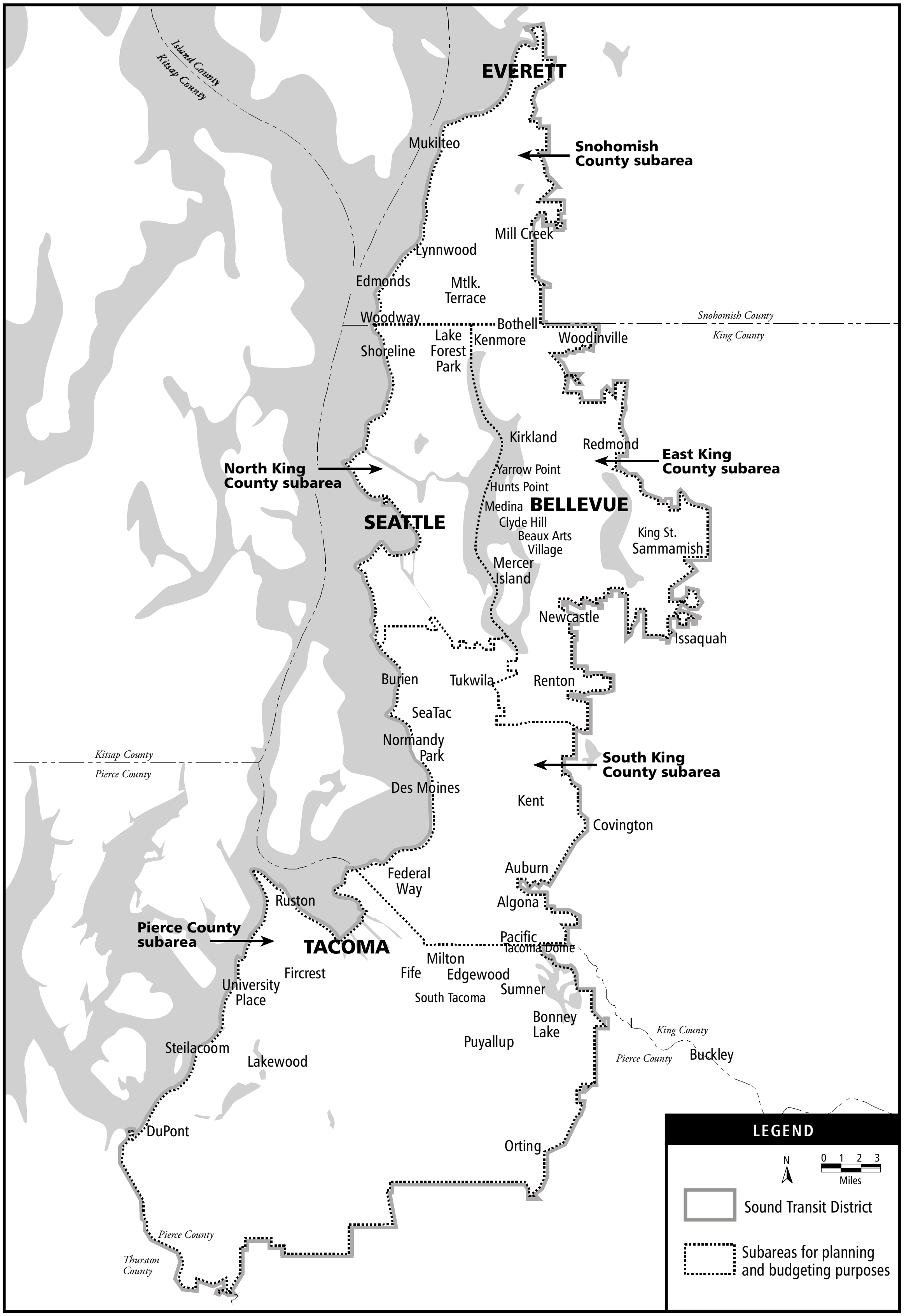
No dealer, broker, salesman, underwriter or other person has been authorized by Sound Transit or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2005A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from Sound Transit, DTC and other sources believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Sound Transit or any other parties described herein since the date as of which such information is presented.

It has been the practice of the Underwriters to maintain a secondary market in municipal securities they sell. The Underwriters, however, are not obligated to engage in secondary market trading or to repurchase any of the Series 2005A Bonds at the request of the owners thereof, and no assurance can be given that a secondary market for the Series 2005A Bonds will be available. In connection with this offering, the Underwriters may over allot or effect transactions that stabilize or maintain the market price of the Series 2005A Bonds at levels above that which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.

SOUND TRANSIT DISTRICT



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OFFICIAL STATEMENT

OF

SOUND TRANSIT

(THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY)

$422,815,000
SALES TAX BONDS, SERIES 2005A

INTRODUCTION

This Official Statement, including the cover, inside cover and appendices hereto and the documents incorporated herein by reference, is being provided by The Central Puget Sound Regional Transit Authority ("Sound Transit") to furnish information in connection with the issuance by Sound Transit of the above-captioned bonds (the "Series 2005A Bonds" and, together with any obligations issued in the future payable on a parity with the Series 2005A Bonds, the "Parity Bonds"). Unless otherwise defined in this Official Statement, capitalized terms used herein will have the meaning or meanings set forth in Appendix B.

General

Sound Transit was created on September 17, 1993, pursuant to chapter 81.112 of the Revised Code of Washington ("RCW"). Sound Transit is a regional transit authority encompassing portions of King, Snohomish and Pierce Counties (the "Counties") in the Puget Sound Region of Washington State (the "State"). See "SOUND TRANSIT" herein. Its primary purpose is to plan and implement a high capacity transportation system within its boundaries. Sound Transit has adopted "Sound Move: The Ten-Year Regional Transit System Plan" (the "System Plan") which incorporates commuter rail, light rail, express bus, community connections (*e.g.*, transit centers, park-and-ride lots and transit access improvements) and high occupancy vehicle facilities and improvements that are expected to cost $6.6 billion (year-of-expenditure dollars). Sound Transit initially gained voter approval to impose and collect three taxes within its jurisdiction: a 0.4% sales and use tax (the "Sales Tax"), a 0.8% rental car tax (the "Rental Car Tax") and a 0.3% motor vehicle excise tax (the "Motor Vehicle Tax"), collectively the "Local Option Taxes," all of which it imposed effective April 1, 1997. See "SOUND TRANSIT TAXES." The Sales Tax, the Rental Car Tax and any other taxes Sound Transit may hereafter pledge to the payment of any Parity Bonds are referred to collectively as "Pledged Taxes." See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005A BONDS–Pledge of the Pledged Taxes."

In January 1999, Sound Transit issued $350 million of its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (the "Series 1999 Bonds") to finance a portion of the System Plan, and pledged all of the Local Option Taxes to payment of the Series 1999 Bonds. In November 2002, the State's voters approved Initiative Measure No. 776 ("I-776"), which, among other things, purported to repeal Sound Transit's authority to impose and collect the Motor Vehicle Tax. Litigation ensued involving, among other things, whether I-776 impairs Sound Transit's pledge of the Motor Vehicle Tax to secure the Series 1999 Bonds (the "I-776 Litigation"). In December 2004, the King County Superior Court ruled in favor of Sound Transit and entered a judgment dismissing the claims challenging Sound Transit's continued collection of the Motor Vehicle Tax. That decision has been appealed. See "LITIGATION." Until the litigation regarding the ability of Sound Transit to collect the Motor Vehicle Tax is fully resolved, Sound Transit expects to refrain from pledging the Motor Vehicle Tax to payment of additional bonds, including the Series 2005A Bonds. However, for so long as the Motor Vehicle Tax is collected and is subject to the requirements of the Prior Resolution, Sound Transit expects to use the revenue from all Local Option Taxes (including the Motor Vehicle Tax) for the purposes and in the priorities described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005A BONDS–Local Option Tax Accounts, Additional Tax Accounts and Flow of Funds."

The District

Sound Transit's boundaries generally conform to the "urban growth boundaries" designated by the Counties pursuant to the State's Growth Management Act, with certain minor adjustments. The area within Sound Transit's boundaries (the "District") comprises the most populous region in the State, with a 2004 population of approximately 2,615,000, and includes the cities of Seattle, Tacoma, Bellevue and Everett. A map of the District is set forth on page iii of this Official Statement.

Purpose

The Series 2005A Bonds are being issued to provide the funds necessary to: pay a portion of the costs of providing high capacity transportation service consistent with its statutory authority and the System Plan; fund the Subordinate Reserve Account Requirement upon the issuance of the Series 2005A Bonds; and pay certain costs of issuing the Series 2005A Bonds, including the premium for the Series 2005A Bond Insurance Policy. See "SOURCES AND USES OF SERIES 2005A BOND PROCEEDS."

Security

The Series 2005A Bonds are secured primarily by a pledge of Pledged Taxes and certain amounts, if any, in the Pledged Accounts (as defined herein). The 2005A Bonds are "Subordinate Lien Obligations" as that term is defined by and under Resolution No. R98-47 (the "Prior Resolution"), adopted by Sound Transit's Board of Directors (the "Board") on November 2, 1998. Consequently, the pledge of Pledged Taxes and amounts in the Pledged Accounts representing revenues from Pledged Taxes in favor of the Series 2005A Bonds is subordinate to the pledge of Pledged Taxes and amounts in the Pledged Accounts representing revenues from Pledged Taxes securing the Series 1999 Bonds and any obligations hereinafter issued under the Prior Resolution on a parity with the Series 1999 Bonds (collectively, the "Prior Bonds"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005A BONDS."

Authority

The Series 2005A Bonds are authorized to be issued pursuant to chapters 81.104 and 81.112 RCW, as amended (the "Act"), and chapter 39.46 RCW, together with Resolution No. R2005-02 adopted by the Board on February 10, 2005 and Resolution No. R2005-07 adopted by the Board on March 2, 2005 (collectively, the "Parity Bond Resolution"). See Appendix B–"The Parity Bond Resolution."

Future Bonds

Upon meeting certain conditions set forth in the Prior Resolution and the Parity Bond Resolution, as applicable, Sound Transit has reserved the right to issue obligations in the future that are secured by a pledge of the Pledged Taxes that is prior to, on a parity with, or junior to the pledge thereof in favor of the Series 2005A Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005A BONDS–Additional Prior Bonds," "–Future Parity Bonds" and "–Junior and Other Obligations."

Ongoing Disclosure

Sound Transit has undertaken to provide certain financial information and notices of certain events on an ongoing basis. See "ONGOING DISCLOSURE."

Forward-Looking Statements

This Official Statement contains "forward-looking statements" within the meaning of the federal securities laws. These forward-looking statements include, among others, statements concerning expectations, beliefs, opinions, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements.

THE SERIES 2005A BONDS

General

The Series 2005A Bonds will be issued in the aggregate principal amount of $422,815,000, will be dated their date of initial delivery and will mature on November 1 in the years and in the amounts set forth on the inside cover of this Official Statement, subject to prior redemption as described below in "Redemption and Purchase Provisions."

The Series 2005A Bonds will bear interest from their dated date at the rates set forth on the inside cover of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on each May 1 and November 1, commencing November 1, 2005, to the dates of maturity or prior redemption of the Series 2005A Bonds, whichever occurs earlier.

The Series 2005A Bonds will be issued as fully registered bonds under a book-entry system initially registered to Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as initial securities depository for the Series 2005A Bonds. Individual purchases of Series 2005A Bonds will be made in the principal amount of $5,000, or integral multiples thereof within a single maturity, and will be in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2005A Bonds, except as described in Appendix E–"Book-Entry Only System."

The fiscal agent of the State (currently The Bank of New York) will serve as initial paying agent, transfer agent and registrar for the Series 2005A Bonds (the "Registrar").

Sound Transit and the Registrar may deem and treat the Owner of each Series 2005A Bond as the absolute owner of such bond for the purpose of receiving payments of principal and interest due on such bond and for all other purposes, and neither Sound Transit nor the Registrar will be affected by any notice to the contrary. So long as the Series 2005A Bonds are held by DTC or its nominee, "Owner" will mean DTC or its nominee.

Redemption and Purchase Provisions

Optional Redemption. The Series 2005A Bonds maturing on and after November 1, 2015 (other than the Series 2005A Bonds maturing on November 1, 2016), are subject to optional redemption, in whole or in part (within one or more maturities to be selected by Sound Transit), at any time on and after May 1, 2015, at par plus accrued interest to the redemption date.

The Series 2005A Bonds maturing on November 1, 2016 are subject to optional redemption, in whole or in part, on any interest payment date on or after November 1, 2008, at par plus accrued interest to the redemption date.

Mandatory Redemption. Unless earlier redeemed pursuant to an optional redemption, the Series 2005A Bonds maturing on November 1 in the year 2016 (the "Series 2005A Term Bonds"), are subject to mandatory redemption on November 1 of the following years in the following principal amounts, at a price of par plus accrued interest to the date of redemption:

Series 2005A Term Bonds Maturing November 1, 2016

Mandatory Redemption Years	Mandatory Redemption Amounts
2015	$ 5,925,000
2016 (maturity)	19,075,000

Partial Redemption. If less than a whole of a maturity is called for redemption, the Series 2005A Bonds to be redeemed will be chosen by lot (or in such other manner as the Registrar determines) in integral multiples of $5,000 by the Registrar or, so long as the Series 2005A Bonds are registered in the name of Cede & Co. or its registered assign, by DTC in accordance with the Letter of Representations. If less than all of the principal amount of any Series 2005A Bond is redeemed, upon surrender of such bond at the principal corporate trust office of the Registrar, there will be issued to the Owner, without charge, for the then unredeemed balance of the principal amount, a new

Series 2005A Bond or Series 2005A Bonds, at the option of the Owner, of like maturity and interest rate in any authorized denominations in the aggregate total principal amount remaining unredeemed.

Notice of Redemption. Written notice of any redemption of Series 2005A Bonds will be given by the Registrar by first class mail, postage prepaid, not less than 30 days nor more than 60 days before the redemption date by first-class mail, postage prepaid, to the Owners of Series 2005A Bonds that are to be redeemed at their last address shown on the Bond Register. So long as the Series 2005A Bonds are in book-entry form, notice of redemption will be given as provided in the Letter of Representations. Sound Transit makes no representation that any beneficial owner will receive such notices from DTC or its participants. Notice will be deemed effective when mailed, whether or not it is actually received by the Owner.

Pursuant to Sound Transit's continuing disclosure undertaking, Sound Transit also is required to cause timely notice of Series 2005A Bond calls to be provided to each NRMSIR (or the MSRB) and to any SID. See "ONGOING DISCLOSURE" and Appendix B–"The Parity Bond Resolution" herein for definitions of the terms "NRMSIR," "MSRB" and "SID" and a description of Sound Transit's undertaking to provide certain notices.

Failure to Redeem. If any Series 2005A Bond is not redeemed when properly presented at its maturity or call date, Sound Transit will be obligated to pay interest on that Series 2005A Bond at the same rate provided in the Series 2005A Bond from and after its maturity or call date until that Series 2005A Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Subordinate Bond Account and the Bond has been called for payment by giving notice of that call to the Owner of each of those unpaid Series 2005A Bonds.

Purchase. Sound Transit has reserved the right (but is under no obligation) to purchase for retirement any of the Series 2005A Bonds offered to Sound Transit at any price deemed acceptable by Sound Transit.

Effect of Redemption or Purchase. Unless Sound Transit has revoked a notice of redemption, Sound Transit will transfer to the Registrar amounts that, in addition to other money, if any, held by the Registrar, will be sufficient to redeem, on the redemption date, all the Series 2005A Bonds to be redeemed. If sufficient money has been so transferred to and is held by the Registrar, from and after the redemption date interest on each Series 2005A Bond to be redeemed will cease to accrue. To the extent that Sound Transit optionally redeems or purchases any Series 2005A Term Bonds, Sound Transit will reduce the principal amount of the Series 2005A Term Bonds of the same maturity in like aggregate principal amount. Any such reduction may be applied to reduce the amount of any one or more mandatory redemptions applicable to such Series 2005A Term Bonds as specified by the Chief Financial Officer.

Book-Entry Only System

DTC will act as initial securities depository for the Series 2005A Bonds. The Series 2005A Bonds will be issued as fully-registered bonds in the name of Cede & Co., as nominee of DTC. One fully-registered Series 2005A Bond will be issued for each maturity of the Series 2005A Bonds in the principal amount of such maturity and will be deposited with DTC. See Appendix E–"Book-Entry Only System."

If DTC or any other successor depository resigns from its functions as depository, and no substitute depository can be obtained, or Sound Transit determines that it is in the best interest of the beneficial owners of the Series 2005A Bonds that such bonds be provided in certificated form, the ownership of such Series 2005A Bonds may then be transferred to any person or entity as provided in the Parity Bond Resolution, and will no longer be held in fully immobilized form. In such case, Sound Transit will request the Registrar to issue Series 2005A Bonds in appropriate denominations and registered in the names of the appropriate persons.

Neither Sound Transit nor the Registrar has any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Series 2005A Bonds for: (1) the accuracy of any records maintained by DTC or any DTC participant; (2) the payment by DTC or any DTC participant of any amount in respect of the principal of or interest on Series 2005A Bonds; (3) any notice which is permitted or required to be given to Owners under the Parity Bond Resolution (except such notices as required to be given by Sound Transit to the Registrar or to

DTC); or (4) any consent given or other action taken by DTC as the Owner. For so long as any Series 2005A Bonds are held in fully immobilized form, DTC or its successor depository will be deemed to be the Owner for all purposes, and all references to the Owners means DTC (or any successor depository) or its nominee and does not mean the beneficial owners.

SOURCES AND USES OF SERIES 2005A BOND PROCEEDS

The Series 2005A Bonds are being issued to provide part of the funds necessary to pay a portion of the costs of planning, design, construction, additions, betterments, extensions and improvements to Sound Transit's high capacity transportation service, as set forth in the System Plan. See "SOUND TRANSIT–The System Plan." Proceeds of the Series 2005A Bonds also will be used to fund the Subordinate Reserve Account Requirement and to pay the costs of issuing the Series 2005A Bonds, including the premium for the Series 2005A Bond Insurance Policy. The following table sets forth the sources and uses of the Series 2005A Bond proceeds.

Sources of Funds	
Principal of the Series 2005A Bonds	$422,815,000
Plus Original Issue Premium	20,887,805
Less Original Issue Discount	(67,167)
Total	$443,635,638
Uses of Funds	
2005A Bond Proceeds Account	$400,000,000
Subordinate Reserve Account	39,553,205
Issuance Costs (1)	4,082,433
Total	$443,635,638

(1) Includes Series 2005A Bond Insurance Policy premium, rating agency fees, financial advisor and legal fees, Underwriters' discount and other costs of issuance of the Series 2005A Bonds payable from the 2005A Bond Proceeds Account.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005A BONDS

The Series 2005A Bonds will be secured by the Sales Tax and the Rental Car Tax (*i.e.*, Pledged Taxes), and not by the Motor Vehicle Tax. The Series 2005A Bonds are secured by a pledge of Pledged Taxes subordinate to the pledge of Pledged Taxes securing the Series 1999 Bonds and any additional series of Prior Bonds that may be issued in the future. See Appendix B–"The Parity Bond Resolution–Section 14. Local Option Tax Accounts; Flow of Funds" and "–Section 15. Pledge of Pledged Taxes." Information regarding Sound Transit's pledge of the Pledged Taxes, Sound Transit's right to reduce the rate of the Sales Tax under certain circumstances, the limitation on Sound Transit's ability to pay debt service on the Series 2005A Bonds if a "Default" occurs under the Prior Resolution, Sound Transit's obligation to make deposits into and payments from certain funds and accounts, and other matters relating to the security and sources of payment for the Series 2005A Bonds, is described under this heading.

Pledge of the Pledged Taxes

Pledge. The Series 2005A Bonds are special limited obligations of Sound Transit payable from and secured by a pledge of the Pledged Taxes. Pledged Taxes are required to be deposited in the Local Option Tax Accounts. The pledge of Pledged Taxes for the payment of the Series 2005A Bonds is subordinate to the pledge thereof in favor of the Prior Bonds. See "SOUND TRANSIT TAXES" for more information regarding the Pledged Taxes.

Covenant to Impose Taxes. Sound Transit has covenanted in the Parity Bond Resolution to impose the Sales Tax at a rate of not less than 0.4% and to impose the Rental Car Tax at a rate of not less than 0.8% for so long as any Series 2005A Bonds remain Outstanding, except that Sound Transit may reduce the Sales Tax rate in the manner described in the following subsection. Sound Transit has further covenanted in the Parity Bond Resolution to take all reasonable actions necessary to impose and provide for the continued collection of the Pledged Taxes and the application of those taxes for repayment of the Series 2005A Bonds in accordance with the Parity Bond Resolution. Sound Transit has covenanted not to take any action that would limit, terminate, reduce or otherwise impair its authority to impose the Local Option Taxes pledged to repay Prior Bonds.

***Permissive Reduction of Sales Tax Rate*.** Sound Transit has reserved the right to reduce the rate of the Sales Tax to as low as 0.3% provided that Sound Transit certifies that:

(i) Prior Bonds Coverage Test. Local Option Taxes received during the Base Period (as defined in the Parity Bond Resolution) were not less than 1.5 times "maximum annual debt service" (as defined in the Prior Resolution) on all Prior Bonds "outstanding" (as defined in the Prior Resolution) on the date such certification is made;

(ii) Parity Bonds Coverage Test for Period while Motor Vehicle Tax is not included as Pledged Taxes. Pledged Taxes received during the Base Period, less the amount of Pledged Taxes necessary to be taken into account to meet the debt service coverage requirement of clause (i) immediately above (and after all Motor Vehicle Tax receipts expected to be available have been applied for that purpose), were not less than 1.5 times Maximum Annual Debt Service during the period that the Motor Vehicle Tax will not be included as Pledged Taxes to secure Parity Bonds Outstanding on the date such certification is made; and

(iii) Parity Bonds Coverage Test for Period while Motor Vehicle Tax and/or Additional Taxes are included as Pledged Taxes. Pledged Taxes received during the Base Period, less the amount of Pledged Taxes taken into account to meet the debt service coverage requirement of clause (i) immediately above, were not less than 1.5 times Maximum Annual Debt Service during the period that the Motor Vehicle Tax and/or Additional Taxes (defined below) will be included as Pledged Taxes to secure Parity Bonds Outstanding on the date such certification is made (an "Authority Certificate").

In preparing such an Authority Certificate, Sound Transit must: (i) take into account only Local Option Taxes and/or Pledged Taxes during the Base Period that are shown in audited or unaudited financial statements of Sound Transit; (ii) take into account any reduction or increase in the rates at which the Pledged Taxes are imposed (the "Adopted Rate Adjustment"), the addition of any new taxes pledged to the payment of the Parity Bonds (the "Additional Taxes"), the pledge of the Motor Vehicle Tax or any additional tax receipts which constitute Pledged Taxes from annexed territory, to the extent Sound Transit has taken all action and received all necessary approvals for such reduction, increase, addition, pledge or annexation, as if such reduction, increase, addition, pledge or annexation had been in effect during the entire Base Period, provided that any Adopted Rate Adjustment, Additional Taxes and/or extension related to the period of time in which any existing Pledged Taxes may be collected by Sound Transit may be taken into account only if a certified public accountant, economic consultant or financial advisor experienced with state or local taxation or municipal bonds certifies that it is reasonable to expect that such reduction, increase, addition or extension will be received in the amounts assumed for purposes of such Authority Certificate; (iii) adjust the Sales Taxes received during the Base Period to reflect the reduced rate of less than 0.4%; and (iv) treat the Motor Vehicle Tax and/or Additional Taxes as not being available to pay debt service on the Parity Bonds, unless Sound Transit receives an opinion of Bond Counsel to the effect that the pledge of the Motor Vehicle Tax and/or such Additional Taxes is in full force and effect for the period in which they are included as Pledged Taxes. In addition, Sound Transit may add to Local Option Taxes and/or Pledged Taxes received in the Base Period any amount withdrawn from the Tax Stabilization Subaccount in that Base Period and deposited into the Local Option Tax Accounts and/or the Additional Taxes Accounts (provided, that the amount withdrawn from the Tax Stabilization Subaccount in the Base Period may not be deemed to have exceeded 0.25 times the debt service on the Parity Bonds in that Base Period).

Sound Transit has covenanted in the Parity Bond Resolution that, so long as it is imposing the Sales Tax at a rate less than 0.4%, it will deliver an Authority Certificate, within 30 days of the end of each Fiscal Year. If Sound Transit is unable to deliver an Authority Certificate within 30 days of the end of each Fiscal Year, it has further covenanted to take, within 90 days of the end of that Fiscal Year, all action required on its part to increase the rate of the Sales Tax imposed, but not to exceed the rate of 0.4%, for the purpose of being able to deliver such a certificate. The Prior Resolution and the Parity Bond Resolution do not allow for similar reductions of the Rental Car Tax and the Motor Vehicle Tax.

Potential Increases in Tax Rates. To the extent Sound Transit is permitted by law and authorized by the District voters (if a vote is required), Sound Transit may impose the Sales Tax at a rate in excess of 0.4% or the Rental Car Tax at a rate in excess of 0.8%. The additional tax revenue attributable to any increase of such tax rate(s) will not, automatically, be subject to the pledge and charge in favor of the Series 2005A Bonds. However, Sound Transit would not be prohibited from pledging, at its discretion, all or part of such additional tax revenue to the Series 2005A Bonds.

Pledge of Additional Taxes. Sound Transit has reserved the right (but is not obligated) in the Parity Bond Resolution to include and pledge additional taxes to the payment of the Parity Bonds, including without limitation the Motor Vehicle Tax.

No Pledge of Operating Revenues. Operating and non-operating revenues of Sound Transit (other than Pledged Taxes) are not pledged to the payment of any Parity Bonds.

Subordinate Nature of Series 2005A Bonds

SHOULD A "DEFAULT" OCCUR UNDER THE PRIOR RESOLUTION, PLEDGED TAXES MAY NOT BE USED TO PAY THE PRINCIPAL OF OR INTEREST ON THE PARITY BONDS, INCLUDING THE SERIES 2005A BONDS, UNLESS ALL DEPOSITS AND PAYMENTS REQUIRED TO BE MADE WITH RESPECT TO THE PRIOR BONDS HAVE BEEN FULLY MADE OR PAID.

"Defaults" under the Prior Resolution include: (i) a failure to make required deposits into the Prior Bond Account or the Prior Reserve Account (as such terms are defined under the caption "Accounts Pledged Solely to Prior Bonds" below); (ii) a failure to pay the principal of, premium on and interest on any Prior Bonds, when due (including amounts coming due pursuant to early redemption); and (iii) a failure to observe or perform other covenants, conditions and agreements contained in the Prior Resolution, which failure is not remedied within 90 days after discovery by or notice to Sound Transit, without Sound Transit either remedying the failure within 90 days or, if such failure can be remedied, but not within such 90 day period, taking all action reasonably possible to remedy the failure. The deposits and payments under the Prior Resolution include debt service payments on the Prior Bonds, approximately equal monthly deposits into the Prior Bond Account, deposits into the Prior Reserve Account (to the extent of any deficiencies therein), reimbursement payments to providers of letters of credit, insurance policies and/or surety policies that satisfy the Prior Reserve Account Requirement (as defined below). The various maturities of the Prior Bonds are not subject to acceleration if a "Default" occurs under the Prior Resolution.

The Pledged Accounts

In the Parity Bond Resolution, Sound Transit pledges amounts in the Local Option Tax Accounts, the Tax Stabilization Subaccount (but only to the extent the amounts and interest earnings recorded in the Local Option Tax Accounts and the Tax Stabilization Subaccount represent revenues from Pledged Taxes), the Additional Taxes Accounts, the Subordinate Bond Account, the Subordinate Reserve Account, the 2005A Bond Proceeds Account, and any other account created for the deposit of Parity Bond proceeds (collectively, the "Pledged Accounts") for the payment of Parity Bonds (including the Series 2005A Bonds). Such pledge represents the prior charge on the amounts in such Pledged Accounts superior to all other charges of any kind or nature except the charge of the Prior Bonds on Local Option Taxes deposited therein.

Local Option Tax Accounts, Additional Tax Accounts and Flow of Funds

Local Option Tax Accounts and Additional Tax Accounts. Sound Transit maintains Local Option Tax Accounts pursuant to the Prior Resolution. The Prior Resolution requires that all Local Option Tax receipts be deposited into the Local Option Tax Accounts and be applied in accordance with the priorities set forth below. The Parity Bond Resolution continues this requirement with regard to revenue derived from the Pledged Taxes (*i.e.*, Local Option Taxes other than the Motor Vehicle Tax). Notwithstanding the forgoing, Sound Transit may provide that Additional Taxes be deposited into Additional Tax Accounts instead of the Local Option Tax Accounts. Amounts collected on account of the Motor Vehicle Tax are not pledged to the payment of the Parity Bonds. However, for so long as the Motor Vehicle Tax is collected and is subject to the requirements of the Prior Resolution, Sound Transit expects to use the revenue from all Local Option Taxes for the purposes and in the priorities described below.

Flow of Funds. Amounts received by Sound Transit on account of the Pledged Taxes and the Motor Vehicle Tax (for so long as the Motor Vehicle Tax is collected and is subject to the requirements of the Prior Resolution) and deposited in the Local Option Tax Accounts may be used by Sound Transit only for the following purposes and in the following order of priority:

First, to make all payments required to be made into the Prior Bond Account to pay the interest on and the maturing principal (including sinking fund redemptions) of the Prior Bonds (including regularly scheduled payment obligations under payment agreements on a parity with the Prior Bonds);

Second, to make all payments required to be made into the Prior Reserve Account to meet the Prior Reserve Account Requirement and to make all payments required to be made pursuant to a reimbursement obligation in connection with a "qualified letter of credit" or "qualified insurance" (as defined in the Prior Resolution) with respect to the Prior Reserve Account Requirement (defined under the caption "Accounts Pledged Solely to Prior Bonds-Prior Reserve Account" below);

Third, to make all payments required to be made into the Subordinate Bond Account in the following order:

(1) to pay the interest when due on the Parity Bonds (including regularly scheduled payment obligations under Parity Payment Agreements);

(2) to pay the maturing principal (including sinking fund redemptions) of the Parity Bonds;

(3) to make all payments required to be made pursuant to a reimbursement obligation in connection with Bond Insurance (other than Bond Insurance obtained to satisfy all or a part of the Subordinate Reserve Account Requirement and other than to the provider of a letter of credit, standby bond purchase agreement or other liquidity facility) for the payment of the principal and/or interest on any Parity Bonds, provided, that if there is not sufficient money to make all payments under all reimbursement agreements the payments will be made to the providers on a pro rata basis;

Fourth, to make all payments required to be made into the Subordinate Reserve Account to meet the Subordinate Reserve Account Requirement and to make all payments required to be made pursuant to a reimbursement obligation in connection with Bond Insurance with respect to the Subordinate Reserve Account Requirement, provided, that if there is not sufficient money to make all payments under all reimbursement agreements the payments will be made to the providers on a pro rata basis;

Fifth, to make all payments required to be made into any other bond redemption account and reserve account created to pay the principal of, premium, if any, and interest on any Junior Obligations (to the extent any such obligations are issued with a pledge of Pledged Taxes superior to the payment of operation and maintenance expenses), provided that Sound Transit may determine that items in this "*Fifth*" category be paid in any specified order of priority;

Sixth, to pay costs of operating and maintaining Sound Transit and its facilities; and

Seventh, for any lawful purpose of Sound Transit, including the purchase of Authority obligations; to make termination payments required under any payment agreement; and to pay Junior Obligations with pledge of Pledged Taxes junior to the payment of operation and maintenance expenses; provided, that Sound Transit may determine that items in this *"Seventh"* category be paid in a specified order of priority.

Sound Transit will use Additional Taxes deposited in Additional Taxes Accounts for the purposes and in the order of priority set forth above, beginning with the *"Third"* category above.

Tax Stabilization Subaccount

The Prior Resolution authorized Sound Transit to create a Tax Stabilization Subaccount within the Local Option Tax Accounts. The Parity Bond Resolution also authorizes Sound Transit to create this subaccount, if not created under the Prior Resolution. Sound Transit may deposit Pledged Taxes into and withdraw Pledged Taxes from the Tax Stabilization Subaccount for any lawful purposes in accordance with the Flow of Funds described in the prior subsection, including for the purpose of reducing the rate of the Sales Tax as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005A BONDS-Pledge of the Pledged Taxes-Permissive Reduction of Sales Tax Rate." Amounts in the Tax Stabilization Subaccount were pledged in the Prior Resolution to secure the payment of the Prior Bonds. Such amounts, to the extent they represent revenues from Pledged Taxes, are also pledged in the Parity Bond Resolution to secure the payment of the Parity Bonds. Accordingly, the charge on amounts in the Tax Stabilization Subaccount in favor of the Parity Bonds is subordinate to the charge thereon in favor of the Prior Bonds. There currently is no Tax Stabilization Subaccount, and there is no guarantee Sound Transit will create or fund the Tax Stabilization Subaccount at any time the Series 2005A Bonds are outstanding.

The Parity Bond Resolution also authorizes Sound Transit to create separate tax stabilization subaccounts in connection with Additional Tax Accounts. Pledged amounts in such subaccounts would represent a prior charge upon the amounts therein in favor of the Parity Bonds.

Accounts Pledged Solely to Prior Bonds

The following accounts were created pursuant to the Prior Resolution. Amounts in such accounts are *not* pledged to the payment of Parity Bonds (including the Series 2005A Bonds). Sound Transit's obligations under the Prior Resolution to fund such accounts, if any, rank in priority higher than Sound Transit's obligations to fund accounts established to pay and secure the Parity Bonds. See "Local Option Tax Accounts, Additional Tax Accounts and Flow of Funds" above.

Prior Bond Account. Sound Transit's "Sales Tax and Motor Vehicle Excise Tax Bond Account" (the "Prior Bond Account") is used solely to pay the Prior Bonds and is a trust account for the owners of the Prior Bonds. Sound Transit is required to make monthly deposits into the Prior Bond Account from Local Option Taxes so that the balance therein will be sufficient to pay the interest, or principal and interest, next coming due on the Prior Bonds.

Prior Reserve Account. Sound Transit's "Sales Tax and Motor Vehicle Excise Tax Bond Reserve Account" (the "Prior Reserve Account") is used to solely secure the payment of debt service on the Prior Bonds, and is a trust account for the owners of the Prior Bonds. Sound Transit has covenanted in the Prior Resolution to maintain on hand in the Prior Reserve Account an amount equal to the lesser of (i) "maximum annual debt service" (as defined in the Prior Resolution) with respect to outstanding Prior Bonds or (ii) 125% of the "average annual debt service" (as defined in the Prior Resolution) with respect to outstanding Prior Bonds (the "Prior Reserve Account Requirement"). Sound Transit reserved the right to satisfy the Prior Reserve Account Requirement by deposits of cash, investments, certain letters of credit, certain insurance and surety policies, or a combination of the foregoing. Sound Transit satisfied the Prior Reserve Account Requirement for the Series 1999 Bonds by obtaining a municipal bond debt service reserve fund policy from Financial Guaranty Insurance Company. Sound Transit expects that policy will remain in effect throughout the term of the Series 1999 Bonds. Any deficiency created in the Prior Reserve Account must be made up within one year of the deficiency out of Local Option Taxes (after making necessary provision for the payments required to be made into the Prior Bond Account within that year) or by providing a qualified letter of credit, insurance policy and/or surety policy.

Accounts Pledged to Parity Bonds

The following accounts were created pursuant to the Parity Bond Resolution. Amounts in such accounts are pledged to the payment of Parity Bonds (including the Series 2005A Bonds), provided that amounts on deposit in such accounts, to the extent they represent revenues from Local Option Taxes, are subject to the prior pledge and charge thereon in favor of the Prior Bonds.

Subordinate Bond Account. The Subordinate Bond Account will be used to secure the payment of the Parity Bonds and Sound Transit's payments under Parity Payment Agreements. The Subordinate Bond Account is pledged to the payment of Parity Bonds and Sound Transit's payments under Parity Payment Agreements; provided that only regularly scheduled payments made under a Parity Payment Agreement are secured by the Subordinate Bond Account. For so long as any Parity Bonds remain Outstanding, Sound Transit has pledged, subject to the Flow of Funds described above, to set aside or cause to be set aside into the Subordinate Bond Account from Pledged Taxes:

(1) on or before the next interest payment date an amount that will be sufficient to pay the interest scheduled to become due on Outstanding Parity Bonds;

(2) on or before the next interest payment date an amount that will be sufficient to pay principal of all Parity Bonds maturing on such date;

(3) on or before the next redemption date selected or scheduled an amount that will be sufficient to pay the principal of, any premium on and, to the extent such date is not a scheduled interest payment date, the interest payable on all Parity Bonds to be redeemed on such date; and

(4) regularly scheduled payments under a Parity Payment Agreement.

Notwithstanding the foregoing, amounts on deposit in the Subordinate Bond Account, to the extent they represent revenues from Local Option Taxes, are subject to the prior pledge and charge thereon in favor of the Prior Bonds.

Subordinate Reserve Account. The Subordinate Reserve Account was created to secure the payment of the principal of, premium, if any, and interest on the Parity Bonds. The Subordinate Reserve Account is pledged to the payment of Parity Bonds, provided that amounts on deposit in the Subordinate Reserve Account, to the extent they represent revenues from Local Option Taxes, are subject to the prior pledge and charge thereon in favor of the Prior Bonds.

Sound Transit has covenanted in the Parity Bond Resolution that, on the date of issuance of each Series of Parity Bonds, it will assure that the amount on hand in the Subordinate Reserve Account will be sufficient to meet the "Subordinate Reserve Account Requirement." The Subordinate Reserve Account Requirement for the Parity Bonds is the lesser of (i) Maximum Annual Debt Service and (ii) 125% of Average Annual Debt Service, provided that upon the issuance of any Series of Parity Bonds, the Subordinate Reserve Account Requirement is not required to be funded or increased by an amount greater than 10% of the proceeds of that Series. Notwithstanding the foregoing, Sound Transit may establish a separate Subordinate Reserve Account Requirement for any Series of Future Parity Bonds, and amounts or Bond Insurance to satisfy that separate requirement shall be held in a separate account or subaccount of Sound Transit for the purpose of securing solely that Series; such Series of Parity Bonds will not be secured by other amounts in the Subordinate Reserve Account or by Bond Insurance providing any portion of the Subordinate Reserve Account Requirement for other Parity Bonds. Any Series for which a separate Subordinate Reserve Account Requirement has been established will not be secured by the Subordinate Reserve Account.

Sound Transit covenanted in the Parity Bond Resolution to maintain the Subordinate Reserve Account Requirement by deposits of cash, investments, Bond Insurance or a combination of the foregoing. Any Bond Insurance obtained to satisfy all or any portion of the Subordinate Reserve Account Requirement must be issued by an insurance company or financial institution authorized to conduct business in any state of the United States as of the time of issuance of such Bond Insurance, and which, as of the time of issuance of such Bond Insurance, is rated in one of the two highest Rating Categories for unsecured debt or insurance underwriting or claims paying ability by the Rating Agencies.

If a deficiency in the Subordinate Bond Account occurs prior to a payment date on the Parity Bonds, the deficiency will be made up from the Subordinate Reserve Account. Any deficiency created in the Subordinate Reserve Account by reason of a withdrawal will be made up from the next available Pledged Taxes, after making necessary provision for the payments required to be made into the Prior Bond Account, the Prior Reserve Account, and the Subordinate Bond Account, or from Bond Insurance, but in no event later than within one year of the date of such deficiency.

Amounts in the Subordinate Reserve Account in excess of the Subordinate Reserve Account Requirement may, at Sound Transit's discretion, be withdrawn to pay debt service on the Parity Bonds or for any other lawful purpose. For additional provisions regarding the Subordinate Reserve Account, see Appendix B–"The Parity Bond Resolution–Section 19. Subordinate Bond Account and Subordinate Reserve Account."

2005A Bond Proceeds Account. Sound Transit has created the 2005A Bond Proceeds Account to pay costs of projects and costs incidental thereto and costs incurred in connection with the issuance and sale of the Series 2005A Bonds. The proceeds of the Series 2005A Bonds will be deposited in the 2005A Bond Proceeds Account.

Payment Agreements

Sound Transit has reserved the right to enter into written agreements for the purpose of managing or reducing its exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, asset or liability management purposes ("payment agreements"). Sound Transit further has reserved the right to make payments under payment agreements on a parity with the pledge of Local Option Taxes and Pledged Accounts as the Prior Bonds if the payment agreement satisfies the requirements for issuance of additional series of Prior Bonds, or to make such payments on a parity with the pledge of Pledged Taxes and Pledged Accounts as the Parity Bonds if the payment agreement satisfies the requirements for issuing Future Parity Bonds. A payment agreement under which Sound Transit's regularly scheduled payment obligations are secured by a pledge of Pledged Taxes on an equal and ratable basis with the Pledged Taxes required to be paid into the Subordinate Bond Account to pay and secure the payment of the principal of and interest on Parity Bonds is referred to herein as a "Parity Payment Agreement." See "BORROWING AUTHORITY AND DEBT SERVICE–Interest Rate Swaps" for a discussion regarding interest rate swaps and other payment agreements. See also Appendix B–"The Parity Bond Resolution–Section 21. Parity Payment Agreements."

Additional Prior Bonds

Sound Transit has reserved the right to issue additional series of Prior Bonds having a pledge of Local Option Taxes, the Local Option Tax Accounts and the Tax Stabilization Subaccount prior to that of the Series 2005A Bonds upon compliance with each of the following conditions:

(1) There is no deficiency in the Prior Bond Account.

(2) An amount equal to the Prior Reserve Account Requirement will be on deposit in the Prior Reserve Account upon the issuance of such Prior Bonds.

(3) No default has occurred and is continuing under the Prior Resolution.

(4) Sound Transit certifies, no earlier than 30 days before the delivery of such Prior Bonds, that Local Option Taxes received during any consecutive 12-month period out of the 18-month period next preceding the date of issuance of such Prior Bonds were not less than two times the maximum annual debt service on all Prior Bonds that will be outstanding upon the issuance of such Prior Bonds (taking into account any adopted adjustment in the rate of Local Option Taxes imposed, as if the new rate had been in effect during that 12-month period).

Sound Transit may issue Prior Bonds for refunding purposes, without the certification described in (4) above, if in every Fiscal Year the annual debt service on such refunding Prior Bonds does not exceed the annual debt service by more than $5,000 on the Prior Bonds to be refunded were the refunding not to occur. In addition, Prior Bonds may be issued without regard to any of the conditions for issuing Future Bonds for the purpose of refunding (including by purchase) any Prior Bonds for the payment of which sufficient Local Option Taxes are not available.

Future Parity Bonds

Sound Transit has reserved the right to issue Future Parity Bonds having a pledge of Pledged Taxes and Pledged Accounts equal to that of the Series 2005A Bonds upon compliance with the following conditions:

(1) There is no deficiency in the Subordinate Bond Account.

(2) An amount equal to the Subordinate Reserve Account Requirement (including for the Future Parity Bonds to be issued) will be on deposit or will otherwise be provided for in the Subordinate Reserve Account upon the issuance of the Future Parity Bonds.

(3) No Default has occurred and is continuing under the Parity Bond Resolution. (For provisions relating to Defaults and remedies upon Default, see "Defaults and Remedies" below and Appendix B–"The Parity Bond Resolution–Section 25. Defaults" and "–Section 26. Remedies Upon Default.")

(4) Sound Transit certifies, upon the issuance of the Future Parity Bonds, that:

(i) Prior Bonds Coverage Test. Local Option Taxes received during the Base Period (as defined in the Parity Bond Resolution) were not less than 1.5 times "maximum annual debt service" (as defined in the Prior Resolution) on all "outstanding" (as defined in the Prior Resolution) Prior Bonds;

(ii) Parity Bonds Coverage Test for Period while Motor Vehicle Tax is not included as Pledged Taxes. Pledged Taxes received during the Base Period, less the amount of Pledged Taxes necessary to be taken into account to meet the debt service coverage requirement of clause (i) immediately above (after all available Motor Vehicle Tax has been applied for that purpose), were not less than 1.5 times Maximum Annual Debt Service during the period that the Motor Vehicle Tax will not be included as Pledged Taxes to secure the Future Parity Bonds; and

(iii) Parity Bonds Coverage Test for Period while Motor Vehicle Tax and/or Additional Taxes are included as Pledged Taxes. Pledged Taxes received during the Base Period, less the amount of Pledged Taxes necessary to be taken into account to meet the debt service coverage requirement of clause (i) immediately above, were not less than 1.5 times Maximum Annual Debt Service during the period that the Motor Vehicle Tax and/or Additional Taxes will be included as Pledged Taxes to secure the Future Parity Bonds (also an "Authority Certificate").

In preparing such an Authority Certificate, Sound Transit must: (i) take into account only Local Option Taxes and/or Pledged Taxes during the Base Period that are shown in audited or unaudited financial statements of Sound Transit; (ii) take into account any Adopted Rate Adjustment, Additional Taxes, and the pledge of the Motor Vehicle Tax or additional tax receipts which constitute Pledged Taxes from annexed territory, to the extent Sound Transit has taken all action and received all necessary approvals for such reduction, increase, addition, pledge or annexation, as if such reduction, increase, addition, pledge or annexation had been in effect during the entire Base Period, provided that any Adopted Rate Adjustment, Additional Taxes and/or extension related to the period of time in which any existing Pledged Taxes may be collected by Sound Transit may be taken into account only if a certified public accountant, economic consultant or financial advisor experienced with state or local taxation or municipal bonds certifies that it is reasonable to expect that such reduction, increase, addition or extension will be received in the amounts assumed for purposes of such Authority Certificate; and (iii) treat the Motor Vehicle Tax and/or Additional Taxes as not being available to pay debt service on the Parity Bonds, unless Sound Transit receives an opinion of Bond Counsel to the effect that the pledge of the Motor Vehicle Tax and/or Additional Taxes is in full force and effect for the period in which they are included as Pledged Taxes. Sound Transit may not take into account deposits into or withdrawals from the Tax Stabilization Subaccount.

Sound Transit has covenanted in the Parity Bond Resolution that it will not issue additional series of Prior Bonds unless it delivers an Authority Certificate described in (4) immediately above in addition to any certificates that may be required under the Prior Resolution. Sound Transit has further covenanted that it will not issue any obligations that are secured by a pledge of any or all of the Pledged Taxes subordinate to the pledge of such taxes to the Prior Bonds but senior to the pledge of such taxes to the Parity Bonds.

Upon delivery of an Authority Certificate, Sound Transit may issue Parity Bonds at any time for the purpose of refunding (including by purchase) Sound Transit obligations, making future Subordinate Reserve Account deposits, paying for Bond Insurance, making payment to a provider of a letter of credit for Parity Bonds, making any settlement payment in connection with the termination of a Payment Agreement relating to the Parity Bonds, and paying the expenses of issuing such Parity Bonds and of effecting such refunding.

Sound Transit may issue Parity Bonds for refunding purposes without an Authority Certificate described in (4) immediately above if, in every Fiscal Year, the Annual Debt Service on the Parity Bonds to be issued does not exceed the Annual Debt Service by more than $5,000 on the Parity Bonds to be refunded were the refunding not to occur. In addition, Parity Bonds may be issued without regard to any of the conditions for issuing Future Parity Bonds for the purpose of refunding (including by purchase) any obligations of Sound Transit (other than Junior

Obligations as defined below) for the payment of which sufficient funds are not available or are forecasted to be unavailable in the future.

Junior and Other Obligations

Sound Transit has reserved the right to issue obligations having a pledge of the Pledged Taxes and Pledged Accounts subordinate to that of the Parity Bonds ("Junior Obligations") for any lawful purpose of Sound Transit. The maturity date of Junior Obligations may not be accelerated and, following the occurrence of a Default under the Parity Bond Resolution, Pledged Taxes may not be used to pay the principal of or interest on Junior Obligations unless all deposits and payments required to be made with respect to the Prior Bonds and the Parity Bonds have been fully made or paid. Sound Transit has also reserved the right to issue obligations payable from revenues of Sound Transit other than Pledged Taxes. See Appendix B–"The Parity Bond Resolution–Section 18. Junior Obligations; Obligations with Pledge of Revenues."

Defeasance

Sound Transit has reserved the right to defease Parity Bonds by setting aside with a trustee or escrow agent and pledging for that purpose cash and/or noncallable Government Obligations maturing at such time or times and bearing interest to be earned in amounts sufficient to redeem and retire such Parity Bonds in accordance with their terms. Upon defeasance, Sound Transit need make no further payments into the Subordinate Bond Account for the payment of the defeased Parity Bonds, and those Parity Bonds will be deemed not to be Outstanding. See Appendix B–"The Parity Bond Resolution–Section 22. Defeasance." The term "Government Obligations" has the meaning given in chapter 39.53 RCW.

Other Covenants

Sound Transit has made various covenants in the Parity Bond Resolution. These include, among others, covenants to maintain insurance or institute a self-insurance program, if such insurance is obtainable at reasonable rates and upon reasonable conditions, against such risks as the Board deems prudent for the protection of Sound Transit; and to keep books of account and accurate records of all of its revenue and its expenses that are in accordance with applicable accounting principles as in effect from time to time. See Appendix B–"The Parity Bond Resolution–Section 20. Covenants."

Defaults and Remedies

The following events constitute a Default under the Parity Bond Resolution: (1) a "Default" has occurred and is continuing under the Prior Resolution; (2) failure to make required payments into the Subordinate Bond Account or Subordinate Reserve Account and such default is not remedied; (3) failure to pay principal, premium, if any, or interest when due, or to redeem Subordinate Term Bonds in the required amounts; or (4) material failure to observe any other covenants in the Parity Bond Resolution, and such failure has continued for 90 days after discovery by or notice to Sound Transit, without Sound Transit either remedying the failure within 90 days or, if such failure can be remedied, but not within such 90 day period, taking all action reasonably possible to remedy the failure. See "Limitation on Payments" above for a summary of events causing a "Default" under the Prior Resolution.

Upon the event of a Default, an Owners' trustee may be appointed to exercise the rights of the Owners, all as described in the Parity Bond Resolution. See Appendix B–"The Parity Bond Resolution–Section 25. Defaults" and "–Section 26. Remedies Upon Default." If an Owners' trustee has been appointed, the Owners' remedies may not be exercised individually by the Owners without the trustee's consent.

Anything in the Parity Bond Resolution to the contrary notwithstanding, upon the occurrence and continuance of an event of Default, so long as Ambac Assurance is not in default under the Series 2005A Bond Insurance Policy Ambac Assurance will be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the 2005A Bonds or the Owners' trustee for the benefit of such Owners under the Parity Bond Resolution pursuant to state law.

See "THE SERIES 2005A BOND INSURANCE POLICY" for information regarding payments by Ambac Assurance in the event of a Default under the Parity Bond Resolution or the Series 2005A Bonds.

No Statutory Lien

The Owners of the Series 2005A Bonds do not have a statutory lien on money in the Pledged Accounts received by Sound Transit. Sound Transit may be able to file for bankruptcy under Chapter 9 of the Bankruptcy Code. Legal proceedings necessary to resolve the status of post-bankruptcy money in the Pledged Accounts contractually pledged in favor of the Owners of the Series 2005A Bonds could be time consuming. Substantial delays or reductions in payments to the Owners of the Series 2005A Bonds could result. Even if a court determines that post-bankruptcy money in the Pledged Accounts is payable to the Owners of the Series 2005A Bonds, subject only to the pledge and charge in favor of the Owners of the Prior Bonds, the court may permit Sound Transit to spend such money in the Pledged Accounts to pay operation and maintenance costs of Sound Transit or to pay general creditors, notwithstanding any provision of the Parity Bond Resolution to the contrary.

No Acceleration Upon Default

Upon the occurrence and continuance of a Default under the Parity Bond Resolution, payment of the principal amount of the Parity Bonds is not subject to acceleration. Sound Transit thus would be liable only for principal and interest payments as they became due, and the Owners (or their trustee) would be required to seek a separate judgment for each payment, if any, not made. Any such action for money damages would be subject to any limitations on legal claims and remedies against public bodies under State law. Amounts recovered would be applied to unpaid installments of interest prior to being applied to unpaid principal and premium, if any, which had become due. See "THE SERIES 2005A BOND INSURANCE POLICY" for information regarding payments by Ambac Assurance in the event of a Default under the Series 2005A Bonds.

Payment Obligation Limited to Sound Transit

The Series 2005A Bonds are not obligations of the State or any political subdivision other than Sound Transit.

THE SERIES 2005A BOND INSURANCE POLICY

The following information has been furnished by Ambac Assurance Corporation for use in this Official Statement. Sound Transit makes no representations as to the accuracy or completeness thereof. See Appendix F—"Specimen Series 2005A Bond Insurance Policy" for a specimen of the municipal bond insurance policy.

Payment Pursuant to Series 2005A Bond Insurance Policy

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Series 2005A Bond Insurance Policy") relating to the Series 2005A Bonds effective as of the date of issuance of the Series 2005A Bonds. Under the terms of the Series 2005A Bond Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2005A Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by Sound Transit. Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Registrar. The insurance will extend for the term of the Series 2005A Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Series 2005A Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2005A Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2005A Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2005A Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2005A Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Registrar has notice that any payment of principal of or interest on a Series 2005A Bond which has become Due for Payment and which is made to an Owner by or on behalf of Sound Transit has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Series 2005A Bond Insurance Policy does not insure any risk other than Nonpayment, as defined in the Series 2005A Bond Insurance Policy. Specifically, the Series 2005A Bond Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of the Registrar.

If it becomes necessary to call upon the Series 2005A Bond Insurance Policy, payment of principal requires surrender of Series 2005A Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2005A Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Series 2005A Bond Insurance Policy. Payment of interest pursuant to the Series 2005A Bond Insurance Policy requires proof of Owner of Series 2005A Bond entitlement to interest payments and an appropriate assignment of the Owner's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Series 2005A Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2005A Bond and will be fully subrogated to the surrendering Owner's rights to payment.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $8,329,000,000 (unaudited) and statutory capital of approximately $5,224,000,000 (unaudited) as of December 31, 2004. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by Sound Transit of the Series 2005A Bonds.

Ambac Assurance makes no representation regarding the Series 2005A Bonds or the advisability of investing in the Series 2005A Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "THE SERIES 2005A BOND INSURANCE POLICY."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;

2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;

4. The Company's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004;

6. The Company's Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004;

7. The Company's Current Report on Form 8-K dated October 20, 2004 and filed on October 20, 2004;

8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2004 and filed on November 9, 2004;

9. The Company's Current Report on Form 8-K dated November 12, 2004 and filed on November 12, 2004;

10. The Company's Current Report on Form 8-K dated January 26, 2005 and filed on January 26, 2005;

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "- Available Information."

BORROWING AUTHORITY AND DEBT SERVICE

Borrowing Authority

Sound Transit is authorized to borrow money by various means, including: (1) issuing general obligation bonds with a maximum term of 40 years; (2) issuing revenue bonds with a maximum term of 40 years, payable from sources including gross revenues or fees, tolls, charges, tariffs, fares, rentals or special taxes; (3) entering into financing leases; (4) issuing special assessment bonds with a maximum term of 30 years, payable from special assessments levied in a local improvement district created to provide transportation improvements; (5) borrowing from the State or any local transit agency within the District pursuant to a loan agreement; (6) establishing lines of credit with banking institutions; (7) issuing short-term obligations; and (8) issuing refunding bonds.

Debt Capacity

Although Sound Transit has no authority to levy property taxes, its debt capacity is determined by reference to the value of taxable property within the District. Under State law, issuance of bonds payable from any type of taxes, such as the Series 2005A Bonds, is subject to statutory debt limitations. Sound Transit currently is authorized to incur debt in an amount equal to 1½% of the value of taxable property within the District without securing voter approval for such debt. With the approval of 60% of the District electors voting on the proposition, Sound Transit may incur aggregate indebtedness in an amount up to 5% of the value of taxable property within the District. For purposes of computing Sound Transit's debt capacity, the value of taxable property is defined to be the actual value of taxable property within the District, with certain adjustments for timber property. The Act requires that each County assessor certify annually to Sound Transit the assessed value of property in that County that is within the District. The current legal debt capacity for Sound Transit, giving effect to the issuance of the Series 2005A Bonds, is set forth in the following table.

TABLE 1.
LEGAL DEBT CAPACITY AS OF DECEMBER 31, 2004

Assessed valuation in 2004 for collection of taxes in 2005	$292,234,856,592
Maximum nonvoted debt (1½% of assessed valuation)	4,383,522,849
Less: Series 1999 Bonds	350,000,000
Less: Other outstanding nonvoted debt (1)	6,700,000
Less: Series 2005A Bonds	422,815,000
Nonvoted debt capacity remaining	3,604,007,849
Maximum voted debt (5% of assessed valuation)	14,611,742,830
Less: Aggregate outstanding nonvoted debt	356,700,000
Less: Series 2005A Bonds	422,815,000
Less: Outstanding voted debt	0
Voted debt capacity remaining	$13,832,227,830

(1) Includes (i) the approximate present value, as of December 31, 2004, of certain capital lease obligations which are not fully collateralized and (ii) the outstanding principal amount of a promissory note in favor of BNSF (as defined below) in connection with the purchase of certain real property. See "Capital Leases" and "SOUND TRANSIT–Transit Operations and Capital Program Summary," respectively.

Bond Debt Service Requirements

The Series 1999 Bonds represent Sound Transit's only outstanding bonds. The Series 1999 Bonds were issued, and remain outstanding, in the aggregate principal amount of $350 million. The annual principal and interest requirements of the Series 1999 Bonds and the Series 2005A Bonds are set forth in the following table.

TABLE 2.
ANNUAL DEBT SERVICE REQUIREMENTS

Year Ending 12/31	Series 1999 Bonds	Series 2005A Bonds Principal	Series 2005A Bonds Interest	Series 2005A Bonds Total	Aggregate Debt Service
2005	$ 17,163,888	–	$ 12,062,647	$ 12,062,647	$ 29,226,535
2006	21,348,488	–	20,580,819	20,580,819	41,929,307
2007	21,349,188	–	20,580,819	20,580,819	41,930,007
2008	21,340,000	–	20,580,819	20,580,819	41,920,819
2009	21,309,258	–	20,705,819	20,705,819	42,015,077
2010	21,310,585	–	20,705,819	20,705,819	42,016,404
2011	21,298,918	$ 5,810,000	20,705,819	26,515,819	47,814,737
2012	21,288,891	6,015,000	20,626,589	26,641,589	47,930,480
2013	21,283,101	9,675,000	20,364,914	30,039,914	51,323,015
2014	21,273,206	13,200,000	19,892,439	33,092,439	54,365,645
2015	21,266,685	18,345,000	19,333,376	37,678,376	58,945,061
2016	21,255,831	19,075,000	18,431,520	37,506,520	58,762,351
2017	21,246,581	19,855,000	17,515,920	37,370,920	58,617,501
2018	21,239,090	14,675,000	16,531,920	31,206,920	52,446,010
2019	34,770,829	21,545,000	15,800,870	37,345,870	72,116,699
2020	34,740,629	22,465,000	14,727,339	37,192,339	71,932,968
2021	34,708,479	18,400,000	13,605,970	32,005,970	66,714,449
2022	34,735,066	19,315,000	12,687,250	32,002,250	66,737,316
2023	34,707,660	20,285,000	11,721,500	32,006,500	66,714,160
2024	34,681,116	21,300,000	10,707,250	32,007,250	66,688,366
2025	34,648,341	22,365,000	9,642,250	32,007,250	66,655,591
2026	34,615,848	23,480,000	8,524,250	32,004,250	66,620,098
2027	34,580,548	24,645,000	7,350,250	31,995,250	66,575,798
2028	34,542,780	25,875,000	6,118,000	31,993,000	66,535,780
2029	–	47,150,000	4,824,250	51,974,250	51,974,250
2030	–	49,340,000	2,466,750	51,806,750	51,806,750
Total	$640,705,006	$422,815,000	$386,795,168	$809,610,168	$1,450,350,174

Sound Transit has not defaulted on any scheduled debt service payments on its obligations, nor has it issued refunding obligations to cure an impending default. See "SOUND TRANSIT–Historical Operating Results" for a table showing historical debt service coverage levels for the Series 1999 Bonds.

Future Borrowings

Pursuant to the System Plan and its adopted budget for 2005, Sound Transit expects to issue approximately $1.2 billion of additional bonds through 2009 to fund the current Board-approved projects. The Series 2005A Bonds represent a portion of such bonds. Sound Transit expects to issue the remaining approximately $800 million of additional bonds over the next four years. Such bonds will be issued from time to time as Sound Transit requires money to finance the capital projects listed in the System Plan. Additional borrowing may be required to fund future projects which are in addition to current Board-approved projects. See "SOUND TRANSIT–The System Plan."

Interest Rate Swaps

Sound Transit is authorized by chapter 39.96 RCW, as well as the Prior Resolution and the Parity Bond Resolution, to enter into payment agreements, including interest rate swap agreements, agreements for interest rate caps and floors, and certain interest payment option agreements. Chapter 39.96 RCW was amended during 2004 to include Sound Transit within its scope. Sound Transit has adopted a formal policy with respect to its potential use of payment agreements. Sound Transit may amend such policy at any time.

Chapter 39.96 RCW imposes various requirements that must be satisfied before Sound Transit enters into a payment agreement. Among other requirements, Sound Transit would have to: (i) solicit and consider counterparty proposals from two or more entities that have ratings (or are guaranteed by an entity that has ratings) within the three highest long-term investment grade rating categories of at least two nationally recognized credit rating agencies; (ii) determine that the payment agreement will reduce the amount or duration of its exposure to interest rate changes, or result in a lower net borrowing cost with respect to the underlying debt obligations; and (iii) obtain a written certification from a financial advisor that the terms of the payment agreement are commercially reasonable. The counterparty to the payment agreement may be required to post collateral with Sound Transit under certain circumstances.

Subject to any covenants or agreements applicable to the obligations subject to the payment agreement, chapter 39.96 RCW authorizes Sound Transit to give effect to the payment agreement for the purposes of calculating rates and charges to be imposed by a revenue-producing enterprise (if the revenues are pledged or used to pay those obligations), any taxes to be levied and collected to pay those obligations, debt service on those obligations, and any other purpose. Further, chapter 39.96 RCW specifies that Sound Transit's payment obligations under a payment agreement do not constitute debt for purposes of State constitutional and statutory debt limitation provisions so long as (i) such payment obligations are contingent upon the counterparty's performance, and (ii) no money is paid to Sound Transit under the payment agreement that must be repaid by Sound Transit in future fiscal years.

To date, Sound Transit has not entered into any payment agreement of the type authorized by chapter 39.96 RCW. However, Sound Transit is currently evaluating and may enter into such a payment agreement in connection with an issuance of Future Parity Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005A BONDS–Parity Payment Agreements" for a summary of requirements contained in the Parity Bond Resolution with respect to payment agreements.

Capital Leases

In May 2001, Sound Transit entered into a transaction to lease 22 rail passenger cab and coach cars and 5 locomotives (the "headlease") to an investor and simultaneously subleased the vehicles from the investor (the "sublease"). Under these transactions, Sound Transit maintains the right to continued use and control of the vehicles through the end of the leases and is required to insure and maintain the assets. As of December 31, 2004, the present value of Sound Transit's future payments under the sublease was approximately $57.8 million. Sound Transit expects that its payment obligations under the sublease will be fully satisfied from investment earnings on the amounts deposited with AIG-FP Special Finance Ltd. and AIG Matched Funding Corp pursuant to a repurchase agreement with such parties. However, such payments can be made from Local Option Taxes, if necessary. The pledge of Local Option Taxes under the sublease documents are expressly subordinate to the pledge of Local Option Taxes, if any, created in favor of the Prior Bonds and Parity Bonds. Sound Transit will be subject to an additional, lump sum payment (which could be substantial) if it defaults or prematurely terminates any of these transactions. Sound Transit also may be subject to certain payment obligations if the counterparty to these transactions has financial difficulties.

Sound Transit has entered into other capital leases and expects to do so from time to time as a means of acquiring equipment (*e.g.*, copiers) and other property. As of December 31, 2004, the present value of Sound Transit's future payments under such leases was approximately $0.7 million.

Other Obligations

Sound Transit was required by Burlington Northern Santa Fe Railway to establish direct-pay letters of credit to secure Sound Transit's obligation to pay the capital construction costs of the Seattle-Tacoma Sounder commuter rail project and to pay any tax liabilities related to the construction and operation of that project. Those letters of credit are provided by Bank of America and are currently outstanding in the amount of $126.4 million. Sound Transit has deposited money with Bank of America to provide collateral to secure its obligations to reimburse the bank for draws under such letters of credit. As of September 30, 2004, the amount on deposit with the bank for this purpose was approximately $135.8 million.

SOUND TRANSIT TAXES

Sales Tax

General. The State first levied a retail sales tax and a corresponding use tax on taxable retail sales and uses of personal property in 1935. Cities, counties and other municipal corporations are authorized to levy a sales and use tax to generate revenues to carry out essential governmental purposes.

In 1992, the State legislature authorized regional transit authorities to impose an incremental sales and use tax upon voter approval. Voters within the District approved imposition of the Sales Tax at a rate of up to 0.4% at an election held on November 5, 1996. Sound Transit imposed the Sales Tax at the rate of 0.4%, effective April 1, 1997, pursuant to Resolution No. 82, adopted by the Board on February 13, 1997. In 2004, Sound Transit received or accrued $217,524,328 on account of the Sales Tax. See "Table 3-Historical Revenues from Pledged Taxes" below for historical information regarding Sound Transit's Sales Tax receipts.

Sound Transit is authorized by statute to submit a proposition to voters within the District to increase the rate of the Sales Tax to up to 0.9%, and up to 1.0% if none of the Counties then is imposing a sales and use tax for criminal justice purposes. King County currently imposes a sales and use tax for criminal justice purposes at the authorized maximum rate of 0.1%. A rate increase may be approved by a simple majority vote within the District. Sound Transit does not expect to seek voter approval of any such increase in the rate of the Sales Tax in order to implement the first phase of the System Plan. Any such increase in the Sales Tax may (but is not required to) be pledged to the repayment of the Parity Bonds only by separate resolution.

Method of Collection. The Sales Tax consists of a sales tax and a use tax. The sales tax currently is applied to a broad base of tangible personal property and selected services purchased by consumers, including construction (labor and materials), machinery and supplies used by businesses, services and repair of real and personal property and many other transactions not taxed in other states. The use tax supplements the sales tax by taxing the use of certain services and by taxing personal property on which a sales tax has not been paid (such as items purchased in a state that imposes no sales tax). The State legislature, and the voters through the initiative process, have changed the base of the sales and use tax on occasion. This may occur again in the future. Among the various items not subject to the Sales Tax are personal services, motor vehicle fuel, most food for off-premises consumption, trade-ins and purchases for resale. See "INITIATIVES AND REFERENDA."

The State currently imposes a sales and use tax of 6.5%. Local taxing entities, including cities and the Counties, are authorized to impose incremental sales and use taxes. Sales and use taxes currently are imposed in the Counties at the following aggregate rates: King, 8.4 to 8.8%; Pierce, 7.8 to 8.8%; and Snohomish, 8.0 to 8.9%. These rates include Sound Transit's 0.4% Sales Tax.

Sales taxes upon applicable retail sales are collected by the seller from the consumer. Use taxes are payable by the consumer upon applicable rendering of services or uses of personal property. County auditors collect any use taxes imposed on the use of motor vehicles. Each seller (and County auditor) is required to hold taxes collected in trust until remitted to the State Department of Revenue, which usually occurs on a monthly basis.

Sound Transit entered into a ten-year contract with the State Department of Revenue for the collection and disbursement of the Sales Tax and the Rental Car Tax. Under this contract, the Department of Revenue calculates money received from retailers and the County auditors on account of the Sales Tax and the Rental Car Tax and disburses the proceeds to Sound Transit on a monthly basis. The Department of Revenue charges no ongoing administrative fee for this service. The contract expires on March 31, 2007. Sound Transit expects to renew such contract upon its expiration.

Proposed Streamlined Sales Tax Legislation. In 2003, the State legislature approved legislation authorizing the State's membership in the Streamlined Sales and Use Tax Agreement (the "SSTA"), in an effort to make sales and use taxes in the State more uniform with other states. Congress has required that state sales taxes be more uniform before Congress will permit taxation of interstate catalogue and Internet sales. The State's legislation implemented most of the SSTA's provisions, with the exception of the provisions for determining where a sale is deemed to occur for local sales tax purposes (the so-called "sourcing" provisions). The "sourcing" provisions would shift local sales tax revenue from the jurisdiction of the retail outlet at which or from which delivery is made to the jurisdiction where the purchaser resides. It is anticipated that the "sourcing" provisions will be re-introduced in the State legislature in the future. If the "sourcing" provisions are enacted in the form proposed during the 2004 legislative session, there is a potential for substantial shifts in revenues from jurisdictions with businesses that involve delivery of goods to customers in other areas to jurisdictions with such customers. Sound Transit currently estimates that it would experience a net loss of Sales Tax revenue of approximately 1.3% if the "sourcing" provisions are enacted in the form proposed during the 2004 legislative session.

Rental Car Tax

General. In 1992, the State legislature authorized regional transit authorities to impose an incremental sales and use tax, if such authorities are also imposing the special motor vehicle excise taxes authorized by RCW 81.104.160(1), upon retail car rentals that are otherwise taxable by the State pursuant to chapters 82.08 and 82.12 RCW. Sound Transit imposed this tax upon car rentals in the District at the rate of 0.8% (the "Rental Car Tax"), effective April 1, 1997, pursuant to the Board's Resolution No. 82. Both the Rental Car Tax and the Sales Tax are collected upon taxable retail car rentals in the District. In 2004, Sound Transit received or accrued $2,094,596 on account of the Rental Car Tax. See "Table 3-Historical Revenues from Pledged Taxes" below for historical information regarding Sound Transit's Rental Car Tax receipts.

The State currently imposes a rental car tax of 5.9%. In addition to the State tax, King County currently imposes local rental car taxes at an aggregate rate of 3.0% and Pierce County currently imposes a 1.0% local rental car tax. Snohomish County is authorized to impose a 1.0% retail rental car tax, but has not done so to date. The retail rental car tax for all political jurisdictions, including Sound Transit, is imposed in the Counties at the following rates: King, 8.9 to 9.7%; Pierce, 6.9 to 7.7%; and Snohomish, 5.9 to 6.7%.

Method of Collection. The retail rental car tax is paid by the customer on the rental of a passenger car (as defined in RCW 46.04.382) for a period of less than 30 days. The base of the Rental Car Tax is the rental value of the car. Rental car companies are required by law to collect the retail rental car tax, temporarily hold the tax receipts in trust, and remit such tax receipts to the Department of Revenue on the same frequency as the retail sales tax (which the rental car companies also collect from their customers). The Department of Revenue disburses Rental Car Tax proceeds to Sound Transit on a monthly basis pursuant to the contract described under "Sales Tax—*Method of Collection*" above.

Historical Pledged Tax Revenues

The following table sets forth historical Pledged Tax revenues for the past six years, as reported in Sound Transit's audited financial statements for the years 1998 through 2003, together with unaudited information for 2004.

TABLE 3.
HISTORICAL REVENUES FROM PLEDGED TAXES

Year Ending 12/31	Sales Tax Revenue	Growth Rate	Rental Car Tax Revenue	Growth Rate	Total Revenue From Pledged Taxes	Growth Rate
2004 (1)	$ 217,524,328	5.3%	$ 2,094,596	(4.0)%	$ 219,618,924	5.2%
2003	206,665,075	1.0	2,181,985	1.4	208,847,060	1.0
2002	204,566,076	(2.5)	2,151,464	(1.4)	206,717,540	(2.5)
2001	209,752,440	(1.3)	2,182,477	(9.1)	211,934,917	(1.4)
2000	212,478,487	8.4	2,400,572	(8.9)	214,879,059	8.2
1999	196,025,199	8.5	2,636,001	29.1	198,661,200	8.7
1998	180,636,838	--	2,042,166	--	182,679,004	--

(1) Unaudited. December revenues based on estimate only.

Motor Vehicle Tax

Money received by Sound Transit on account of its Motor Vehicle Tax is not pledged to the payment of the Series 2005A Bonds. Sound Transit has pledged, and currently uses, Motor Vehicle Tax receipts to pay debt service on the Series 1999 Bonds and for other lawful purposes. Sound Transit's authority to impose the Motor Vehicle Tax is the subject of pending litigation. See "LITIGATION" herein.

General. The State first levied a motor vehicle excise tax on vehicles owned by residents in 1937. In 1992, the State legislature authorized regional transit authorities to impose an incremental motor vehicle excise tax upon voter approval. Voters within the District approved imposition of the Motor Vehicle Tax at the rate of 0.3% at an election held on November 5, 1996. Sound Transit imposed the Motor Vehicle Tax at the rate of 0.3%, effective April 1, 1997, pursuant to Resolution No. 82, adopted by the Board on February 13, 1997. In 2004, Sound Transit received or accrued $64,714,218 on account of the Motor Vehicle Tax. See "Table 4–Historical Revenues from Motor Vehicle Tax" below for historical information regarding Sound Transit's Motor Vehicle Tax receipts.

Method of Collection. The values of motor vehicles are determined by the State Department of Licensing. Generally, passenger vehicles are valued at a percentage of the manufacturer's suggested retail price. The percentages are prescribed by a statute in effect at the time the Authority first imposed the Motor Vehicle Tax. Those percentages decline based on the number of years the vehicle is in service. The Motor Vehicle Tax does not apply to certain exempted classes of vehicles, including commercial trucks and rental cars.

The Motor Vehicle Tax is due and payable annually at the time a motor vehicle is registered. Vehicle registrations are valid for a 12-month period, generally commencing the month the vehicle license initially is issued, and must be renewed annually. Each County auditor is required to collect the Motor Vehicle Tax, together with other motor vehicle excise taxes and license fees imposed by law.

Sound Transit has entered into a ten-year contract with the State Department of Licensing for the collection and disbursement of the Motor Vehicle Tax that expires in 2006. Under this contract, the Department of Licensing segregates money received from the County auditors on account of the Motor Vehicle Tax into a separate account of the State Treasury. This money is disbursed to Sound Transit on a monthly basis. Sound Transit reimburses the Department of Licensing for its actual and administrative costs in collecting the Motor Vehicle Tax.

Initiative Measure 776. In November 2002, the State's voters approved Initiative Measure No. 776 ("I-776") (chapter 1, Laws of 2003). Among other things, I-776 purported to repeal Sound Transit's authority to impose its Motor Vehicle Tax. Litigation regarding the effect of the passage of I-776 was commenced shortly thereafter (the "I-776 Litigation"). On December 22, 2004, the King County Superior Court addressed the collection of the Motor Vehicle Tax pledged by Sound Transit to the Series 1999 Bonds and entered a judgment in favor of Sound Transit, dismissing claims challenging Sound Transit's continued collection of the Motor Vehicle Tax pledged to the Series 1999 Bonds, which were issued by Sound Transit before I-776 was enacted. That decision has been appealed. If the Washington Supreme Court affirms the trial court, Sound Transit expects to continue imposing and collecting the Motor Vehicle Tax at the current rate of 0.3% so long as the Series 1999 Bonds are outstanding. The Motor Vehicle Tax is not pledged to the Series 2005A Bonds. See "LITIGATION–I-776 Litigation."

Historical Motor Vehicle Tax Revenues

The following table sets forth historical Motor Vehicle Tax revenues for the past six years, as reported in Sound Transit's audited financial statements for the years 1998 through 2003, together with unaudited information for 2004.

TABLE 4.
HISTORICAL REVENUES FROM MOTOR VEHICLE TAX

Year Ending 12/31	Motor Vehicle Revenue	Growth Rate
2004 (1)	$ 64,714,218	5.8%
2003	61,189,340	4.9
2002	58,319,476	3.9
2001	56,122,728	(0.2)
2000 (2)	56,241,936	29.3
1999 (2)	43,499,490	(1.8)
1998	44,278,839	--

(1) Unaudited.
(2) 1999 decrease and 2000 increase in revenue affected by delay by many vehicle owners in payment of the Motor Vehicle Tax pending Initiative Measure I-695.

SOUND TRANSIT

Introduction

Sound Transit is a regional transit authority created under chapter 81.112 RCW. It was created on September 17, 1993, the date of the Board's initial meeting. Sound Transit is not a general purpose municipal government. Its primary statutory purpose is to develop and operate a "high capacity transportation system" within its boundaries. State law defines a "high capacity transportation system" to be: "a system of public transportation services within an urbanized region operating principally on exclusive rights of way, and the supporting services and facilities necessary to implement such a system, including interim express services and high occupancy vehicle lanes, which taken as a whole, provides a substantially higher level of passenger capacity, speed, and service frequency than traditional public transportation systems operating principally in general purpose roadways."

State law permits such a system to include, in addition to trains, buses, tracks and roads, other infrastructure such as feeder systems, park-and-ride facilities, intermodal centers and related roadway and operational facilities. Sound Transit's facilities may include any lands, interest in land, air rights over lands, and improvements thereto including vessel terminals, and any equipment, vehicles, vessels, and other components necessary to support the system.

Sound Transit's administrative and principal business office is located in Seattle, Washington, at the address set forth on page i of this Official Statement.

See "LITIGATION" for a discussion of litigation currently challenging Sound Transit's existence.

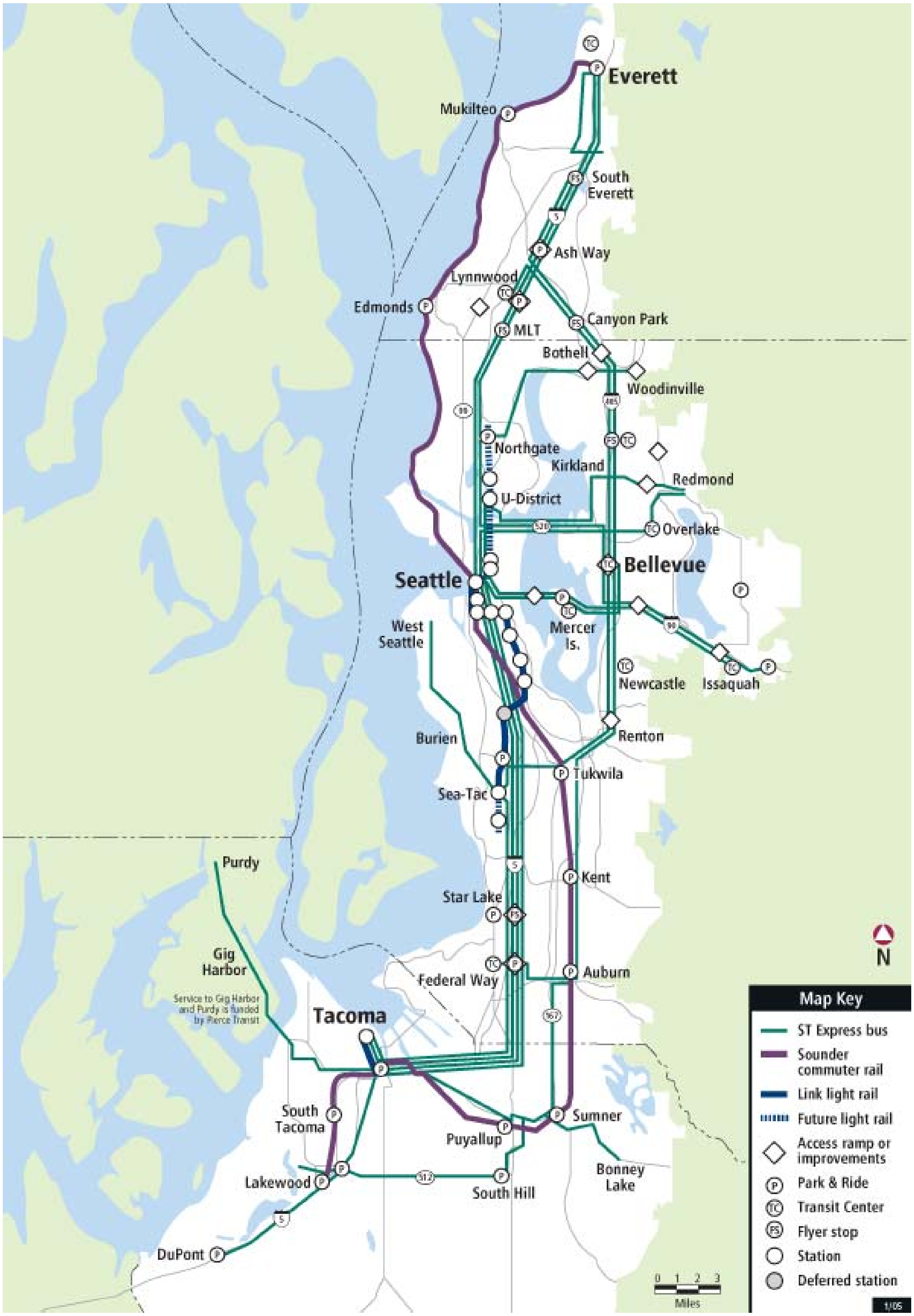
Corporate Powers

Sound Transit has a broad range of corporate powers, including but not limited to the ability to hire and remove employees, retain consultants and contractors, receive gifts and grants, contract with governmental and private entities, acquire and dispose of property, equipment and facilities, exercise the power of eminent domain, issue debt, impose specified taxes and fix rates and charges. Sound Transit's corporate powers are, for the most part, set forth in the Act.

District Boundaries and Service Area

The District boundaries generally conform to the "urban growth boundaries" designated by each County pursuant to the State Growth Management Act, with certain minor adjustments to account for voter precinct boundaries and city limit lines. The District includes, among other cities, the cities of Seattle, Tacoma, Bellevue and Everett. The estimated 2004 population within the District was 2,615,114. (The City of Covington, with an estimated population of 14,850, is not within the District boundaries even though it is included within "urban growth boundaries" designated by King County). Sound Transit may annex adjacent areas, subject to certain conditions contained in the Act, including approval by voters within the area to be annexed.

Sound Transit's service area generally encompasses the District. A map showing services currently, as well as some expected to be, provided pursuant to the System Plan, as amended, is set forth on the following page.


Everett
Mukilteo
South Everett
Ash Way
Lynnwood
Edmonds
Canyon Park
MLT
Bothell
Woodinville
Northgate
Kirkland
Redmond
U-District
Overlake
Bellevue
Seattle
West Seattle
Mercer Is.
Newcastle
Issaquah
Renton
Burien
Tukwila
Sea-Tac
Kent
Star Lake
Purdy
Gig Harbor
Service to Gig Harbor and Purdy is funded by Pierce Transit
Auburn
Federal Way
Tacoma
South Tacoma
Puyallup
Sumner
Bonney Lake
Lakewood
South Hill
DuPont
N
Map Key
ST Express bus
Sounder commuter rail
Link light rail
Future light rail
Access ramp or improvements
Park & Ride
Transit Center
Flyer stop
Station
Deferred station
0 1 2 3
Miles
1/05

Governance and Organizational Structure

Sound Transit is governed by an 18-member Board of Directors (the "Board") that establishes and controls policy for Sound Transit. Seventeen of the Board members are local elected officials, appointed by the County executive and confirmed by the legislative authority of each County. The State Secretary of Transportation also serves on the Board. The local elected officials include county executives, county council members, mayors and city council members from within the District. Board membership with regard to the number of representatives from each County is based on population from that portion of each County that is within the District. Board membership is reconstituted on a population basis, using official State Office of Financial Management population estimates in the year following each federal census. The names and affiliations of the current Board members are set forth on page i of this Official Statement.

None of the Board members or other officers of Sound Transit has any interest in the issuance of the Series 2005A Bonds that is prohibited by law.

Sound Transit's management organization is designed to ensure achievement of Sound Transit Board's mission, goals and measures of success, and to reflect the agency's partnerships with its citizens, customers and communities. Passenger operations for Link light rail, Sounder commuter rail and Regional Express bus are managed by the Transportation Services Department. Major capital projects are organized within two departments: Link light rail and Regional Express/Sounder Capital projects. Long-range regional transit planning are managed by the Office of Policy and Planning and Office of Corporate and Strategic Communications within the Executive Department. The remainder of the agency's departments (Legal, Project Delivery Support Services, Finance and Information Technology and Board Administration) support the three core activities.

Key Staff Biographies

Joni Earl, Chief Executive Officer. Appointed unanimously by the Board of Directors on January 25, 2001, Joni Earl became Acting Executive Director—then CEO—for Sound Transit, assuming full authority over the agency. Previously, Earl served as Chief Operating Officer. Prior to joining Sound Transit, Earl served as Deputy County Executive for Snohomish County, Washington, where her responsibilities included the day-to-day management of county operations, developing an annual budget, and establishing policy and strategies. Formerly, Earl served as City Manager for Mill Creek, Washington, and held positions as Director of Internal Management, and the Chief Fiscal Officer for Kitsap County, Washington. Earl also served on the Board of Directors and Audit Committee of Cascade Bank. Earl received her Masters Degree in Business Administration from the University of Puget Sound, and is a graduate of Harvard University's State & Local Government Executive Program.

Vernon Stoner, Deputy Chief Executive Officer. Vernon Stoner became Sound Transit's Deputy Executive Director in April 2001. Mr. Stoner brings more than 30 years of management and administration experience to the agency. His most recent management position was City Manager for Vancouver, Washington, where—during his four-year tenure—he promoted downtown redevelopment and oversaw one of the largest annexations in state history. Mr. Stoner also served for five years as Commissioner of the Washington State Employment Security Department, which managed the state's employment services, unemployment insurance, job training programs and labor market information. He has also held positions as the City Manager of Saginaw, Michigan, and Lacey, Washington. Mr. Stoner has served on the board of directors of the Portland Urban League, Olympia YMCA and United Way chapters in the Portland and Olympia areas.

Desmond Brown, General Counsel. Mr. Brown joined Sound Transit in May 1997 after 11 years as a real estate attorney with the Seattle law firm of Preston Gates & Ellis LLP, and the King County Prosecutor's Office. He acted as the principal attorney for numerous property and right-of-way acquisitions, including the acquisition of land for the Seattle Mariners Baseball Stadium and for the West Point Sewage Effluent Transfer System. Mr. Brown received his law degree from Harvard Law School and is a graduate of Arkansas State University with a bachelor of science degree in operations research management.

Hugh Simpson, Chief Financial Officer. With over 20 years experience in financial management and accounting, Mr. Simpson has extensive experience in developing financing plans, accounting/budgeting systems and information technology solutions. Although his focus has been in the public sector for many years, his experience is split between public and private entities, including positions as a City Fiscal Services Director and as Controller/Treasurer for an international company headquartered in Japan.

Ahmad Fazel, Director, Link Light Rail. Ahmad Fazel joined Sound Transit in October 2000 as the Systems Engineering Manager, and became the Director of Link Light Rail a year later. With over 18 years of experience in transportation, he has specialized in approaches and management structures, engineering techniques, and procedures for implementing light rail transit projects in complex urban and urbanizing areas. Prior to joining Sound Transit, he served as the Director of Planning and Development for the Regional Transportation District in Denver, where he managed more than $500 million of capital improvement projects, including build out of Denver's first two segments of light rail. Mr. Fazel has also served as Systems Engineer for the Tri-County Metropolitan Transportation District of Oregon (Tri-Met).

Agnes Govern, Director, Regional Express and Sounder Commuter Rail Capital Programs. Before joining Sound Transit, Ms. Govern was the Assistant General Manager of the Snohomish County Public Utility District. She also held various management positions with King County Metro, including serving as acting finance director and information systems division manager. At King County Metro, she managed the adoption of two multimillion dollar, multiyear information system business plans. Ms. Govern holds a master's degree in public administration from the University of Washington.

Martin Minkoff, Director, Transportation Services. Martin Minkoff joined Sound Transit in August 2002. With over 20 years of experience in the public transportation industry, Mr. Minkoff has extensive experience in executive management, operations, planning, and capital projects. Before joining Sound Transit, Mr. Minkoff held Executive Director/General Manager positions at the North San Diego County Transit District and the Whatcom Transportation Authority (Bellingham, WA), overseeing rail and bus systems. He also served in operations and planning management positions at the Capital Metropolitan Transportation Authority in Austin, TX. Mr. Minkoff received his Masters Degree in urban and regional (transportation) planning from the University of Iowa and his bachelor's degree from the University of Michigan.

Labor Relations

As of September 30, 2004, Sound Transit employed 338 permanent employees. No employees are represented by collective bargaining units. Sound Transit management believes that employee relations are satisfactory.

Pension Plans

Sound Transit provides a defined contribution money purchase plan and trust ("401(a) Plan") to its full-time employees and Board members that is administered by ICMA Retirement Corporation. Employees are responsible for directing the investment of employee and employer contributions. Sound Transit's contribution rate in 2004 on a covered payroll of $24,876,000 was 12%, or $2,985,000, and the employee contribution rate was 10%, or $2,488,000.

Prior to December 31, 1999, Sound Transit employees had a choice of participating in either the 401(a) Plan or in the Washington Public Employees' Retirement System ("PERS"). However, the Washington State legislature amended the laws governing PERS, requiring employers, such as Sound Transit, either to terminate their participation in PERS or permit all new employees to participate in PERS regardless of their simultaneous participation in a 401(a) plan. Such laws became effective January 2000. As a result, Sound Transit terminated its status as a PERS employer with regard to all employees hired after December 31, 1999. Individuals who were active members on that date are eligible to continue their membership in PERS for the duration of their continuous employment with Sound Transit. As of December 31, 2004, there was one employee participating in PERS (three employees as of December 31, 2003).

Risk Management

In the ordinary course of its normal operations, Sound Transit is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to persons; and natural disasters. Sound Transit has established a comprehensive risk management program utilizing the purchase of commercial insurance that provides first-level coverage for property, liability, employment practices and crime and fidelity to provide protection from these exposures. Such coverage includes self-insured per claim retention insignificant to Sound Transit's risk of loss. Sound Transit self-insures earthquake damages to its headquarters at Union Station. All other Sound Transit property locations are commercially insured for earthquake damages.

Sound Transit has also established an Owner-Controller Insurance Program ("OCIP") for all general liability claims for third-party injuries and/or property damage related to project construction activities carried out by third-party contractors. This commercially-procured insurance program includes a self-insured retention level of $500,000 per claim. This program covers construction projects from January 1, 2001, through December 31, 2006, and all premiums owed under the policy have been prepaid.

In addition, Sound Transit has also entered into a deductible liability protection policy to supplement the self-insured retention portion of the OCIP. Under this policy the probable maximum claims exposure, estimated at $6.5 million, has been deposited with the insurer in an interest-bearing loss fund account.

Asset-Liability Management

In 2004, the Board adopted an Asset Liability Management Policy (the "ALM") to coordinate its management of cash and investments and debt obligations. The ALM contains investment, debt and swap policies.

The Board has designated the Chief Financial Officer as treasurer of Sound Transit. The treasurer has authority under State law to invest surplus funds in (1) bonds of the State and any local government in the State; (2) general obligation bonds of any other state or a local government of any other state, which bonds have, at the time of investment, one of the three highest ratings of a nationally recognized rating agency; (3) registered warrants of a local government in the Counties; (4) obligations of the United States Government, its agencies and wholly owned corporations; (5) State, county, municipal or school district general obligation bonds within the statutory limitation of indebtedness; (6) motor vehicle fund warrants; (7) obligations of the Federal Home Loan Bank, Federal National Mortgage Association and other government-sponsored enterprises; (8) bankers' acceptances; (9) certificates of deposit of banks located in the State of Washington and covered by the Public Deposit Protection Commission (PDPC); and (10) commercial paper.

Sound Transit has adopted an investment policy with the primary objectives, in order of priority, of safety, liquidity and return on investment. Investments must be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. Sound Transit has chosen to limit its investments to the following types, and to limit the maximum percentage of investment in each type as follows:

Treasury securities	100%
State Treasurer's Local Government Investment Pool	100
Federal agency securities	50
PDPC Financial institution sponsored investment accounts	50
King County Investment Pool	50
General Obligations of any state or local government	10
Banker acceptances rated A1/P1	10
Non-negotiable certificates of deposit (PDPC funds)	10
Repurchase agreements	10
Reverse repurchase agreements	25
Commercial paper rated A1/P1	10

Investment in derivatives is prohibited except for zero coupon treasury instruments, zero coupon agency instruments, agency security obligations that have call features or step-up features at predetermined intervals, and agency obligations that float with interest rates or external indices such as treasury bills, LIBOR, COFI or the Fed Funds rate and swap debt obligations. As of February 1, 2005, all Sound Transit investments are consistent with the types of permissible securities outlined above.

Budgeting and Capital Planning Process

Sound Transit prepares an annual proposed budget for presentation to the Board no later than 60 days prior to the end of each Fiscal Year. The budget includes operating expenses and revenues for the upcoming Fiscal Year as well as a six-year capital plan. The six-year capital plan contains project-by-project summaries of total costs and capital outlays by phase, such as construction and property acquisition and by subarea. The budget presents summary information on expenses and outlays in each subarea, and contains project-by-project comparisons to the original System Plan budget. The Board-adopted budget policies require Board adoption before the start of each Fiscal Year and require a two-thirds affirmative vote of all Board members. The budget for 2005 was adopted by the Board on December 9, 2004.

Accounting and Auditing

***Method of Accounting*.** Sound Transit's accounts are maintained and financial statements prepared using the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and methods prescribed by the State Auditor under the authority of RCW Chapter 43.09 for proprietary funds. See Note 2 to the audited financial statements attached hereto as Appendix A for a summary of Sound Transit's significant accounting policies.

***Audit Committees*.** Sound Transit's Audit and Reporting Subcommittee meets quarterly to review Sound Transit's financial performance and pending and active audit activities. Sound Transit's Performance Audit Committee oversees performance-based audits.

***Financial Statements*.** Sound Transit's audited financial statements for the years ended December 31, 2003 and 2002, and unaudited financial statements from January 1, 2004, through September 30, 2004, are set forth in Appendix A–"Financial Statements." Sound Transit's audited annual financial statements for the fiscal years 1999 through 2003 were filed with, and should be available at, those NRMSIRs designated by the SEC for purposes of its Rule 15c2-12 at the time such financial statements were filed. Copies of such financial statements are available from Sound Transit upon payment to Sound Transit of a charge for copying, mailing and handling. Requests for such copies should be addressed to Sound Transit's Chief Financial Officer.

Absent extraordinary circumstances, Sound Transit expects that its audited financial statements will be available no later than 180 days after the end of each Fiscal Year. Sound Transit's Fiscal Year currently ends on December 31.

***State Audits*.** The State Auditor's Office performs an annual audit of Sound Transit's compliance with State law. The most recent audit is for 2003. That audit is not attached hereto. A copy of such audit may be obtained from Sound Transit or the State Auditor's Office.

Historical Operating Results

The following table summarizes Sound Transit's operating statements for the years 2000 through 2003 and from January 1, 2004 through September 30, 2004. Sound Transit first implemented Governmental Accounting Standards Board Statement No. 34 with respect to its 2002 financial statements. Sound Transit was not required to restate or adjust amounts reflected in the following table on account of Statement No. 34.

TABLE 5.
HISTORICAL REVENUES, EXPENSES AND CHANGES IN NET ASSETS, 2000–2004
($000s) (1)

	2000	2001	2002	2003	9 months ended 9/30/2004 (2)
Operating Revenues					
Passenger fares	$ 6,039	$ 8,820	$ 9,225	$ 11,625	$ 9,659
Other operating revenues	639	1,172	2,146	3,403	2,256
Total Operating Revenues	6,678	9,992	11,371	15,028	11,915
Operating Expenses					
Operations and maintenance	30,896	53,717	51,006	60,423	51,842
General and administrative	9,313	12,807	22,131	19,274	17,314
Depreciation	6,882	10,841	14,352	17,570	16,208
Total Operating Expenses	47,091	77,365	87,489	97,267	85,364
Loss from Operations	(40,413)	(67,373)	(76,118)	(82,239)	(73,449)
Non-Operating Revenues (Expenses)					
Sales Tax	212,478	209,752	204,566	206,665	157,234
Motor vehicle excise tax	56,241	56,123	58,319	61,189	48,510
Rental car tax	2,401	2,182	2,151	2,182	1,761
Investment income	57,589	60,207	42,923	20,020	8,078
Capital lease and other revenues		4,916	802	1,173	
Interest expense	(6,823)	(2,268)	(199)	(203)	(146)
Loss on disposal of assets	--	--	--	(369)	--
Discontinued projects	--	--	(660)	(106)	--
Total Non-Operating Revenues	321,886	330,913	307,902	290,551	277,241
Income Before Capital Contributions	281,473	263,540	231,784	208,312	141,988
Capital contributions to other governments	(1,218)	--	(42,536)	(4,443)	--
Federal capital contributions	48,884	41,488	78,088	26,879	58,404
Other capital contributions	16,500	14,805	9,754	6,689	3,400
Total Capital Contributions	64,166	56,293	45,306	29,125	61,804
Changes in Net Assets	345639	319,833	277,090	237,437	203,792
Total Net Assets, Beginning of Year	698,842	1,044,481	1,364,314	1,641,404	1,878,841
Total Net Assets, End of Year	$1,044,481	$1,364,314	$1,641,404	$1,878,841	$2,082,633

(1) Totals may not add due to rounding.
(2) Unaudited.

Prior Bonds Historical Debt Service Coverage. The following table shows historical debt service coverage levels for the Series 1999 Bonds (*i.e*., the outstanding Prior Bonds). There is no guarantee that future Local Option Taxes will be collected in amounts that are consistent with those shown in the table.

TABLE 6.
HISTORICAL DEBT SERVICE COVERAGE ON SERIES 1999 BONDS, 2000–2004

	2000	2001	2002	2003	2004(3)
Sales Tax	$212,478,487	$209,752,440	$204,566,076	$206,665,075	$217,524,328
Rental Car Tax	2,400,572	2,182,477	2,151,464	2,181,985	2,094,596
Motor Vehicle Tax	56,241,935	56,122,728	58,319,476	61,189,340	64,714,218
Total Local Option Taxes	271,120,994	268,057,645	265,037,016	270,036,400	284,333,142
Maximum annual debt service on the Series 1999 Bonds (1)	34,770,829	34,770,829	34,770,829	34,770,829	34,770,829
Debt service coverage (2)	7.80x	7.71x	7.62x	7.77x	8.18x

(1) See "BORROWING AUTHORITY AND DEBT SERVICE—Debt Service Requirements."
(2) Local Option Taxes divided by maximum annual debt service on the Series 1999 Bonds.
(3) Unaudited. December Sales Tax and Rental Car Tax revenues based on estimate only.

Projected Parity Bonds Debt Service Coverage

The Series 2005A Bonds are being issued as Parity Bonds, secured by a pledge on Pledged Taxes subordinate to the pledge of Pledged Taxes securing the Series 1999 Bonds and any additional Prior Bonds. The current financial plan does not assume the issuance of any additional Prior Bonds and, in addition to the Series 2005A Bonds, assumes approximately $800 million of additional Parity Bonds will be issued through 2009 to complete the System Plan. Assuming the Motor Vehicle Tax remains sufficient to pay the debt service on all Prior Bonds (in 2004, the Motor Vehicle Tax covered the maximum annual debt service on the Series 1999 Bonds by 1.86 times), Pledged Taxes for the year 2004 in the amount of $219,618,924 would have provided debt service coverage of 2.67 times estimated Maximum Annual Debt Service of $82.262 million on all Parity Bonds projected to be issued in the current financial plan. See "SOUND TRANSIT-The System Plan."

Sound Transit has calculated Maximum Annual Debt Service on the additional Parity Bonds under the following assumptions: the Parity Bonds are issued as three additional series in 2007, 2008 and 2009, and have 30-year terms.

This calculation is intended solely to demonstrate to prospective purchasers the estimated debt service coverage under the above assumptions. The amount of Parity Bonds issued, the issuance of additional Prior Bonds, the timing of issuance, changes in the System Plan, changes in interest rates and amortization schedules, fluctuation in Local Option Tax collections, permitted reductions in the rate of Sales Tax imposed to 0.3% and other factors within or outside the control of Sound Transit may result in actual debt service coverage that differs materially from that forecasted above.

The System Plan

Introduction. Sound Transit was created primarily to implement the high-capacity transportation services within the District. The specific System Plan currently being implemented is the result of a planning process that commenced under chapter 81.104 RCW before Sound Transit was created. This law required that a joint regional policy committee be formed to prepare and adopt a regional high-capacity transportation implementation program. The committee consisted of locally-elected officials from within the Counties and a representative from the Washington State Department of Transportation ("WSDOT").

The regional high-capacity transportation implementation program was to include a system plan, project plans and a financing plan. Chapters 81.104 and 81.112 RCW required that the System Plan address various criteria, including the degree to which revenues generated within each County will benefit that County's residents, and when such benefits will accrue (*i.e.,* "subarea equity"). An independent review panel was appointed to advise the joint regional policy committee, and later Sound Transit, and to review the draft components of the System Plan.

Based on the joint regional policy committee's adopted plan for regional transit (the "Regional Transit Plan"), the legislative authorities of the Counties, each by resolution, decided to participate in Sound Transit and appointed its Board members. Sound Transit was formally constituted at its first meeting on September 17, 1993. Upon formation of Sound Transit, the joint regional policy committee ceased to exist. By modifying the Regional Transit Plan, Sound Transit developed the initial system plan in 1994. Based on the initial system plan, each county council confirmed its continued participation in Sound Transit. The initial system plan was rejected by the District voters in 1995. Sound Transit then promulgated a second, less ambitious plan in May 1996. The System Plan was envisioned to encompass 10 years of planning and construction at a cost of $3.9 billion (in 1995 dollars) to complete. The System Plan (together with the Motor Vehicle Tax and the Sales Tax) was approved by the District voters in 1996.

The System Plan consists of four primary projects: a high-occupancy-vehicle (HOV) expressway, a system of regional express buses, commuter rail (the "Sounder"), and electric light rail. The System Plan envisioned a 25-mile electric light rail line running from Seattle's University District to the Seattle-Tacoma International Airport (the "Airport") in the City of SeaTac. The line was to run through downtown Seattle and the Rainier Valley neighborhood in south Seattle on its way to the Airport. An extension of the light rail line further north to the Northgate shopping center was envisioned, but only if sufficient funds remained after construction of the line from the University District to the Airport.

Progress to Date. As of September 2004, the agency had completed 18 capital projects and was operating regional bus, Sounder commuter rail and light rail. The agency has completed construction on the Tacoma Link light rail system, two park-and-ride facilities, four transit centers, five HOV access projects and six commuter rail stations. In addition, the agency is operating 19 regional express bus routes, three round trip Sounder commuter rail trains daily and daily operations of Tacoma Link light rail. The agency had over ten million passenger boardings in 2004.

Sound Transit expects to make $6.6 billion of expenditures (year-of-expenditure dollars) for the period from 1997 through 2009, and to finance those expenditures with, among other things, Local Option Taxes, federal, state and local grants, fares and other operating revenues, as well as interest earnings on money from such sources. Of this amount, Sound Transit expects to fund approximately $1.6 billion from bond proceeds for current Board-approved projects. Sound Transit issued Series 1999 Bonds in the aggregate principal amount of $350,000,000 as the first issue of those bonds. The Series 2005A Bonds constitute the second issue of bonds by Sound Transit.

Sound Transit management believes that the remainder of the System Plan, as currently adopted, can be implemented with Sound Transit's existing financial resources, but will not be completed by 2006 as planned. However, as new facts and circumstances arise, the Board may make policy decisions as to services, equipment, route alignment, fares and other matters that may affect the cost and timing of System Plan implementation. Implementation of the remaining portions of the System Plan on time and on budget also depends on circumstances beyond the control of Sound Transit, including weather, soil conditions, environmental conditions, economic conditions, local jurisdiction permitting, the presence of archaeologically significant artifacts, natural disasters, legal challenges, changes in law and others. Any of these circumstances could delay the implementation or increase costs of the remainder of the System Plan, or result in the need to incur additional debt.

Subarea Equity. In accordance with the System Plan, Sound Transit has adopted policies to utilize Local Option Tax revenues and related debt for projects and services that benefit the five subareas in the District generally in proportion to the level of revenues each subarea generates. The five subareas are: Snohomish County, North King County, East King County, South King County and Pierce County. None of King County, Snohomish County or Pierce County subareas encompass the entire area of King County, Snohomish County or Pierce County, respectively; accordingly, only a portion of King County, Snohomish County and Pierce County are within the District. A map of the District is set forth on page iii of this Official Statement.

Financial Policies. The System Plan contains Board-adopted financial policies that provide the framework for more detailed agency financial and administrative policies. The financial policies require that Sound Transit's financial plan provide a budget for each subarea containing updated expenditure and revenue forecasts. The financial policies outline debt financing capacity, guidelines for setting priorities for expenditures, and public accountability standards. In addition, the financial policies establish the guidelines for monitoring and maintaining subarea equity. The policies also establish principles for maintaining a regional fund for fare integration, research and development of new technology, future phase capital development planning and agency administration.

Transit Operations and Capital Program Summary

Regional Express. The $958 million Regional Express capital program is focused on providing two types of transportation improvements: community connection facilities and HOV improvements. The System Plan calls for funding of 40 community connection facilities. These include transit centers, park-and-ride lots and transit access improvements. These community connection facilities are expected to improve access to the regional transit system and connections to local transit services. The HOV improvements are designed to allow quick and reliable express bus service throughout Sound Transit's service area. The HOV access projects are being implemented through a partnership between Sound Transit and WSDOT. Sound Transit will fund special access ramps to make it easier for transit and vanpools to use HOV lanes at some of the region's most congested freeway intersections. These improvements are intended to expand and permanently improve the existing HOV network within the District. By the end of 2004, Sound Transit had completed nine capital projects within its Regional Express program.

Sound Transit operates 19 ST Express bus routes in the Counties. The ST Express bus ridership during 2004 was 8.4 million passenger boardings. This compares to 7.4 million passenger boardings in 2003 and 6.4 million passenger boardings in 2002. ST Express buses currently have more than 30,000 passenger boardings per weekday.

Sounder Commuter Rail. The $1.2 billion Sounder commuter rail capital program is expected to create 82 miles of peak period train service primarily using existing railroad tracks between Everett, Seattle, Tacoma and Lakewood. Sound Transit is building on a railroad network that already was in place. The commuter rail system will use conventional railroad locomotives and passenger coaches. The goal of the commuter rail capital program is to increase the people-moving capacity of the regional transportation system while not impeding the flow of freight. Sound Transit intends to meet this goal by installing capital improvements to track, signal and communications equipment. These improvements are required to increase the capacity of those lines and improve the speed and reliability of trains in the corridor.

The commuter rail system, when completed, is expected to include 12 stations. The System Plan calls for major multimodal terminals in Everett, Seattle and Tacoma. Additional major intermodal terminals (including Washington state ferries), developed through a partnership between Sound Transit and other public agencies, are planned for the Mukilteo and Edmonds waterfronts. Stations have been and will be designed to provide amenities such as platforms, canopies, ticket vending machines, access for disabled persons, vehicle and bicycle parking, passenger information, signage, and lighting.

Sounder commuter rail service from Tacoma to Seattle began in September 2000 with two weekday round trips and special event trains such as "Home Run Service" for Sunday afternoon Seattle Mariners baseball games. In September 2002, service was expanded adding an additional round-trip train in the Seattle-Tacoma segment. Special event services have continued to grow as well. Service to selected Saturday Seattle Mariners games and many Sunday Seattle Seahawks football games commenced in 2003 and are planned to continue during 2005. Daily round trip service commenced between Everett and Seattle in 2003, consisting of a single daily round trip. Sounder commuter rail service had approximately 650,000 passenger boardings in 2002, 750,000 passenger boardings in 2003 and 955,000 passenger boardings in 2004.

By the end of 2004, Sound Transit and the Burlington Northern Santa Fe Railway ("BNSF") had entered into agreements that will allow Sound Transit to operate the Sounder service on its entire 82-mile corridor from Lakewood to Everett. Sound Transit's contract with BNSF requires the completion of specific track and signal improvements to accommodate passenger service along BNSF's right-of-way. Sound Transit has also delivered a promissory note in the principal amount of $6 million in favor of BNSF in connection with the purchase of certain real property in the Tacoma-to-Nisqually corridor for future service and station improvements. That promissory note becomes due in 2006. See Appendix A–"Financial Statements" for a more detailed summary of the agreements with BNSF.

Link Light Rail. The System Plan envisioned a 25-mile light rail system, running from the University of Washington, through downtown Seattle, to just south of the SeaTac International Airport. The cost of construction was estimated at $1.8 billion (in 1995 dollars). By September 2000, Sound Transit became aware that, due to unforeseen circumstances, it would not be able to construct the light rail line within a 10-year period and within the estimated budget. In November 2001, Sound Transit scaled the light rail project down to a 14-mile "initial segment" line with 11 stations running from downtown Seattle to Tukwila and with a 1.6 mile bus shuttle from Tukwila to the Airport. The revised project is scheduled to be completed in 2009 at an estimated capital cost of approximately $1.5 billion in 1995 dollars (or approximately $2.07 billion in year of expenditure dollars). Sound Transit received a $500 million "Full Funding Grant" from the Federal Transit Administration to pay a portion of the costs of this initial segment, of which $246 million has been appropriated.

In December 2004, Sound Transit and the Port of Seattle announced that they had reached general agreement on extension of light rail to SeaTac International Airport, with service by end of year 2009. The Sound Transit Board is expected to review a detailed memorandum of agreement with the Port of Seattle in the summer of 2005. In May 2003, the Board identified a preliminary alignment to extend the system north to the University of Washington. The final environmental impact statement on this extension is expected in the third quarter of 2005. The cost of the extension of light rail to the Airport and the University of Washington is not included in the estimated $6.6 billion of expenditures (year-of-expenditure dollars) for the System Plan.

The $80.4 million Tacoma Link connects downtown Tacoma with a regional transit center at the Tacoma Dome Station, where riders can transfer to Sounder commuter rail, ST Express regional buses, or local Pierce Transit buses. Five stations along the Tacoma Link line serve major Tacoma destinations like the theater district, a history museum, a University of Washington branch campus, new convention center and the city's commercial center. Tacoma Link began revenue service in August 2003. It had 266,793 passenger boardings in 2003, 794,582 passenger boardings in 2004 and is projected to have 810,474 passenger boardings in 2005.

The total current capital budget for all light rail projects and related reserves is $2.5 billion.

Second Phase Capital Program

Sound Transit adopted a long-range plan (the "Long-Range Vision") in 1996 that identified the first phase of capital and service investments for implementation. The System Plan, which describes the first phase of Sound Transit's capital improvement program within the District, grew out of the Long-Range Vision. Sound Transit is currently in the process of updating the Long-Range Vision to provide for the second phase of its capital improvement program. It is anticipated that an updated Long-Range Vision will be considered by the Board in June 2005. If adopted, Sound Transit will begin developing a second phase plan, which it expects to put before the Board in early 2006. If the Board adopts a second phase plan, Sound Transit may need to issue additional bonds above the $1.2 billion contemplated for current Board-approved projects.

A second phase plan or any other capital improvement program that would continue the collection of Local Option Taxes for financing will require voter approval within the District. The Board has not yet identified when and if it intends to take a proposal for a second phase plan to the voters for approval. If voters decide not to approve a second phase plan and extend the System, the Board has committed in the System Plan to roll back the tax rates (subject to the provisions of the Prior Resolution and the Parity Bond Resolution) to a level sufficient to pay off the Prior Bonds and Parity Bonds and to operate and maintain the investments made as part of the System Plan. The Board expects that it would honor its commitments through two steps to roll back the rate of Local Option Taxes collected by Sound Transit. First, Sound Transit would initiate an accelerated payoff schedule for any outstanding bonds. If this step is initiated, the Series 2005A Bonds subject to optional redemption may be redeemed prior to their stated maturities. See "THE SERIES 2005A BONDS—Redemption and Purchase Provisions" for a summary of the optional redemption provisions applicable to the Series 2005A Bonds. Second, Sound Transit would reduce its tax rates (consistent with the requirements of the Prior Resolution and the Parity Bond Resolution) to a level necessary to pay the accelerated schedule for debt service on outstanding bonds, system operations and maintenance, fare integration, capital replacement, and agency cost. Once Sound Transit's debt is retired, Sound Transit would further reduce tax rates to a level necessary to pay for the system operations and maintenance, fare integration, capital replacement and agency administration.

Other Local Transportation Programs

Sound Transit is aware of various other transportation programs within the District that are being undertaken and/or studied by the State and local governments. Prominent among these are an initiative to construct a monorail system within the City of Seattle and a proposal to create a municipal corporation known as a regional transportation investment district (the "RTID") encompassing the entire area of the Counties, which would cover all of Sound Transit's service area. Sound Transit is unable to predict whether Sound Transit will encounter delays in implementing its System Plan on account of other transportation programs within the region, or whether the other transportation programs described below will complement Sound Transit's high capacity transportation system.

Seattle Popular Monorail Authority. A 1.2-mile monorail was constructed in downtown Seattle in conjunction with the 1962 World's Fair and Exposition. That monorail shuttles passengers between the downtown core and the Seattle Center (the site of the Space Needle, Key Arena and numerous museums). The State legislature enacted a law in 2002 (chapter 35.95A RCW) that authorized the creation of city transportation authorities for the purpose of acquiring, installing and operating public monorail transportation facilities. Pursuant to this law, Seattle voters approved the formation of the Seattle Popular Monorail Authority (the "Monorail Authority"). The Monorail Authority is a municipal corporation with boundaries that are co-extensive with those of the City of Seattle. It is governmental entity separate and distinct from The City of Seattle, King County and Sound Transit.

The Seattle voters also authorized the Monorail Authority to impose a 1.4% motor vehicle excise tax on the value of vehicles owned by Seattle residents, and to issue up to $1.5 billion of debt (in 2002 dollars) for an initial 14-mile monorail line and planning for a second monorail line. The initial monorail line is planned to extend from the Seattle neighborhoods of Ballard and West Seattle to Downtown. Construction is scheduled to begin in 2005. The Monorail Authority expects the line to be open for operation in 2009.

Regional Transportation Investment District. Also in 2002, the State legislature enacted legislation (see chapter 36.120 RCW) authorizing the Counties to initiate the creation of RTID. The RTID's boundaries would be co-extensive with the boundaries of those Counties participating in the RTID's creation. The Counties have convened a planning committee pursuant to the legislation. This committee is responsible for developing a regional transportation investment plan providing for the development, financing and construction of highway, street and road improvements, as well as park-and-ride lots, vans for vanpools and buses. The plan also must identify the sources of revenue for the RTID, which can include a regional sales and use tax, a vehicle license fee, a parking tax, a motor vehicle excise tax, an employer tax, and vehicle tolls. The legislative authorities of two or more of the Counties may submit this plan, together with a proposition to create the RTID and impose taxes, to the voters within such Counties. A simple majority of persons voting on the ballot is necessary to create the RTID, approve the plan and authorize the proposed taxes.

Washington State Department of Transportation. WSDOT is responsible for operating, maintaining and improving approximately 3,564 miles of State-owned highways, 13 ferries and 6 ferry terminals within the Counties. In addition, WSDOT supports freight and passenger rail programs as well as public transportation systems and provides technical and financial assistance to many local governments and transit agencies, including Sound Transit. WSDOT has identified approximately $6.55 billion of capital projects (excluding capital projects related to the ferries and ferry terminals) within the Counties in the State's 2003-2005 Biennial Budget. These projects are expected to compliment activities listed in the System Plan.

INITIATIVES AND REFERENDA

Under the State Constitution, the State's voters have the ability to initiate legislation and to modify existing statutes through the powers of initiative and referendum. Initiatives and referenda can be submitted to the voters each November upon receipt of a petition signed by at least eight percent (initiatives) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Regular gubernatorial elections occur every four years, with the last such election held in November 2004.

An initiative or referendum measure will be enacted if it is approved by a majority of those voting on the measure. Laws enacted in this manner may not be amended or repealed by the State legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each House of the Legislature.

After this two-year period, such laws can be amended or repealed by the Legislature in the same manner as other laws.

In recent years, there have been numerous initiatives and referenda approved by the State's voters that have sought to modify laws pertaining to taxation and revenue. Some of these have been ruled to be unconstitutional by the State's Supreme Court. Others have not.

Initiative petitions affecting tax collections, levy rates and other matters may be filed in the future. Sound Transit cannot predict whether any such initiatives will qualify to be submitted to the voters or, if submitted, will be approved. Likewise, Sound Transit cannot predict what actions the Legislature might take, if any, regarding future initiatives approved by voters.

LITIGATION

I-776 Litigation

Sound Transit is a party to litigation (the "I-776 Litigation") concerning the validity and application of Initiative Measure No. I-776 ("I-776"). Among other things, I-776 purported to repeal Sound Transit's authority to impose its Motor Vehicle Tax. In March 2004, the Washington Supreme Court held that I-776 was constitutional and did not "substantially impair" King County's contractual obligations to certain of its bondholders "based solely on the specific facts presented" in a bond issue by the County. The case was remanded to the Superior Court for further proceedings on several issues, including (1) whether the Washington Constitution barred enforcement of I-776's attempted repeal of Sound Transit's Motor Vehicle Tax during the period that bond contracts between Sound Transit and holders of the Series 1999 Bonds (which were issued prior to the effective date of I-776) require collection of the Motor Vehicle Tax, and (2) whether Sound Transit lacked legal authority to impose the Motor Vehicle Tax or to issue bonds secured by a pledge of the Motor Vehicle Tax on the grounds that the regional transit authority enabling legislation is unconstitutional and that Sound Transit was therefore not validly formed.

On November 5, 2004, the King County Superior Court entered an order denying all claims challenging Sound Transit's continued collection of the Motor Vehicle Tax pledged to payment of the Series 1999 Bonds, and denied all claims that Sound Transit is not validly formed. On December 16, 2004, the King County Superior Court entered an order denying motions for clarification and reconsideration. The Court ruled that:

1. Sound Transit met its burden of showing that the holders of the Series 1999 Bonds expect continued collection of the Motor Vehicle Tax as part of the financial framework that induced them to purchase those bonds and that I-776 negatively impacts this financial framework; I-776 impairs Sound Transit's ability to fulfill its express contractual obligation to holders of the Series 1999 Bonds to collect the Motor Vehicle Tax pledged to secure the Series 1999 Bonds; and I-776 unconstitutionally impairs the contract between the holders of the Series 1999 Bonds and Sound Transit and violates Article 1, Section 23 of the Washington Constitution;

2. Sound Transit was validly formed, revenue from the Local Option Taxes was properly pledged to secure repayment of the Series 1999 Bonds and laches bars the challenge to the formation and pledging authority of Sound Transit.

An appeal has been filed with the Washington State Supreme Court. Sound Transit intends to continue vigorously defending against the claim that Sound Transit's enabling legislation was constitutionally defective, and believes that this claim is not likely to prevail. Sound Transit believes that none of the opposing parties has articulated a legal basis upon which to argue that I-776 should limit Sound Transit's ability to collect the Motor Vehicle Tax or that Sound Transit does not validly exist. Bond Counsel's opinion concludes that Sound Transit "is a duly formed and legally existing regional transit authority" under the laws of the State of Washington. See Appendix D-"Form of Bond Counsel Opinion."

Sound Transit continues to collect the Motor Vehicle Tax pending the outcome of this litigation. If the Washington Supreme Court affirms the trial court's ruling Sound Transit expects to continue imposing and collecting the Motor Vehicle Tax at the current rate of 0.3% so long as the Series 1999 Bonds are outstanding. The Motor Vehicle Tax is not pledged for the Series 2005A Bonds but is available for any lawful purpose including, in Sound Transit's discretion, payments on the Series 2005A Bonds.

Sheehan v. Sound Transit

In *Sheehan et al. v. Seattle Popular Monorail Authority et al.*, plaintiffs challenge the constitutionality of the Motor Vehicle Taxes levied by Sound Transit and the Seattle Monorail Authority (the "Authority"). Plaintiffs allege that the Motor Vehicles Taxes are property taxes, not excise taxes, and therefore exceed the legislative authority granted to Sound Transit and the Authority, and are otherwise preempted by State laws. Sound Transit contends that the State legislature authorized, local voters approved, and Sound Transit has properly imposed and collected the Motor Vehicle Taxes, consistent with longstanding Washington law. The King County Superior Court agreed with Sound Transit and the Authority in all respects, granting Sound Transit's and the Authority's motion for summary judgment, dismissing all of plaintiffs' claims as a matter of law, and denying class certification as moot. Plaintiffs appealed the case directly to the Washington Supreme Court. Oral argument is expected in the spring of 2005.

Pande Cameron and Company of Seattle v. Sound Transit et al.

Sound Transit is a defendant in *Pande Cameron and Company of Seattle v. Sound Transit et al.*, a case currently before the King County Superior Court. Plaintiffs contend that Sound Transit's construction of the System Plan will render Plaintiffs' stores unusable. Plaintiffs in this action (represented by the same counsel as the interveners in the I-776 Litigation) filed suit on September 2, 2004, raising substantially the same arguments as in the I-776 Litigation, including the assertion that Sound Transit's formation was invalid. The State, a defendant in the lawsuit, answered on October 1, 2004, denying all claims. Plaintiffs seek remedies including a permanent injunction to prevent Sound Transit from implementing the System Plan, other additional equitable relief and taxpayer claims. Trial is set for February 27, 2006.

Other Litigation

In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to personnel, contractual and condemnation matters. Although the ultimate effect, if any, of these matters is not presently determinable, Sound Transit's management believes that, collectively, they will not have a material effect on Sound Transit's ability to pay debt service on the Series 2005A Bonds.

No Litigation Concerning the Series 2005A Bonds

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the issuance, sale, execution, or delivery of the Series 2005A Bonds or in any way contesting the validity of the Series 2005A Bonds or any proceedings of Sound Transit taken with respect to the issuance or sale thereof, or the power of Sound Transit to collect any of the Pledged Taxes, except as described in this Official Statement.

TAX EXEMPTION

General

Exclusion From Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Series 2005A Bonds, interest on the Series 2005A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. Sound Transit is required to comply with certain requirements of the Code after the date of issuance of the Series 2005A Bonds in order to maintain the exclusion of the interest on the Series 2005A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Series 2005A Bond proceeds and the facilities financed or refinanced with Series 2005A Bond proceeds, limitations on investing gross proceeds of the Series 2005A Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Series 2005A Bonds. Sound Transit has covenanted in the Parity Bond Resolution to comply with those requirements, but if Sound Transit fails to comply with those requirements, interest on the Series 2005A Bonds could become taxable retroactive to the date of issuance of the Series 2005A Bonds. Bond Counsel has not undertaken and does not undertake to monitor Sound Transit's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Series 2005A Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Series 2005A Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed $5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed $7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Series 2005A Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Series 2005A Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Series 2005A Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Series 2005A Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Series 2005A Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Series 2005A Bonds could adversely affect the market value and liquidity of the Series 2005A Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Series 2005A Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Series 2005A Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Series 2005A Bonds may have other federal tax consequences as to which prospective purchasers of the Series 2005A Bonds may wish to consult their own tax advisors.

ONGOING DISCLOSURE

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission, Sound Transit has undertaken for the benefit of holders of the Series 2005A Bonds to provide certain financial information and operating data relating to Sound Transit by no later than nine months after the end of each Fiscal Year, commencing on or before September 30, 2005 (the "Annual Financial Information"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Financial Information will be filed by or on behalf of Sound Transit with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with the State Information Depository for the State, if any (the "SID"). Notices of material events will be filed by or on behalf of Sound Transit with the NRMSIRs or with the Municipal Securities Rulemaking Board ("MSRB"), and with the SID, if any. Sound Transit's undertaking to provide ongoing disclosure is set forth in Appendix B–"The Parity Bond Resolution–Section 27. Continuing Disclosure for the 2005A Bonds."

Sound Transit committed to provide ongoing disclosure with respect to the Series 1999 Bonds. Sound Transit has complied with such undertaking in all material respects.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Series 2005A Bonds by Sound Transit are subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel. The form of approving opinion of Bond Counsel is set forth in Appendix D. Certain legal matters will be passed upon for Sound Transit by its General Counsel, Desmond Brown. Certain legal matters will be passed upon for the Underwriters by their counsel, Preston Gates & Ellis LLP, Seattle, Washington, and any opinion of such firm will be rendered solely to the Underwriters, will be limited in scope and cannot be relied upon by investors without the written consent of such firm.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P") have assigned their municipal bond ratings of "Aaa" and "AAA," respectively, to the Series 2005A Bonds on the condition that a municipal bond insurance policy will be issued by Ambac Assurance. The Series 2005A Bonds have been assigned underlying municipal bond ratings of "Aa3" and "AA-" by Moody's and S&P, respectively. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Series 2005A Bonds. Each rating reflects only the view of the applicable rating organization and an interpretation of such rating may be obtained only from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 55 Water Street, New York, New York 10041; Standard & Poor's Ratings Services, 25 Broadway, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such agencies, circumstances so warrant. Any such revision or withdrawal of either such rating may have an adverse effect on the market price of the Series 2005A Bonds.

UNDERWRITING

The Series 2005A Bonds are to be purchased by Citigroup Global Markets Inc., Lehman Brothers Inc., Merrill Lynch & Co., UBS Financial Services Inc., Banc of America Securities LLC and Siebert Brandford Shank & Co., L.L.C. (collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Series 2005A Bonds at the public offering prices as shown on the inside front cover less an aggregate underwriting discount of $2,087,946. The Bond Purchase Contract provides that the Underwriters will purchase all Series 2005A Bonds if any are purchased. The Underwriters may offer and sell the Series 2005A Bonds to certain dealers (including dealers depositing Series 2005A Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the cover page hereof, and such initial offering prices may be changed, from time to time, by the Underwriters.

AGENTS, ADVISORS AND CONSULTANTS

Registrar. Sound Transit has appointed the fiscal agent of the State as the Registrar for the Series 2005A Bonds. The State fiscal agency contract is bid out by the State Treasurer on competitive basis for a four-year term. The current contract expires January 31, 2006. The Bank of New York and Wells Fargo Bank, N.A. currently serve in this capacity. For so long as the Series 2005A Bonds are held by DTC in book-entry only form, the beneficial owners of the Series 2005A Bonds must transfer their ownership interests, and will receive payments on the Series 2005A Bonds, in the manner set forth in Appendix E–"Book-Entry Only System."

Bond Counsel. The Seattle law firm of Foster Pepper & Shefelman PLLC ("Bond Counsel") was selected to serve as Sound Transit's bond counsel pursuant to a request for proposal process. The term of such appointment is for five years. Foster Pepper & Shefelman PLLC also is serving as special disclosure counsel to Sound Transit in connection with the issuance of the Series 2005A Bonds. Bond Counsel will be compensated from the proceeds of the Series 2005A Bonds when and if such bonds are issued.

Bond Counsel has been retained to provide additional legal services to Sound Transit. Sound Transit does not believe such additional representation of Sound Transit impedes the ability of Bond Counsel to render independent judgment regarding the legality of the Series 2005A Bonds. Bond counsel also has been retained by the Monorail Authority and RTID to provide legal services.

Sound Transit has been advised that Bond Counsel from time to time represents, on matters unrelated to Sound Transit or to the Series 2005A Bonds, certain of the firms serving as Underwriters for the Series 2005A Bonds. Preston Gate & Ellis LLP, counsel to the Underwriters, represents Sound Transit on various matters, including but not limited to defending Sound Transit in the I-776 Litigation and the Sheehan v. Sound Transit case.

Financial Advisors. Sound Transit selected Public Financial Management, Inc., and Hattori & Associates, LLC, to serve as its financial advisors in conjunction with the issuance of the Series 2005A Bonds.

Independent Auditors. The financial statements of Sound Transit for the years ended December 31, 2003 and 2002, included as Appendix A to this Official Statement, were audited by independent auditors, as stated in their report appearing in Appendix A. Sound Transit did not request the consent of either firm to include their audit reports appearing in Appendix A.

MISCELLANEOUS

The descriptions herein of the Prior Resolution, the Parity Bond Resolution and other documents are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and reference is made to such documents and contracts, copies of which are available, upon request and upon payment to Sound Transit of a charge for copying, mailing and handling, from Sound Transit's Department of Finance and Information Services. The descriptions of the Parity Bond Resolution and the Series 2005A Bonds contained in this Official Statement are qualified by reference to bankruptcy laws affecting the remedies for enforcement of the rights and security provided therein and the effect of the exercise of the police power by any governmental entity having jurisdiction.

All estimates included in this Official Statement, whether or not so stated, are not to be construed as representations that the same will be realized. All forecasts and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between Sound Transit and the Owners of any of the Series 2005A Bonds. Section headings, table headings and captions are included for convenience only and should not be construed as modifying the text of this Official Statement.

Except for the historical information contained in this Official Statement and in the appendices hereto, the matters described in this Official Statement may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Sound Transit cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. Various risks and uncertainties could affect Sound Transit's financial performance and could cause actual results for future periods to differ materially from those anticipated or forecasted. Sound Transit specifically disclaims any obligations to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise expressly provided in "ONGOING DISCLOSURE."

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Neither the delivery of this Official Statement nor any sale of the Series 2005A Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of Sound Transit since the date hereof.

The Series 2005A Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act. The Series 2005A Bonds have not been registered under the securities laws of any state.

The execution and delivery of this Official Statement has been duly authorized by Sound Transit.

THE CENTRAL PUGET SOUND REGIONAL
TRANSIT AUTHORITY

By: /s/ Hugh Simpson
Chief Financial Officer

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APPENDIX A
FINANCIAL STATEMENTS

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Central Puget Sound Regional Transit Authority

Financial Statements for the
Years Ended December 31, 2003 and 2002, and
Independent Auditors' Report

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The financial statements of the Central Puget Sound Regional Transit Authority ("Sound Transit") have been prepared from the agency's accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including estimates and judgements, are the responsibility of management.

Sound Transit maintains a system of internal accounting controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes management's responsibility to objectively assess the effectiveness of internal accounting controls and recommend improvements therein.

Limitations exist in any system of internal accounting controls in which the cost of the system being implemented should not exceed the benefits derived. Sound Transit believes that the organization's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent auditors, whose report is included herein, were engaged to express an opinion on our 2003 financial statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Board of Directors.

Joni Earl
Joni Earl
Chief Executive Officer

Hugh L. Simpson
Chief Financial Officer

Kelly Priestley
Controller

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KPMG

KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

Audit and Reporting Subcommittee of the Board
Central Puget Sound Regional Transit Authority:

We have audited the accompanying basic financial statements of Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of Sound Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying basic financial statements of Sound Transit as of and for the year ended December 31, 2002, were audited by other auditors whose report thereon dated April 24, 2003, expressed an unqualified opinion, which report included an explanatory paragraph that described a change in accounting principle on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the financial position of Central Puget Sound Regional Transit Authority as of December 31, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 23, 2004 on our consideration of Central Puget Sound Regional Transit Authority internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 1 through 10 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

April 23, 2004

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2003 and 2002

Management's Discussion and Analysis ("MD&A") presents a narrative overview and analysis of the financial activities of the agency for the years ended December 31, 2003 and 2002. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements as a whole.

Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, is a regional transit authority implementing and providing a high-capacity transportation system throughout parts of King, Pierce and Snohomish counties through commuter rail ("Sounder"), light rail ("Link") and a regional express bus system ("Regional Express"). The implementation of the initial phase of the voter-approved regional transportation system ("*Sound Move*") is scheduled for a 13-year period, ending in 2009. The agency is seven years into this initial phase and its activities to date have been concentrated on implementing service in all three lines of business and on the design, environmental review and initial construction of Sound Transit's capital projects.

Sound Transit's financial statements have reflected a growth in operating revenues and expenses each year, as well as growth in capital projects in progress and property, vehicles and equipment. As the agency has not reached its full service levels and has not yet entered construction on all of its major projects, major sources of revenue exceed expenses and capital outlays, resulting in a rising net assets position.

Financial Highlights

- Total operating revenues were $15.0 million for 2003, an increase of 31.6% from the prior year. Passenger fares increased by $2.4 million from the prior year, as a result of the impact of full-year service increases on the Sounder and Regional Express service as well as higher ridership numbers on Regional Express. Other revenues increased by $1.2 million relating to leasing additional excess revenue vehicles and a higher number of temporary property rentals related to increased land purchase activity.
- Total operating expenses, excluding depreciation, increased by $6.5 million or 8.9% from the prior year. Operations and maintenance expenses increased by $9.4 million. This increase is due to the higher service levels provided in 2003 and the commencement of the no-fare Tacoma Link service in August of 2003. General and administrative expenses decreased by $2.9 million as more costs were able to be capitalized to projects in 2003. General and administrative expenses before overhead allocation to projects increased by $3.8 million primarily due to hiring additional full-time equivalent employees as the agency staffed up for increased project activity.
- Non-operating revenues (expenses) decreased by $17.4 million or 5.7% from the prior year. This decrease is attributable to lower investment income of $22.9 million, reflecting declining interest rates and the maturing of high rate investments, partially offset by higher tax revenues of $5.0 million.

- Contributions decreased by $16.2 million or 35.8%. This decrease is due to lower federal capital contributions of $51.2 million, offset by lower contributions to other governments. Grant contributions in 2003 did not include further appropriations for the Link full-funding grant agreement, while 2002 included an accrual of $39.5 million of the $50.0 million Link New Starts funding which was awarded in 2002. In 2003, $4.4 million in contributions were made to other public agencies, while in 2002 such contributions were $42.5 million.
- Total net assets at December 31, 2003 were $1.9 billion, an increase of $237 million or 14.5% from 2002, as compared to an increase of $277 million or 20.3% from 2001. The lower increase in net assets in 2003 from 2002 reflects the higher loss from operations of $6 million, lower investment revenues of $23 million and the lower contributions of $16 million.
- Total capital assets, net of depreciation, were $1.4 billion at December 31, 2003, an increase of $384 million or 39.0% from 2002. The increase in total capital assets reflects increased land and right of way acquisitions, the most significant of which includes the acquisition of the first of four easements in the Seattle-to-Everett corridor, receipt of the vehicles under the lease agreement with Peninsula Corridor Joint Powers Board ("CalTrain") and an increase in capital projects in progress. Approximately $161 million in projects, excluding the Seattle-to-Everett corridor easement, were completed during the year and transferred to depreciable assets.

Overview of the Financial Statements

Sound Transit's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The 2003 financial statements are presented using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are shown.

In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Balance Sheets and depreciation of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

The financial statements provide both long-term and short-term information about Sound Transit's overall financial status as well as Sound Transit's net assets, segregated by invested in capital assets (net of related debt), restricted and unrestricted. Net assets are the difference between Sound Transit's assets and liabilities and over time may serve as a useful indicator of Sound Transit's financial position. The financial statements also include notes that provide additional information that is essential to a full understanding of the information provided.

Financial Analysis

Net Assets

Sound Transit's total net assets at December 31, 2003 were $1.9 billion, an increase of $237 million or 14.5% from 2002 (see Table A-1). Total assets also increased $237 million or 11.3%, with total liabilities comparable to 2002, funded through a reduction in current and restricted assets and an excess of revenues over expenses.

Table A-1

Sound Transit Net Assets

(in millions)	As of December 31,			% Change	
	2003	**2002**	**2001**	**2003 - 2002**	**2002 - 2001**
Current assets, excluding restricted assets	$ 691.8	$ 792.9	$ 686.1	(12.8)	15.6
Restricted assets	217.9	265.8	305.5	(18.0)	(13.0)
Capital assets	1,367.0	983.4	791.5	39.0	24.2
Other non-current assets	69.2	66.4	62.2	4.2	6.8
Total Assets	**2,345.9**	**2,108.5**	**1,845.3**	**11.3**	**14.3**
Current liabilities, excluding interest payable from restricted assets	54.3	55.3	72.0	(1.8)	(23.2)
Interest payable from restricted assets	7.2	7.2	7.2	-	-
Long-term debt	347.4	347.5	348.9	(0)	(0)
Other long-term liabilties	58.2	57.1	52.9	1.9	7.9
Total Liabilities	**467.1**	**467.1**	**481.0**	**(0.0)**	**(2.9)**
Net Assets					
Invested in capital assets, net of related debt	1,022.5	639.0	447.3	60.0	42.9
Restricted net assets	210.7	258.7	298.4	(18.6)	(13.3)
Unrestricted net assets	645.6	743.7	618.6	(13.2)	20.2
Total Net Assets	**$ 1,878.8**	**$ 1,641.4**	**$ 1,364.3**	**14.5**	**20.3**

Current assets, excluding restricted assets, decreased in 2003 by 12.8% from 2002. This decrease reflects payment to Burlington Northern and Santa Fe ("BNSF") for the purchase of the first of four easements in the Seattle-to-Everett corridor, lower accruals for grant contributions and a decrease in lease contract receivable with the receipt by Sound Transit of the cab and coach cars under the lease agreement with CalTrain. In 2002, current assets increased by 15.6% from 2001 due to the accrual of $39 million in Link New Starts funding and an increase in lease contract receivable with the delivery to CalTrain of the remaining 15 cab and coach cars.

Restricted assets decreased in 2003 by 18.0% from 2002, as payments for construction costs were applied against the investment restricted under contractual agreement with BNSF and state funds restricted for use for commuter rail in Snohomish County were utilized for the BNSF easement acquisition. In 2002, restricted assets decreased by 13.0% related to payments to BNSF.

Capital assets increased in 2003 by $383.6 million from 2002, as compared to an increase of $191.9 million in 2002 from 2001, reflecting Sound Transit's increased capital program activity as more projects move from design to construction. During the year, Sound Transit capitalized $371.1 million ($274.6 million in 2002) in design, construction, acquisition, interest and overhead costs to capital projects in progress and $243.7 million ($250.1 million in 2002) in projects were completed and transferred to property, plant and equipment or expensed as follows:

(in millions)	2003	2002
Transferred to property, vehicles and equipment	$ 239.9	$ 174.8
Expensed to contributions to other governments	1.9	41.5
Delivered to CalTrain under capital lease	-	26.7
Transferred to inventory	0.9	1.7
Write-off of overhead, discontinued project costs and loss on disposal of excess materials	1.0	5.4
	$ 243.7	**$ 250.1**

Direct additions, net of disposals, to either property, vehicles or equipment were $33.9 million ($6.4 million in 2002), which included delivery to Sound Transit of $32.4 million in replacement vehicles under the CalTrain lease agreement. Direct additions in 2002 included a $6.5 million contribution of property from Microsoft Corporation. Offsetting the increase in capital spending, accumulated depreciation increased in 2003 by $17.6 million from 2002, and by $13.8 million in 2002 from 2001, reflecting the increased assets put into use.

Current liabilities in 2003, excluding interest payable from restricted assets, are comparable to 2002, decreasing by 1.8%, however 2002 decreased by 23.2% from 2001. The decrease in 2002 from 2001 reflected prompter payments to suppliers, contractors and other governmental agencies. Long-term debt also remains substantially unchanged from 2002 and 2001. Principal payments on the outstanding bonds do not commence until 2006. The increase in other long-term liabilities is due to the lease/leaseback transaction and is offset by an equal increase in the investment held to settle this obligation included in other non-current assets. More detailed information about Sound Transit's long-term liabilities is presented in Notes 9 and 10 to the Financial Statements.

Investment in capital assets, net of related debt represents 54.4% of Sound Transit's total net assets in 2003, 38.9% in 2002 and 32.8% in 2001. The increase in capital asset investment reflects the continued construction of Sound Transit's infrastructure assets for its commuter rail, light rail and express bus system. Sound Transit uses these assets to provide service and consequently these assets are not available to liquidate liabilities or for other expenditures.

Restricted net assets represent 11.2% and unrestricted 34.4% of net assets respectively in 2003, 15.8% and 45.3% in 2002; and 21.9% and 45.3% in 2001. The unrestricted and substantially all of the restricted net assets are available for future expenditures associated with construction projects planned for in *Sound Move*. The decline in the relative proportion of restricted and unrestricted net assets as a percent of total net assets is anticipated as infrastructure assets are constructed.

Changes in Net Assets

The increase in net assets in 2003 was $237.4 million, which was $39.7 million or 14.3% less than the increase in net assets from 2002 (see Table A-2). The increase in net assets in 2002 of $277.1 million was $42.7 million or 13.4% less than the increase in net assets in 2001 of $319.8 million. Sound Transit's loss from operations increased by 8.0% in 2003 from 2002 and 12.9% in 2002 from 2001 and capital contributions decreased by 35.8% in 2003 from 2002 and 26.0% in 2002 from 2001. In addition, non-operating revenues and expenses decreased by 5.7% and 5.6% from 2002 and 2001 respectively.

The increase in the loss from operations reflects an increase in operating revenues of 31.6% in 2003 from 2002 and 14.0% in 2002 from 2001, however this was more than offset by total operating expenses which increased 11.1% in 2003 from 2002 and 13.0% in 2002 from 2001.

Table A-2

Changes in Sound Transit Net Assets

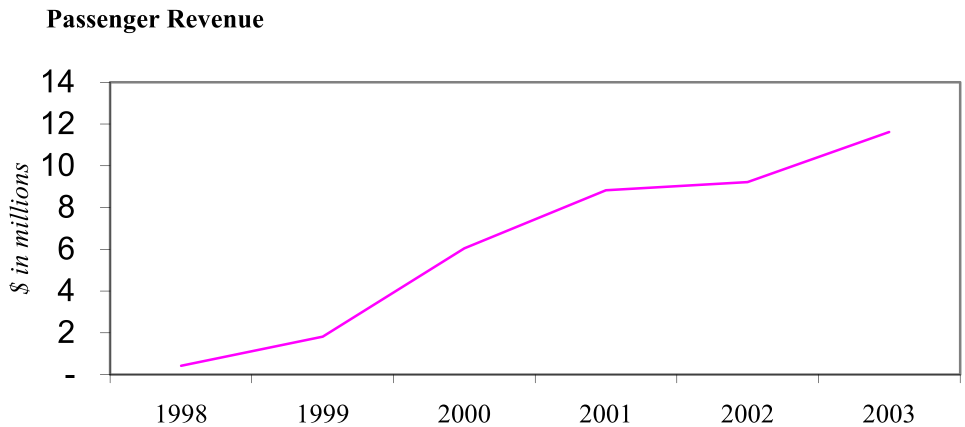
(in millions)	**As of December 31,**			**% Change**	
	2003	**2002**	**2001**	**2003 - 2002**	**2002 - 2001**
Operating Revenues					
Passenger fares	$ 11.6	$ 9.2	$ 8.8	26.1	4.5
Other	3.4	2.2	1.2	54.5	83.3
Total Operating Revenues	**15.0**	**11.4**	**10.0**	**31.6**	**14.0**
Operating Expenses					
Total operating expenses before depreciation	79.6	73.1	66.6	8.9	9.8
Depreciation	17.6	14.4	10.8	22.2	33.3
Total operating expenses	**97.2**	**87.5**	**77.4**	**11.1**	**13.0**
Loss from operations	(82.2)	(76.1)	(67.4)	8.0	12.9
Non-operating revenues (expenses)	290.5	307.9	326.0	(5.7)	(5.6)
Income before capital contributions	**208.3**	**231.8**	**258.6**	**(10.1)**	**(10.4)**
Capital contributions	29.1	45.3	61.2	(35.8)	(26.0)
Change in Net Assets	237.4	277.1	319.8	(14.3)	(13.4)
Total net assets, beginning	1,641.4	1,364.3	1,044.5	20.3	30.6
Total Net Assets, ending	**$ 1,878.8**	**$ 1,641.4**	**$ 1,364.3**	**14.5**	**20.3**

Operating Revenues

Operating revenues are composed of passenger fares and other revenues.

Passenger Fare Revenue

Passenger fare revenue consists of fares earned from the sale of Puget passes, Sounder tickets and bus farebox receipts and tickets utilized during the year by riders on Sounder and Regional Express.



Sounder rail passenger revenue increased $267 thousand or 17.0% over 2002 ($197 thousand or 14.3% in 2002 over 2001), with ridership increasing by 110 thousand boardings in 2003 over 2002 and 94 thousand boardings in 2002 over 2001. Regional Express bus passenger revenue increased by $2.1 million or 27.9% over 2002 ($207 thousand or 2.8% in 2002 over 2001), with ridership increasing by 977 thousand boardings in 2003 over 2002 and 752 thousand boardings in 2002 over 2001. In addition to ridership increases, the average fare per boarding increased by $0.13 in 2003 from 2002 and 2001.

Contributing to the increased ridership was the full-year impact of the additional Sounder Seattle-to-Tacoma train and additional Regional Express routes serving Woodinville to Seattle and Tacoma to the University District, which began in September 2002. Additional ridership in Regional Express is also attributable to service implementation changes in September 2003, whereby Regional Express discontinued a low ridership route serving Everett to Northgate, replacing it with expanded rush hour service covering the same stops. Starting in August 2002, Tacoma Link commenced operations, a free fare service. Sounder also commenced service from Seattle to Everett in late December. This service was provided at no cost until February 1, 2004. Ridership numbers are presented in the following table.

Ridership

(in thousands)				% Increase	
	2003	**2002**	**2001**	**2003 - 2002**	**2002 - 2001**
Sounder	751.2	641.0	547.3	17.2	17.1
Link	266.8	-	-	100.0	-
Regional Express	7,399.9	6,423.3	5,671.2	15.2	13.3
Total Ridership	**8,417.9**	**7,064.3**	**6,218.5**	**19.2**	**13.6**

Other Revenues

Other revenues consist of vehicle advertising, rental of equipment and facilities and other miscellaneous. The increase in other revenues of $1.2 million in 2003 over 2002 ($1.0 million in 2002 over 2001) is due to the leasing of additional Sounder vehicles in 2003 and additional income from short-term property rentals from land acquired for capital projects. The increase in other revenues in 2002 over 2001 reflects the full-year impact in 2002 of vehicles leased in 2001.

Operating Expenses

Operating expenses are comprised of operations and maintenance costs, general and administrative expenses and depreciation.

Operations and Maintenance

Operations and maintenance, which increased by $9.4 million or 18.5% from 2002 ($3.7 million or 7.9% in 2002 over 2001), includes costs associated with the operation of the Sounder commuter rail, Link light rail in Tacoma and Regional Express bus services. Major expense categories are services, materials, supplies, utilities, insurance, taxes, purchased transportation, allocated overhead from staff divisions and operating leases and rentals. Purchased transportation represents amounts paid to BNSF, Community Transit, King County Department of Transportation and Pierce Transit who operate Sound Transit's commuter rail and express bus service. It is the most significant component of operations and maintenance, accounting for 72% of this category (73% in 2002 and 2001).

As a result of increased service levels in Sounder and Regional Express in 2003, purchased transportation costs increased by $6.3 million, or 17%, and $2.9 million in related service payments. In addition, Tacoma Link light rail went into service at the end of August, resulting in a $1.6 million increase over 2002. Direct operations and maintenance costs were partially offset by lower allocated agency staff overhead due to increased capital spending over operations in 2003. The increase in operations and maintenance in 2002 from 2001 also related to service level increases.

General and Administrative

General and administrative expenses, which decreased in 2003 by $2.9 million, or 12.9%, from 2002 and increased in 2002 by $2.8 million, or 14.9%, from 2001, are comprised of agency staff and administrative costs not allocated to operations and maintenance or to capital projects. Major expense categories include wages, benefits, services, materials, supplies, utilities, insurance, taxes, miscellaneous, lease and rental expenses.

Total agency staff and administrative costs before allocation to capital projects and operations increased in 2003 by $3.8 million or 9.3% from 2002, however were comparable between 2002 and 2001. The increase in 2003 general and administrative costs, before allocations, related to higher salary and benefit costs of $4.1 million as the agency added staff with respect to increased activity in its capital program and operations. Payments to other transit agencies under the Regional Fare Integration Program decreased by $1 million in 2003 from 2002 while insurance costs increased by $301 thousand and advertising by $396 thousand, reflecting increased agency activity. Taxes also were down $357 thousand as 2002 included $375 thousand in arbitrage costs related to the Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999.

General and administrative costs are allocated to capital projects and transit operations based on activity drivers and relative level of spending. Costs allocated to capital projects in 2003 were $22.6 million, up $3.9 million from $18.7 million in 2002, which were down $5.0 million from 2001. Costs allocated to transit operations and maintenance in 2003 were $3.4 million, down $1.3 million from $4.7 million in 2002, which was up $3.0 million from 2001. Also impacting general and administrative costs is any write-off of overhead from projects. As projects approach completion, allocated overhead costs are reviewed and any excess costs are written off. In 2003, $704 thousand in excess costs were written off, $4.7 million in 2002 and $3.4 million in 2001.

Depreciation

Depreciation expense increased in 2003 by $3.2 million or 22.2% from 2002 ($3.6 million or 33.3% in 2002 from 2001), reflecting the increase in depreciable assets put into use in 2003 and 2002. As projects are completed and put into use, the costs of these assets are amortized over their expected useful lives.

Non-Operating Revenues (Expenses)

Non-operating revenues decreased in 2003 by $17.4 million or 5.7% from 2002. This decrease is attributable to $22.9 million in lower investment income, reflecting the lower interest rate environment in 2003 and the net decrease in fair value of investments of $6.6 million. Offsetting the decrease in investment income were higher tax revenues of $5.0 million, or 1.9%. In 2002, non-operating revenues decreased by $18.1 million, or 5.6%, from 2001 due to lower investment earnings and tax revenues reflecting the decline in general economic conditions and falling interest rates. In addition, the year 2001 included a one time gain of $4.9 million on the lease/leaseback transaction described in Note 7 to the Financial Statements.

Capital Contributions

Capital contributions decreased in 2003 by $16.2 million or 35.8% from 2002 and by $15.9 million or 26.0% in 2002 from 2001. Capital contributions include federal grant funding, state and local contributions to Sound Transit, as well as contributions from Sound Transit to state and local governments pursuant to capital improvements or funding agreements. The decrease in capital contributions between 2003 and 2002 relates to significantly lower federal capital contributions in 2003, down $51.2 million from 2002, offset by lower capital contributions to other governments of $38.1 million. The decrease in capital contributions between 2002 and 2001 relates to the $42.5 million in contributions to other governments in 2002, offset by higher federal and local capital contributions in 2002, up $31.5 million from 2001.

Federal capital contributions in 2002 included the accrual of $39.5 million of the $50.0 million Link New Starts funding, which was awarded in 2002. No further appropriations under the Link full-funding grant agreement were made in 2003. Capital contributions to other governments are significantly impacted by the timing of completion of related projects. In 2002 several large projects were completed, including the Lynnwood SR-99 Transit Lanes, the Pacific Avenue Overpass, I-90 @ Sunset and the Tacoma Dome Park-and-Ride expansion, whereas in 2003 and 2001 no significant non-Sound Transit-owned projects were completed.

Capital Assets

At December 31, 2003, Sound Transit had invested $1.4 billion in capital assets, net of accumulated depreciation, of which $437 million of depreciable assets are in service ($293 million in 2002 and $214 million in 2001). This represents a net increase of $144 million or 49.1% over 2002 ($79 million or 36.9% in 2002 over 2001).

Table A-3

Sound Transit Capital Assets *(net of depreciation)*

(in millions)	As of December 31,			% Change	
	2003	**2002**	**2001**	**2003 - 2002**	**2002 - 2001**
Land	$ 250.9	$ 121.5	$ 19.6	106.5	519.9
Capital projects in progress					
Sound Transit	625.0	554.8	503.8	12.7	10.1
Other Governments	104.9	47.7	74.2	119.9	(35.7)
Total Non-Depreciable Assets	**980.8**	**724.0**	**597.6**	**35.5**	**21.2**
Buildings & transit facilities	211.7	116.1	71.3	82.3	62.8
Revenue vehicles	171.0	138.8	116.7	23.2	18.9
Equipment, vehicles & other	3.5	4.5	5.9	(22.2)	(23.7)
Total Depreciable Assets	**386.2**	**259.4**	**193.9**	**48.9**	**33.8**
Total Net Capital Assets	**$ 1,367.0**	**$ 983.4**	**$ 791.5**	**39.0**	**24.2**

Land increased by $129.4 million in 2003 from 2002, substantially due to the acquisition from BNSF of the first easement in the Seattle-to-Everett corridor for $79.0 million. Other significant land additions include purchases for the Central Link segment for $33.2 million, Sounder Everett Station for $6.7 million and Regional Express Federal Way Transit Center for $5.6 million. In 2002, land increased by $101.9 million from 2001, substantially related to the transfer of land from capital projects in progress, including land acquired for Central Link, North Link and Lynnwood Transit Center Park-and-Ride and High Occupancy Vehicle (HOV) Direct Access, as well as a $6.5 million contribution of land from Microsoft.

Buildings and transit facilities increased by $95.6 million in 2003 from 2002 due to the completion of Tacoma Dome Station, Tacoma Light Rail Operations and Maintenance Center, Lynnwood Transit Center and DuPont Station. In 2002, buildings and transit facilities increased by $44.8 million due to the completion of the Auburn and Kent parking garages, as well as the Overlake and Bellevue Transit Centers.

Revenue vehicles increased by $32.2 million in 2003 from 2002 with the delivery of the replacement cab and coach cars under the CalTrain lease agreement and the delivery of the light rail vehicles for the Tacoma light-rail service. The increase of $22.1 million in 2002 from 2001 reflects the balance of the delivery of the Sounder vehicles for Phase 1 of *Sound Move*, less those sold and to be replaced under the CalTrain lease agreement.

Equipment, vehicles and other decreased by $1.0 million in 2003 from 2002 and $1.4 million in 2002 from 2001 related to depreciation in excess of additions. This category includes office furniture and equipment, as well as agency administrative vehicles.

Major capital project activities in 2003 included: in Sounder, track and signal projects (Seattle to Auburn, Auburn to Tacoma Dome, Tacoma Dome to Lakewood and Seattle to Everett); in Link, the Central Line (CPS to 154th, Beacon Hill Tunnel, South Walden St. to South Morgan, 126th St. to 150th St.) and Link Tacoma Link; and in Regional Express, the Lynnwood Transit Center, the Federal Way Transit Center, the Lynnwood HOV Access and the Bellevue HOV Access. In 2002, major project activities in Sounder included: track and signal improvements on all segments; in Link, the operations and maintenance base, as well as Tacoma Line, Link E-3 bus way and Beacon Hill Tunnel; and in Regional Express, the Bellevue and Overlake Transit Centers.

More detailed information about Sound Transit's capital assets is presented in Note 6 to the Financial Statements.

Long-Term Debt

Long-term debt includes sales and motor vehicle excise tax bonds issued in 1999. At December 31, 2003 Sound Transit had $350 million par value bonds issued and outstanding. These bonds have been rated as A1 by Moody's Investor Services, Inc. and AA by Standard & Poors.

Under state law, issuance of bonds payable from any type of taxes is subject to statutory debt limitations. Sound Transit is currently authorized to incur debt in an amount equal to 1-1/2 percent of the value of taxable property within the service area without securing voter approval for bonds. With the approval of 60 percent of the region's voters, Sound Transit may incur aggregate indebtedness of up to 5 percent of the value of taxable property within the service area. Based on the 2001 assessed valuations for collection of 2002 taxes, Sound Transit's non-voted remaining debt capacity is $3.4 billion and its voted remaining debt capacity is $12.1 billion.

Economic Factors

With Sound Transit moving into heavy construction over the next four years, it is closely monitoring the current steel price volatility. The average cost of domestic steel has increased by 70% over the last six months. With increasing world demand and short supplies, steel prices are expected to increase and eventually stabilize, but not revert to 2003 market prices. The value of steel in agency construction projects ranges from 4% to 12%. Currently, there are adequate unallocated contingencies included in project budgets for price fluctuations and adequate schedule contingencies to address potential delivery delays.

BALANCE SHEETS

(in thousands)	December 31	
	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents *(Note 3)*	$ 358,144	$ 326,443
Restricted assets *(Note 3)*	9,674	6,687
Investments *(Note 3)*	263,926	330,383
Taxes and other receivables *(Note 4)*	62,231	96,555
Current portion, lease contract receivable *(Note 5)*	-	32,386
Parts, materials and supplies	2,632	2,404
Prepaid expenses	4,858	4,679
Total Current Assets	**701,465**	**799,537**
Non-Current Assets		
Capital assets, net of accumulated depreciation *(Note 6)*	1,367,005	983,380
Restricted assets *(Note 3)*	208,189	259,156
Investment held to pay capital lease obligation *(Note 7)*	56,657	55,542
Advances receivable	95	-
Unamortized bond issuance costs	2,893	3,080
Prepaid expense and deposits	9,585	7,778
Total Non-Current Assets	**1,644,424**	**1,308,936**
Total Assets	**$ 2,345,889**	**$ 2,108,473**
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities *(Note 8)*	$ 50,148	$ 50,361
Deferred pass revenue	1,865	537
Interest payable from restricted assets	7,152	7,152
Current portion, capital lease obligation *(Note 7)*	109	73
Current portion, deferred lease revenue *(Note 5)*	-	1,125
Other	2,172	3,249
Total Current Liabilities	**61,446**	**62,497**
Non-Current Liabilities		
Long-term debt *(Note 9)*	347,391	347,452
Compensated absences *(Note 10)*	1,463	1,492
Capital lease obligations *(Note 7)*	56,748	55,628
Total Non-Current Liabilities	**405,602**	**404,572**
Total Liabilities	**467,048**	**467,069**
Commitments and Contingencies *(Notes 7, 13 and 14)*		
Net Assets		
Invested in capital assets, net of related debt	1,022,507	639,008
Restricted for contractual arrangements and other *(Note 11)*	210,712	258,691
Unrestricted	645,622	743,705
Total Net Assets	**1,878,841**	**1,641,404**
Total Liabilities and Net Assets	**$ 2,345,889**	**$ 2,108,473**

See Notes to Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(in thousands)	December 31 2003	December 31 2002
Operating Revenues		
Passenger fares	$ 11,625	$ 9,225
Other operating revenues	3,403	2,146
Total Operating Revenues	**15,028**	**11,371**
Operating Expenses		
Operations and maintenance	60,423	51,006
General and administrative	19,274	22,131
Depreciation	17,570	14,352
Total Operating Expenses	**97,267**	**87,489**
Loss from Operations	**(82,239)**	**(76,118)**
Non-Operating Revenues (Expenses)		
Sales tax	206,665	204,566
Motor vehicle excise tax	61,189	58,319
Rental car tax	2,182	2,151
Investment income	20,020	42,923
Capital lease and other revenues	1,173	802
Interest expense	(203)	(199)
Discontinued projects	(106)	(660)
Loss on disposal of assets	(369)	-
Total Non-Operating Revenues	**290,551**	**307,902**
Income Before Capital Contributions	**208,312**	**231,784**
Contributions to other governments	(4,443)	(42,536)
Federal capital contributions	26,879	78,088
Other capital contributions	6,689	9,754
Total Capital Contributions	**29,125**	**45,306**
Change in Net Assets	**237,437**	**277,090**
Total Net Assets, Beginning of Year	**1,641,404**	**1,364,314**
Total Net Assets, End of Year	**$ 1,878,841**	**$ 1,641,404**

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

(in thousands)	December 31 2003	December 31 2002
Cash Flows from Operating Activities		
Cash receipts from fares	$ 12,310	$ 7,659
Cash receipts from other operating revenues	2,685	2,343
Payments to suppliers	(19,828)	(23,089)
Payments to transportation service providers	(42,214)	(27,910)
Payments to employees for wages and benefits	(17,680)	(16,524)
Net Cash Used by Operating Activities	**(64,727)**	**(57,521)**
Cash Flows from Non-Capital Financing Activities		
Taxes received	269,833	264,743
Net Cash Provided by Non-Capital Financing Activities	**269,833**	**264,743**
Cash Flows from Capital and Related Financing Activities		
Capital contributions from grants	70,345	59,993
Contribution to other governments	(2,567)	(1,000)
Purchase of properties, vehicles and equipment	(1,346)	(6,970)
Payments for capital projects in progress	(341,152)	(262,905)
Payments to employees capitalized to capital projects in progress	(10,573)	(8,604)
Cash paid for interest	(17,180)	(17,176)
Payments for owner-controlled insurance program	-	(10,550)
Deposit for land	(4,400)	-
Payments for betterments, net of repayments	(1,855)	-
Other	(223)	(89)
Net Cash Used by Capital and Related Financing Activities	**(308,951)**	**(247,301)**
Cash Flows from Investing Activities		
Purchases of investments	(379,994)	(243,586)
Proceeds from sales or maturities of investments	497,845	293,705
Investment income	29,105	45,222
Net Cash Provided by Investing Activities	**146,956**	**95,341**
Net Increase in Cash and Cash Equivalents	**43,112**	**55,262**
Cash and Cash Equivalents		
Beginning of year	352,904	297,642
End of Year	**$ 396,016**	**$ 352,904**
Cash and Cash Equivalents *(Note 3)*		
Unrestricted	$ 358,144	$ 326,443
Current restricted	2,882	-
Non-current restricted	34,990	26,461
	$ 396,016	**$ 352,904**

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS, *continued*

(in thousands)	December 31 2003	December 31 2002
Loss from Operations	**$ (82,239)**	**$ (76,118)**
Adjustments to Reconcile Loss from Operations to Net Cash Used by Operating Activities		
Depreciation	17,570	14,352
Loss (gain) on disposal of capital assets	-	16
Changes in Operating Assets and Liabilities		
Decrease in accounts receivable	120	196
(Increase) decrease in due from other governments	(1,499)	829
Decrease (increase) in materials, parts and supplies	543	(720)
(Increase) in prepaid expenses	(173)	(33)
(Decrease) in accounts payable and accrued liabilities	(2,123)	(3,365)
Increase in salaries, wages and benefits	540	361
Increase in deferred fare pass revenue	1,327	62
Increase in due to other governments	1,319	6,899
Decrease in loss fund	(112)	-
Net Cash Used by Operating Activities	**$ (64,727)**	**$ (57,521)**

(in thousands)	December 31 2003	December 31 2002
Supplemental Disclosures of Non-Cash Operating, Investing and Financing Activities		
Transfer of assets under lease contract receivable	$ 32,386	$ (29,732)
Capital contributions to other governments	(1,876)	(41,536)
Interest income from investments held to pay capital leases	1,115	2,917
Deferred lease revenue earned during the year	1,125	802
Deferred lease revenue recognized on assets transferred under lease contract receivable	-	1,650
Interest expense on capital leases	(1,115)	(2,917)
Decrease in fair value of investments	(6,656)	(974)

See Notes to Financial Statements.

1. ORGANIZATION AND REPORTING ENTITY

As provided under the Revised Code of Washington ("RCW") Chapter 81.112 applicable to a regional transit authority, the Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, was established in 1993. Sound Transit was formed to implement a high-capacity transportation system throughout parts of King, Pierce, and Snohomish counties in the state of Washington through the design, construction, and implementation of a commuter rail ("Sounder"), light rail ("Link") and regional express bus system ("Regional Express").

Reporting Entity—Sound Transit is a special purpose government supported primarily through sales taxes, state motor vehicle excise taxes and rental car taxes in Sound Transit's operating jurisdiction. In addition Sound Transit receives capital funding from federal and state agencies.

Sound Transit is governed by an 18-member board, seventeen of whom are appointed by the respective member county executives and confirmed by the council of each member county. Membership is based on the population from the portion of each county that lies within Sound Transit's service area. Representation on the board shall include an elected official representing the largest city in each county and ensures proportional representation from other cities and from unincorporated areas of each county. The final board position is held by the Secretary of Transportation, Washington State Department of Transportation.

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, all organizations for which the primary government is financially accountable and other organizations that, by the nature and significance of their relationship with the primary government, would cause the financial statements to be incomplete or misleading if excluded. Based on these criteria, Sound Transit is considered a primary government and does not have any component unit relationships. Conversely Sound Transit is not considered a component unit of any primary government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of significant accounting policies is presented to assist the reader in interpreting the financial statements and should be considered an integral part of the Financial Statements.

***Basis of Accounting*—**The accounts are maintained and financial statements prepared using the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and methods prescribed by the State Auditor under the authority of RCW Chapter 43.09 for proprietary funds. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. All applicable GASB pronouncements, as well as all Financial Accounting Standards Board ("FASB") statements and interpretations have been applied, except for those FASB statements and interpretations that contradict GASB pronouncements.

Tax revenues include taxes on retail sales of goods and services, rental car revenues and a motor vehicle excise tax. These taxes are collected on Sound Transit's behalf by the Department of Revenue and the Department of Licensing of the State of Washington and are recorded in the period when the underlying transaction occurs on which the tax is imposed. Operating revenues consist primarily of passenger fares and are recognized in the period in which services are provided and are earned; expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Balance Sheets. Depreciation of capital assets and amortization of deferred revenue is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

Capital Assets—Capital assets are stated at cost, except for donated capital assets which are stated at the fair value on the date of donation. Expenditures for additions and improvements with a value in excess of $5,000 and a useful life of more than one year are capitalized. Expenditures for maintenance, repairs and minor improvements are charged to operations as incurred. Upon disposal of capital assets, the accounts are relieved of the related costs and accumulated depreciation and the resulting gains or losses are reflected in the Statements of Revenues, Expenses and Changes in Net Assets. Depreciation of capital assets is recorded using the straight-line method over the estimated useful lives of the assets and leasehold improvements over the shorter of the life of the asset or length of the related lease, as follows:

	Estimated Useful Life
Buildings	30 years
Transit facilities and equipment	12–30 years
Park-and-ride lots and shelters	10 years
Revenue vehicles—Cab cars and coach cars	40 years
Revenue vehicles—Locomotives	29 years
Revenue vehicles—Light rail	25 years
Revenue vehicles—Buses	7–12 years
Furniture and equipment	3–7 years
Administrative vehicles and leasehold improvements	5 years

All costs directly attributable to capital projects, as well as certain indirect costs that are allocated to the projects based on various applicable factors supporting the overhead rates used, are capitalized. Capital projects in progress balances include costs incurred for transportation projects not yet in service and are segregated between assets in which Sound Transit maintains a continuing ownership interest and capital assets that will be transferred to other governments upon completion.

Interest costs on funds borrowed through tax-exempt debt to finance the construction or acquisition of certain capital assets are capitalized during the period of construction or acquisition and are depreciated over the life of the related assets once placed into service.

Cash and Cash Equivalents—Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less when purchased, money market funds, investments in the Local Government Investment Pool and the King County Investment Pool, which are managed by the Washington State Treasurer's Office and the King County Finance Division, respectively.

Compensated Absences—Vacation leave that has been earned but not paid has been accrued in the accompanying financial statements. Similarly, sick leave is accrued as the benefits are earned but only to the extent that Sound Transit will compensate the employees through cash payments conditional on the employee's termination, retirement or death. Vacation pay, which may be accumulated up to 50 days, is payable upon termination, retirement or death. Sick leave is payable at the rate of 50% upon resignation, retirement or death; however, is limited to 120 days for termination other than retirement or death.

Contributions to Other Governments—Pursuant to capital improvement agreements, Sound Transit has provided funding to or constructed assets for various governments for transit-related capital improvements. For assets constructed for other governments, these costs are capitalized and included in capital projects in progress until the asset is substantially completed and put into use, at which time it is charged to contributions to other governments.

Environmental Reserves—Environmental liabilities are evaluated at the time of purchase of land and are factored into the purchase price. The estimated cost of remediation is accrued at the time of purchase and relieved as remediation costs are incurred.

Investment Valuation—Investments are stated at fair value based on quoted market prices, as available.

Operating and Contingency Fund—In accordance with Board policy, Sound Transit maintains a cash reserve based on two months of average annual operating expenses, to be used in the event of budget shortfalls. As this is an internally-restricted cash balance, this balance is included in cash and cash equivalents.

Parts, Materials and Supplies—Parts, materials and supplies are recorded as inventory at the lower of purchased cost or net realizable value. These assets are reviewed periodically for slow-moving and obsolete items and any impairment in value is reflected as a charge to operations.

Restricted Assets—Restricted assets are assets restricted by the covenants of long-term financial arrangements. Restricted assets are used in accordance with their requirements and where both restricted and unrestricted resources are available for use, restricted resources are used first and then unrestricted resources as they are needed.

Revenue and Expense Classification—Sound Transit distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing passenger services in connection with Sound Transit's principal ongoing operations. The principal operating revenues are passenger fares. Sound Transit's operating expenses include labor, materials, services, claims, purchased transportation and other expenses related to the delivery of passenger transportation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Reclassifications—Certain reclassifications have been made to the 2002 Financial Statements to conform to the current year's presentation.

Risk Management—Risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters are accrued at estimated award or settlement when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated.

Subarea Accounting—Sound Transit allocates equity to each of the included jurisdictions in accordance with *Sound Move* and established policies. Presentation of such allocation is not a required disclosure under accounting principles generally accepted in the United States of America. Accordingly, a separate unaudited report and Schedule of Subarea Equity is issued.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

New Accounting Pronouncements—

Deposit and Investment Risk Disclosures: In March 2003, the GASB issued Statement No. 40, with an effective date for periods beginning after June 15, 2004. This statement requires governments to present certain disclosures that address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency, as well as certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates and requires disclosures of deposit and investment policies related to the risk identified. Sound Transit is currently in the process of evaluating the impact that will result from adopting GASB Statement No. 40 and intends to implement early for the year ended December 31, 2004.

Accounting for Impairment of Capital Assets: In November 2003, the GASB issued Statement No. 42, with an effective date for periods beginning after December 15, 2004. This statement establishes for governments accounting and financial reporting standards for the impairment of capital assets. Sound Transit is currently in the process of evaluating the impact that will result from adopting GASB Statement No. 42 and intends to implement early for the year ended December 31, 2004.

3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

Sound Transit's bank deposits are covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission ("PDPC") and are considered Category 1. Cash held in the Local Government Investment Pool and the King County Investment Pool are managed by the Washington State Treasurer's Office and the King County Finance Division, respectively. These pools, together with the qualified money market mutual fund, represent an interest in a group of securities and have no specific security subject to custodial risk and are considered uncategorized.

All short-term cash surplus is invested in accordance with an investment policy certified by the Municipal Treasurer's Association and as required by state law. Qualifying investments include obligations of the United States government, treasury and agency securities, banker's acceptances, certificates of deposit, commercial paper and repurchase agreements.

Sound Transit's investments are categorized to give an indication of the level of custodial credit risk assumed by Sound Transit at December 31, 2003 and 2002. Category 1 includes investments that are insured or registered or for which the securities are held by Sound Transit or its agent, in Sound Transit's name. All of Sound Transit's investments are considered Category 1.

Cash, cash equivalents, investments and restricted assets are as follows:

(in thousands)	2003		2002	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Categorized Deposits and Investments				
US agency securities	$ 389,895	$ 391,575	$ 298,661	$ 303,726
US treasury securities	29,973	30,114	20,141	20,355
Certificates of deposits	13,000	13,000	13,000	13,000
Taxable municipal bonds	1,250	1,278	1,250	1,302
Repurchase agreement	-	-	220,572	220,572
FDIC or PDIC insured bank deposits	30,299	30,299	4,687	4,687
	464,417	466,266	558,311	563,642
Uncategorized Cash and Cash Equivalents				
King County Investment Pool	314,900	316,033	285,220	289,527
Washington State Local Government Investment Pool	44,621	44,621	53,553	53,553
Qualified money market fund	5,014	5,014	5,062	5,062
Cash on hand	49	49	75	75
	364,584	365,717	343,910	348,217
Other Restricted Assets				
Deductible liability protection policy	6,792	6,792	6,687	6,687
Interest receivable on restricted investments	1,158	1,158	4,123	4,123
	7,950	7,950	10,810	10,810
Total Cash, Cash Equivalents, Investments and Other Restricted Assets	**$ 836,951**	**$ 839,933**	**$ 913,031**	**$ 922,669**
Balance Sheet Classifications:				
Cash and cash equivalents		$ 358,144		$ 326,443
Current restricted assets:				
Cash equivalents		2,882		-
Deductible liability protection policy		6,792		6,687
		9,674		6,687
Investments		263,926		330,383
Non-current restricted assets:				
Cash equivalents		34,990		26,461
Investments		172,041		228,572
Other assets		1,158		4,123
		208,189		259,156
		$ 839,933		**$ 922,669**

4. RECEIVABLES

Receivables consist of the following:

(in thousands)	December 31 2003	December 31 2002
Taxes receivable	$ 42,393	$ 42,191
Grants receivable	4,282	46,183
Accounts receivable*	5,545	177
Due from Other Governments	6,382	3,393
Interest receivable	3,629	4,611
	$ 62,231	**$ 96,555**

*Net of allowance for doubtful accounts of $21 thousand ($2 thousand in 2002).

Amounts due from other governments include amounts due under the Puget Pass regional fare program, amounts reimbursable under interlocal agreements for operating expense or capital contributions for transit facilities and betterments. Payment terms are generally defined in the various agreements with other governments and range from 21 days to 60 days. Where payment terms are not defined by agreement, they are due in accordance with the terms specified in the invoice, which is generally 30 days.

5. LEASE CONTRACT RECEIVABLE

On December 4, 2001, Sound Transit entered into a lease transaction with the Peninsula Corridor Joint Powers Board ("CalTrain") for 17 commuter rail passenger cab and coach cars. The lease term was for 18 months and included an option to purchase all 17 of the vehicles. The purchase option was exercised by CalTrain and the purchase price of $32.4 million was deposited into an escrow account. All payments to Sound Transit were applied to the purchase of replacement vehicles. CalTrain received title to the vehicles as Sound Transit received the replacement vehicles from the manufacturer. Payments for Sound Transit's replacement vehicles are paid out of the escrow account.

At December 31, 2002, all 17 cab and coach cars had been delivered to CalTrain and at December 31, 2003, all of the replacement vehicles had been received by Sound Transit. The lease of the cars has been recorded as a capital lease for accounting purposes and was reported in the balance sheet as lease contract receivable. The difference between the value of the new replacement cars and the net book value of the leased cars was recognized as unearned income and was amortized over the 18-month lease term on a straight-line basis, which approximates the effective interest method. In 2002, Sound Transit recorded the remaining $1.6 million in unearned income on delivery of the vehicles ($0.3 million in 2001), of which $1.1 million was earned during 2003 ($0.8 million in 2002).

6. CAPITAL ASSETS

Capital assets are summarized as follows:

(in thousands)	December 31 2001	Additions	Transfers and Retirements	December 31 2002	Additions	Transfers and Retirements	December 31 2003
Non-Depreciable Assets							
Land	$ 19,579	$ 101,936	$ -	$ 121,515	$ 129,401	$ -	$ 250,916
Capital Projects in Progress							
Sound Transit	503,797	252,913	(201,889)	554,821	313,565	(243,390)	624,996
Other Governments	74,210	21,670	(48,231)	47,649	57,574	(297)	104,926
Total Non-Depreciable Assets	**597,586**	**376,519**	**(250,120)**	**723,985**	**500,540**	**(243,687)**	**980,838**
Depreciable Assets							
Transit facilities and heavy equipment	52,525	49,382	-	101,907	103,217	-	205,124
Buildings and leasehold improvements	22,760	-	-	22,760	-	-	22,760
Revenue vehicles	127,717	29,813	-	157,530	40,350	-	197,880
Furniture, equipment and vehicles	10,287	623	(529)	10,381	623	(17)	10,987
Equipment under capital lease	482	-	(12)	470	165	(28)	607
Total Depreciable Assets	**213,771**	**79,818**	**(541)**	**293,048**	**144,355**	**(45)**	**437,358**
Accumulated Depreciation							
Transit facilities and heavy equipment	(2,214)	(3,681)	-	(5,895)	(6,593)	-	(12,488)
Buildings and leasehold improvements	(1,937)	(974)	-	(2,911)	(974)	-	(3,885)
Revenue vehicles	(11,041)	(7,714)	-	(18,755)	(8,147)	-	(26,902)
Furniture, equipment and vehicles	(4,398)	(1,894)	519	(5,773)	(1,729)	5	(7,497)
Equipment under capital lease	(238)	(87)	6	(319)	(127)	27	(419)
Total Accumulated Depreciation	**(19,828)**	**(14,350)**	**525**	**(33,653)**	**(17,570)**	**32**	**(51,191)**
Depreciable Assets, Net	**193,943**	**65,468**	**(16)**	**259,395**	**126,785**	**(13)**	**386,167**
Total Capital Assets, Net	**$ 791,529**	**$ 441,987**	**$ (250,136)**	**$ 983,380**	**$ 627,325**	**$ (243,700)**	**$ 1,367,005**

During 2003, Sound Transit relieved capital projects in progress of $1.9 million with respect to easements to the Kent Station, granted to the City of Kent, and the Link E-3 Busway project, granted to Seattle City Light and City of Seattle, as well as a payment to the City of Lakewood for street improvements around the future Lakewood Station. These amounts have been recorded as contributions to other governments in the Statements of Revenues, Expenses and Changes in Net Assets.

During 2002, Sound Transit substantially completed $41.5 million in projects which were ultimately owned by other governmental entities pursuant to capital improvement agreements and contributed $1.0 million to Pierce Transit for maintenance base improvements. Completed projects included Lynnwood SR-99 Transit Lanes, the Pacific Avenue Overpass, I-90 @ Sunset and the Tacoma Dome Park-and-Ride Expansion. The costs of these completed projects are included in contributions to other governments in the Statements of Revenues, Expenses and Changes in Net Assets.

During 2003 and 2002, Sound Transit capitalized $17.1 million of interest costs, representing all of the interest incurred on its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (see Note 9).

7. CAPITAL AND OPERATING LEASES

Capital leases are comprised of the following:

(in thousands)	2003	2002
Lease/leaseback	$ 56,657	$ 55,542
Copier leases	200	159
	56,857	55,701
Less current portion	(109)	(73)
	$ 56,748	**$ 55,628**

Lease/Leaseback—On May 31, 2001, Sound Transit entered into a transaction to lease 22 rail passenger cab and coach cars and 5 locomotives (the "headlease") to an investor and simultaneously subleased the vehicles back (the "sublease"). Under these transactions, Sound Transit maintains the right to continued use and control of the assets through the end of the leases and is required to insure and maintain the assets. The headlease and sublease have been recorded as capital leases for accounting purposes.

The vehicles had a fair market value of $61.3 million with a book value of $37.7 million at closing. Sound Transit received a prepayment equivalent to the net present value of the headlease obligations totaling $61.3 million. From those proceeds, $50.4 million was deposited with AIG-FP Special Finance Ltd. to partially meet Sound Transit's obligations under the sublease payments. In addition, $5.7 million was deposited with AIG Matched Funding Corp. and invested in securities issued or guaranteed by the United States government to meet the remaining obligations under the sublease. The remaining $5.3 million was retained by Sound Transit and recorded as non-operating revenues in the year ended December 31, 2001. The amounts invested are considered uncategorized investments.

Subsequent to the receipt of these funds, certain associated closing costs of $363 thousand were disbursed, leaving a net benefit to Sound Transit of $4.9 million, which was included in capital lease revenues in 2001.

The net present value of the future sublease payments has been recorded as a long-term capital lease obligation. The underlying investments have been structured to meet all future obligations under the sublease when due, and as such, have been recorded to equal the sublease obligations on the accompanying balance sheet.

Net changes in the sublease are shown in the following table:

(in thousands)	2003	2002
Net sublease, January 1	$ 55,542	$ 52,625
Accrued interest	4,157	3,939
Less payment	(3,042)	(1,022)
Net Sublease, December 31	**$ 56,657**	**$ 55,542**

Copier Leases—Sound Transit entered into a master lease agreement in 1998 for the acquisition of copiers. The lease is classified as a capital lease for accounting purposes and the copiers were recorded as assets with a corresponding long-term liability, which is equal to the present value of future lease payments. Sound Transit records lease payments as reductions of the long-term liability and as interest expense over the life of the lease.

Future payments under the copier lease obligations are shown in the following table.

(in thousands)	**December 31 2003**
2004	$ 119
2005	92
2006	2
Total minimum lease payments	213
Amounts representing interest	(13)
Present value of lease obligations	200
Less current portion	(109)
Long-term portion	**$ 91**

Amtrak Lease/Sublease—In September 2000, Sound Transit entered into a 40-year agreement to lease its locomotives, passenger coaches and cab cars ("rolling stock") to the National Railroad Passenger Corporation ("Amtrak") for $1. Under the agreement Amtrak is obligated to repair, maintain and service the rolling stock at Amtrak's maintenance facility in return for payment by Sound Transit. By separate agreement, Sound Transit assigned to Amtrak its commuter rail operating agreement which it had entered into with the Burlington Northern & Santa Fe Railroad ("BNSF") in May 2000 to provide commuter rail service. In order to give BNSF possession and use of the rolling stock for purposes of providing commuter rail service on Amtrak's behalf for Sound Transit, Amtrak entered into a 40-year sublease of the rolling stock to BNSF for a nominal rental payment of $1.

Under the legal structure of these transactions and pursuant to a Department of Revenue ruling, the equipment is exempted from Washington State sales and use taxes, and Sound Transit and Amtrak have agreed by a Memorandum of Understanding to use funds that would otherwise be payable for projects that mutually benefit Pacific Northwest intercity rail passenger service. Sound Transit maintains title and continuing control of the assets through the end of the lease, upon which the assets will be returned to Sound Transit. See also *Sales Tax Audit* described in Note 14.

Operating Rentals—Sound Transit leases office space adjacent to Union Station, in the Rainier Valley and in Tacoma under noncancelable operating leases with lease terms expiring in 2004 and 2005. Minimum lease payments through 2006 are as follows:

(in thousands)	
2004	$ 1,538
2005	756
2006	10
	$ 2,304

Total rental payments for 2003, which include non-cancelable operating leases as well as other month-to-month rentals, was $2.1 million, of which $138 thousand was capitalized to capital projects in progress. Total payments for 2002 were $2.1 million, of which $100 thousand was capitalized.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

(in thousands)	**2003**	**2002**
Accounts payable	$ 14,937	$ 26,539
Accrued liabilities	7,355	6,371
Due to other governments	25,116	15,594
Accrued salaried, wages and benefits	2,441	1,550
Retainage payable	299	307
	$ 50,148	**$ 50,361**

9. LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	2002 Beginning Balance	Additions	Reductions	2003 Ending Balance	Amounts Due within One Year
Bonds payable:					
Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999	$ 350,000	$ -	$ -	$ 350,000	$ -
Plus unamortized premium	5,640	-	(438)	5,202	-
Less unamortized discount	(8,188)	-	377	(7,811)	-
Total bonds payable	**$ 347,452**	**$ -**	**$ (61)**	**$ 347,391**	**$ -**

(in thousands)	2001 Beginning Balance	Additions	Reductions	2002 Ending Balance	Amounts Due within One Year
Bonds payable:					
Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999	$ 350,000	$ -	$ -	$ 350,000	$ -
Plus unamortized premium	6,077	-	(437)	5,640	-
Less unamortized discount	(8,565)	-	377	(8,188)	-
Total bonds payable	**$ 347,512**	**$ -**	**$ (60)**	**$ 347,452**	**$ -**

Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999—On January 6, 1999, Sound Transit issued Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 in the amount of $350 million. These bonds are dated December 1, 1998, and are tax exempt. The average life of these bonds is 22.5 years with an average coupon rate of 4.88% and an effective rate of 4.87%. Sound Transit is required to maintain certain minimum deposits as defined in the bond resolution to meet debt service requirements. At December 31, 2003 and 2002, cash restricted for debt service totaled $7.2 million. Principal payments are due February 1 of each year starting February 1, 2006. Proceeds from this bond issue have been used for capital projects in Link, Sounder and Regional Express.

The fair value of long-term debt was $363.5 million and $356.6 million as of December 31, 2003 and 2002, respectively. This fair value was estimated using quoted market prices.

At December 31, 2002, Sound Transit had determined that arbitrage rebate payments in the amount of $375 thousand were due under Section 148 of the Internal Revenue Code of 1986, as amended. This amount was paid in 2003.

Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999
Debt service requirements to maturity

Year Ending December 31	Principal	Interest *(in thousands)*	Total
2004	$ -	$ 17,164	$ 17,164
2005	-	17,164	17,164
2006	4,270	17,078	21,348
2007	4,445	16,904	21,349
2008	4,620	16,720	21,340
2009-2013	26,680	79,811	106,491
2014-2018	34,395	71,886	106,281
2019-2023	121,510	52,153	173,663
2024-2028	154,080	18,989	173,069
	$ 350,000	**$ 307,869**	**$ 657,869**

10. COMPENSATED ABSENCES

Compensated absences are as follows:

(in thousands)	2003	2002
Balance, beginning of year	$ 1,754	$ 1,494
Additions	2,141	1,685
Reductions	(1,483)	(1,425)
Balance, end of year	2,412	1,754
Less amounts due within one year	(949)	(262)
Long-term portion	**$ 1,463**	**$ 1,492**

Amounts due within one year are included in accrued salaries, wages, and benefits (see Note 8).

11. RESTRICTED NET ASSETS

Restricted net assets consist of the following:

(in thousands)	2003	2002
Contractual arrangements	$ 203,920	$ 235,455
State contributions	-	16,549
Deductible liability protection policy	6,792	6,687
	$ 210,712	**$ 258,691**

12. EMPLOYEE BENEFITS

Sound Transit provides a defined contribution money purchase plan and trust ("401(a) Plan") to its employees. Prior to December 31, 1999, employees had a choice of participating in either the 401(a) Plan or in the Washington Public Employees' Retirement System ("PERS"). In 1999, the Washington State Legislature amended the laws governing PERS, requiring employers either to terminate their participation in PERS or permit all new employees to participate in PERS regardless of their simultaneous participation in a 401(a) plan. Effective December 31, 1999, Sound Transit terminated its status as a PERS employer with regard to all employees hired after that date. Individuals who were active members at that date are eligible to continue their membership in PERS for the duration of their continuous employment with Sound Transit. At December 31, 2003, there were three employees participating in PERS (four employees at December 31, 2002 and five employees at December 31, 2001).

A summary of the 401(a) Plan is as follows:

401(a) Plan—A defined contribution money purchase plan and trust was established for the agency in 1994 with the adoption of Board Resolution No. 32. This was amended by Resolution No. 100 in 1997 to recognize the contribution made to Sound Transit by its employees. The ICMA Retirement Corporation administers the Central Puget Sound Regional Transit Authority Pension Plan and serves as the plan's trustee. This plan is a fixed employer system, and membership in the system includes all full-time Sound Transit employees and elected officials. The vesting schedule of the plan is 20% immediately upon employment, 40% after one year of service, 60% after two years, 80% after three years and 100% after four years. Employees are responsible for directing the investment of their contributions and Sound Transit's contributions.

Any eligible employee who was employed on the effective date of this plan was eligible to participate in the plan. Any other eligible employee shall be eligible to participate on the first day of employment.

Sound Transit's actual contribution rates, which were the required contribution rates, are expressed as a percentage of covered payroll. The amount of covered payroll during 2003 and 2002 was $21.3 million and $17.9 million, respectively, and total payroll was $21.8 million and $18.4 million, respectively. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2003, 2002 and 2001 are as follows:

	Contribution Rate			Contributions *(in thousands)*		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
Employer	12%	12%	12%	$2,562	$2,148	$1,959
Employee	10%	10%	10%	2,135	1,790	1,632
Total	**22%**	**22%**	**22%**	**$4,697**	**$3,938**	**$3,591**

13. RISK MANAGEMENT

In the ordinary course of its normal operations, Sound Transit is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to persons; and natural disasters. Sound Transit has established a comprehensive risk management program utilizing the purchase of commercial insurance that has in force first-level coverage for property, liability, employment practices and crime and fidelity to provide protections from these exposures. Such coverage includes self-insured per claim retention insignificant to Sound Transit's risk of loss. There have been no changes to the policy since inception and no settlements have exceeded coverage under the plan.

Sound Transit has also established an Owner-Controlled Insurance Program ("OCIP") for all general liability claims by third-party injuries and/or property damage related to project construction activities carried out by third-party contractors. This commercially-procured insurance program includes a self-insured retention level of $500 thousand per claim. This program covers construction projects from January 1, 2001, through December 31, 2006, and all premium payments under the policy have been prepaid.

In addition, Sound Transit has also entered into a deductible liability protection policy to supplement the self-insured retention portion of the OCIP. Under this policy the probable maximum claims exposure, estimated at $6.5 million, has been deposited with the insurer in an interest-bearing loss fund account.

14. COMMITMENTS AND CONTINGENCIES

Operations and Maintenance Agreements—Sound Transit has entered into agreements which expire in September 2004 with Community Transit, King County Department of Transportation and Pierce Transit ("purchased transportation providers") to operate its Regional Express public transportation service within Sound Transit's service area. This service is compensated for based on hourly rates established within the agreements, generally utilizing equipment provided by Sound Transit. In addition, under the King County Department of Transportation agreement, the county will use King County-owned Breda buses for the operation of Sound Transit's express Route 550, which operates in the bus tunnel. An up-front payment of $2.9 million was paid in 1999 for three years of the Breda bus service. At the end of 2002, this amount was fully amortized, with $633 thousand expensed to operations and maintenance in the year ended December 31, 2002.

Sound Transit also entered into 40-year agreements in May of 2000 with BNSF and Amtrak for the operations and maintenance of its Sounder commuter rail service. Under the BNSF agreement, Sound Transit pays in accordance with an hourly rate schedule per train mile that is based on the number of trains per day. Under the Amtrak agreement, Sound Transit pays a flat monthly fixed price dependent upon the number of one-way trips. See related agreements described in Note 7: *Amtrak Lease/Sublease*.

Agreements with BNSF for Sounder Commuter Rail Service in the Seattle-to-Everett and Lakewood-to-Tacoma Corridors—On December 18, 2003, Sound Transit entered into a series of agreements with BNSF for the purchase of four perpetual property easements from Seattle to Everett, purchase of property in the Tacoma-to-Nisqually corridor for service and station improvements, conditions for joint use and the purchase of operation services in each corridor.

The acquisition of the easements and property occur over a four-year payment period, with the first easement in the Seattle-to-Everett corridor closing on December 18, 2003, in exchange for a payment of $79 million and allowing the commencement of train service between Seattle and Everett. In addition, $3.6 million was paid with respect to the Lakeview Station land parcels and $4.4 million was paid with respect to a non-refundable deposit for additional land parcels for the Lakeview North and South segments in the Lakewood-to-Tacoma corridor. The easement and the station parcels have been recorded in capital assets as land and the deposit in long-term prepaid expense and deposit.

The acquisition of the remaining easements in the Seattle-to-Everett corridor will close as follows:

	Closing Date	Due on Closing
2nd Easement	December, 2004	$79 million
3rd Easement	December, 2006	$50 million
4th Easement	December, 2007	$50 million

Each of the additional easements allows the addition by Sound Transit of one round trip of commuter train service. Closing by Sound Transit on the second easement is conditioned upon the delivery by BNSF of plan specifications and design documents to 30% for the second through fourth easements, as well as estimates of wetland impacts resulting from those improvements and permitting. Closing by Sound Transit on the third and fourth easements are conditioned upon the lack of a determination that certain permits for improvements that BNSF is designing to construct are highly unlikely to be issued. If these conditions are not met, Sound Transit has the option to not close with no additional payment due and no additional train service beyond that provided by prior accepted easements.

The easement acquisition agreements also contain post-closing options for Sound Transit for the resale of the second, third and fourth easements to BNSF should it appear that permitting will not be allowed. These options may be exercised as follows:

	Earliest Exercise Date	Latest Exercise Date	Exercise Price
2nd Easement	November, 2006	November, 2010	$27.5 million
3rd Easement	December, 2008	December, 2012	$50 million
4th Easement	December, 2009	December, 2013	$50 million

The acquisition of the properties in the Nisqually-to-Tacoma corridor is conditional upon the results of due diligence investigation of the related properties. Subject to acceptable findings, closing dates are as follows:

	Closing Date	Due on Closing	Promissory Note
North Line	September, 2004	$6 million	$6 million, due 2006
South Line	September, 2006	$6 million	$6 million, due 2007

Should Sound Transit proceed with the acquisition of the Lakewood Station properties and the North and the South line, total payments under the agreement to BNSF are $32 million, including interest on the promissory notes.

The Joint-Use Agreement for the Seattle-to-Everett corridor defines the periods of operation and compensation for use of the BNSF line and Sound Transit's permitting responsibilities with respect to its operation. The Joint-Use Agreement for the Lakewood-to-Tacoma corridor sets forth BNSF's and Sound Transit's responsibilities for maintenance-of-way and rehabilitation activities and compensation to Sound Transit by BNSF for freight use of the line. Initially, BNSF will retain all maintenance activities associated with the line. However, as Sound Transit incrementally commences construction of the line, Sound Transit will be responsible for maintenance activities on those sections.

The Commuter Rail Service Agreement set forth the terms for the actual operation of the commuter trains by BNSF and the compensation paid to BNSF for train crews, maintenance-of-way and other expenses incurred in the operation of the Sounder service between Seattle and Everett. The compensation is structured to provide flat rates for maintenance and crews with inflation adjusters plus performance incentives after the initial pre-construction period. The term of the agreement is for 12 years with an option of 5 additional years that must be agreed to by both parties, for a maximum term of 17 years. In addition, a first amendment was executed to the existing long-term agreement for commuter service from Seattle to Tacoma, covering service for the Lakewood-to-Tacoma corridor, contingent upon the Nisqually to Tacoma purchase transactions.

***Purchases*—**At December 31, 2003, and 2002, Sound Transit had outstanding commitments of approximately $298.5 million and $205.6 million, respectively.

***Grants*—**Sound Transit participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Sound Transit has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2003, and 2002, may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

***Reimbursements Due Under Agreement between Sound Transit and the City of Seattle*—** Sound Transit and the City of Seattle entered into an agreement to establish, oversee and fund the City of Seattle's portion of the Transit-Oriented Community Development Fund and to provide funding support for certain aspects of the Central Link light rail project. Under the agreement, Sound Transit will be reimbursed within 60 days of invoicing for work performed that would otherwise be the obligation of and/or for the benefit of Seattle Public Utilities and Seattle City Light. As of December 31, 2003, included in accounts receivable is $888 thousand and $4.6 million in billed and unbilled costs, respectively.

The City of Seattle is currently involved in a lawsuit brought by ratepayers challenging the use of utility funds to meet the City's funding obligations under the CDF agreement. While the City has acknowledged its responsibilities under this binding agreement, this dispute may result in a deferral of receipt of payment to Sound Transit beyond the 60 day terms of the agreement.

***Reservation Junction to Freighthouse Square*—**Sound Transit completed construction of the Reservation Junction to Freighthouse Square project in September 2003; however, ongoing settlement of the embankment raised stability and safety concerns. Sound Transit retained independent engineers to evaluate the embankment and they recommended remedial measures to stabilize the embankment. In January, Sound Transit relocated commuter rail operations from the Reservation Junction to Freighthouse Square to its temporary platform. The engineer of record has designed remedial pilings to provide additional stability to the foundation, which are being installed by the original contractor.

Sound Transit has reserved its rights to claim for the costs of evaluating the embankment and the remediation work from the responsible parties and will defend any claims brought by the engineering firms.

By letter dated January 23, 2004, the City of Tacoma demanded payment of $7,500 per day as of January 21, 2004, in liquidated damages for "interruption of service" under the Construction Agreement between the City and Sound Transit. In spite of its claim, the City of Tacoma continues to operate over the segment in question. Sound Transit has rejected the City's demand.

Claims—In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Although the ultimate effect, if any, of these matters is not presently determinable, management believes that collectively they will not have a material effect on the results from operations or the Balance Sheet. In addition, Sound Transit has been named in the following legal actions:

Pierce County, City of Tacoma, King County, Sound Transit, et al v. State of Washington, King County Superior Court

The defendant/interveners contend that Sound Transit is not a validly-formed government and is not entitled to impose the 0.3% motor vehicle excise tax authorized and imposed pursuant to RCW 81.104.160 and that Initiative 776 (I-776) repealed Sound Transit's ability to collect the tax. If the court rejects these claims and finds that Sound Transit is legally entitled to continue to collect the tax through 2028 (because the agency pledged to collect the tax to repay outstanding 30-year bond debt sold before I-776 was enacted), then the defendant/interveners alternatively seek a court order defining what limits apply to Sound Transit's ability to collect the tax to the extent required to honor Sound Transit's bond obligations, but has not asserted a position on whether I-776 otherwise limits the agency's ability to collect or use the tax.

Sound Transit intends to vigorously defend against these claims and believes that defendant/interveners' claim that Sound Transit cannot collect the tax because it is not a validly-formed government is not likely to prevail. Because none of the opposing parties have articulated a legal basis upon which to argue that I-776 should limit Sound Transit's ability to collect the tax and in view of inherent uncertainties in the above, we are not able to make a judgment at this time about the outcome of this matter.

Sheehan, et .al., v. Sound Transit and Seattle Popular Monorail Authority, King County Superior Court

Plaintiffs filed suit on March 10, 2004, and contend that the 0.3% motor-vehicle excise tax imposed by Sound Transit and the Seattle Popular Monorail Authority are illegal *ad valorem* property taxes. Plaintiffs seek to enjoin Sound Transit from collecting the tax and seek a refund of prior taxes paid by plaintiffs and other taxpayers. Sound Transit plans to vigorously defend against the lawsuit and is preparing motions to request that the case be dismissed. Based on a Washington Supreme Court precedent finding that the tax is a legally-imposed tax, we do not believe that the plaintiff is likely to prevail.

***Sales Tax Audit*—**The Washington State Department of Revenue ("the Department") has been conducting a routine tax audit covering the period from June 1, 1998, through June 30, 2002. By letters dated March 27 and April 7, 2003, the Department of Revenue identified two areas that they believe represent taxable issues. This includes certain portions of the operating agreements with Sound Transit's purchased transportation providers. Sound Transit does not believe any portion of these agreements to be taxable and continues to vigorously oppose the Department should they make such a determination. Should Sound Transit's position not be upheld, the related sales tax liability, including interest, is estimated to be in the range of $1.2 million to $1.8 million.

The Department also reviewed resale certificates for the purchase of rolling stock and various agreements between Sound Transit, Amtrak and BNSF regarding the rolling stock and related maintenance and repairs, which the Department has determined to be invalid. These agreements were entered into in 2000 and provided an exemption from sales tax. Sound Transit sought and received an advance ruling from the Department as to the taxability of these transactions and believes the agreements and related certificates to be valid. The agency intends to vigorously oppose the determination. It is too early for Sound Transit to make any judgment regarding the outcome in this matter; however, should Sound Transit's position not be upheld, the related sales tax liability, including interest, is estimated to be in the range of $3.7 million to $13.1 million. This amount would be reflected in the financial statements as an increase in net assets for the carrying value for materials, parts and supplies and revenue vehicles of $2.8 million to $10.9 million, offset by a reduction to net assets from the increase in interest expense and corresponding reduction in the excess of revenues over expenses of $0.9 million to $2.2 million.

SOUNDTRANSIT

Central Puget Sound Regional Transit Authority

Financial Statements for the Three Quarters Ended September 30, 2004 (Unaudited)

BALANCE SHEET
(Unaudited)

(in thousands)		September 30, 2004
ASSETS		
Current Assets		
Cash and cash equivalents	$	318,216
Restricted assets		7,955
Investments		256,458
Taxes and other receivables		87,817
Parts, materials and supplies		3,150
Prepaid expenses		3,595
Total Current Assets		**677,191**
Non-Current Assets		
Capital assets, net of accumulated depreciation		1,651,107
Restricted assets		173,110
Investment held to pay capital lease obligation		57,556
Advances receivable		259
Unamortized bond issuance costs		2,753
Prepaid expense and deposits		6,774
Total Non-Current Assets		**1,891,559**
Total Assets	**$**	**2,568,750**
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$	68,069
Deferred pass revenue		654
Interest payable from restricted assets		2,861
Current portion, capital lease obligation		95
Other		2,167
Total Current Liabilities		**73,846**
Non-Current Liabilities		
Long-term debt		347,346
Compensated absences		1,627
Promissory note		5,704
Capital lease obligations		57,594
Total Non-Current Liabilities		**412,271**
Total Liabilities		**486,117**
Commitments and Contingencies		
Net Assets		
Invested in capital assets, net of related debt		1,299,410
Restricted for contractual arrangements and other		178,205
Unrestricted		605,018
Total Net Assets		**2,082,633**
Total Liabilities and Net Assets	**$**	**2,568,750**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(Unaudited)

(in thousands)	For the 3 Quarters Ended September 30, 2004
Operating Revenues	
Passenger fares	$ 9,659
Other operating revenues	2,256
Total Operating Revenues	**11,915**
Operating Expenses	
Operations and maintenance	51,842
General and administrative	17,314
Depreciation	16,208
Total Operating Expenses	**85,364**
Loss from Operations	**(73,449)**
Non-Operating Revenues (Expenses)	
Sales tax	157,234
Motor vehicle excise tax	48,510
Rental car tax	1,761
Investment income	8,078
Interest expense	(146)
Total Non-Operating Revenues	**215,437**
Income Before Capital Contributions	**141,988**
Federal capital contributions	58,404
Other capital contributions	3,400
Total Capital Contributions	**61,804**
Change in Net Assets	**203,792**
Total Net Assets, Beginning of Year	**1,878,841**
Total Net Assets, End of Year	**$ 2,082,633**

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APPENDIX B
THE PARITY BOND RESOLUTION

This Appendix B only contains ***Resolution No. R2005-02 adopted by the Board on February 10, 2005. For a description of the certain provisions of Resolution No. R2005-07, adopted by the Board on March 2, 2005, see "THE SERIES 2005A BONDS" in this Official Statement***.

RESOLUTION NO. R2005-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY AUTHORIZING THE ISSUANCE OF SALES TAX BONDS OF THE AUTHORITY IN THE PRINCIPAL AMOUNT OF NOT TO EXCEED $500,000,000 TO FINANCE A PORTION OF THE AUTHORITY'S REGIONAL TRANSIT SYSTEM PLAN; FIXING CERTAIN PROVISIONS AND COVENANTS OF THE BONDS, INCLUDING PROVISIONS SAFEGUARDING THE PAYMENT OF THE PRINCIPAL THEREOF AND INTEREST THEREON; AND AUTHORIZING AND DIRECTING THE SALE OF SUCH BONDS.

ADOPTED: FEBRUARY 10, 2005

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SOUND TRANSIT

RESOLUTION NO. R2005-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY AUTHORIZING THE ISSUANCE OF SALES TAX BONDS OF THE AUTHORITY IN THE PRINCIPAL AMOUNT OF NOT TO EXCEED $500,000,000 TO FINANCE A PORTION OF THE AUTHORITY'S REGIONAL TRANSIT SYSTEM PLAN; FIXING CERTAIN PROVISIONS AND COVENANTS OF THE BONDS, INCLUDING PROVISIONS SAFEGUARDING THE PAYMENT OF THE PRINCIPAL THEREOF AND INTEREST THEREON; AND AUTHORIZING AND DIRECTING THE SALE OF SUCH BONDS.

WHEREAS, the Board of Directors of The Central Puget Sound Regional Transit Authority (the "Authority"), by Resolution No. 73, authorized a regional transit system plan to provide high capacity transportation services in the central Puget Sound region (the "Plan"); and

WHEREAS, on November 5, 1996, at an election held within the boundaries of the Authority, the requisite number of voters approved the special motor vehicle excise taxes authorized by RCW 81.104.160(1), the rental car sales and use taxes authorized by RCW 81.104.160(2) and the sales and use taxes authorized by RCW 81.104.170 to implement the Plan; and

WHEREAS, by Resolution No. 82, the Board authorized the imposition of the Local Option Taxes (as defined herein) and contracted with the State of Washington Department of Revenue and Department of

Licensing to collect and transfer such taxes to the Authority, beginning on April 1, 1997; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180, the Authority on January 6, 1999, issued its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (the "1999 Bonds"), secured by a pledge of the Local Option Taxes, to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, the Authority desires to issue additional obligations to finance improvements for the purpose of providing high capacity transportation service, such obligations to be subordinate to the 1999 Bonds but consistent with the resolutions authorizing the issuance of the 1999 Bonds;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Central Puget Sound Regional Transit Authority that:

Section 1. <u>Definitions</u>. As used in this Resolution, the following words and phrases shall have the meanings hereinafter set forth unless the context clearly indicates that another meaning is intended:

<u>Accreted Value</u> means with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amounts set forth in the Series Resolution as the amounts representing the initial principal amount of such Capital Appreciation Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, as provided in the Series Resolution authorizing the issuance of such Capital Appreciation Bonds.

<u>Additional Taxes</u> means any taxes other than Local Option Taxes that are included as Pledged Taxes and pledged to the payment of Parity Bonds.

<u>Additional Taxes Accounts</u> mean separate accounts of the Authority, including any separate tax stabilization accounts, into which the Authority deposits Additional Taxes.

<u>Adopted Rate Adjustment</u> means any reduction or increase in the rate of the imposition of Pledged Taxes if the Authority has taken all actions and received all approvals required, as applicable, to adjust such Pledged Taxes and, in the case of an increase, to pledge such increased taxes to the payment of Parity Bonds.

<u>Annual Debt Service</u> means the amount required in any Fiscal Year to pay for the principal of and interest on all Parity Bonds Outstanding, excluding interest and principal to be paid from the proceeds of the sale of Parity Bonds or other obligations and excluding capitalized interest funded upon the issuance of Parity Bonds from sources other than Local Option Taxes or Pledged Taxes. For the purpose of calculating Annual Debt Service:

(i) in the case of Variable Rate Bonds, the interest rate thereon shall be calculated on the assumption that such Variable Rate Bonds will bear interest during such period at a rate equal to the Assumed Variable Rate, provided that if a Payment Agreement is executed in connection with a Series of Parity Bonds that has the effect of converting the Variable Rate thereon to a synthetic fixed rate of interest, then for purposes of calculating Annual Debt Service the assumed interest rate for such Variable Rate Bonds shall be the synthetic fixed rate of interest payable by the Authority under the Payment Agreement for the term of the Payment Agreement;

(ii) if a Payment Agreement has the effect of converting the fixed rate of interest thereon to a synthetic Variable Rate, then for purposes of calculating Annual Debt Service, the assumed interest rate for such Parity Bonds shall be the Assumed Variable Rate payable by the Authority under the Payment Agreement for the term of the Payment Agreement;

(iii) in the case of Balloon Maturity Bonds, it shall be assumed that the principal of such Balloon Maturity Bonds, together with interest thereon at the rate applicable to such Balloon Maturity Bonds as set forth in a Series Resolution, shall be amortized in equal annual installments over a term set forth in the Series Resolution;

(iv) in the case of Capital Appreciation Bonds, the principal and interest portions of the Accreted Value becoming due at maturity, or by virtue of a mandatory sinking fund deposit, shall be included in the calculation of Annual Debt Service; and

(v) if the Parity Bonds are Paired Obligations, the interest rate on such Parity Bonds shall be the resulting combined fixed interest rate to be paid by the Authority with respect to such Paired Obligations.

<u>Assumed Variable Rate</u> means a rate or rates applicable to a Series of Parity Bonds that is calculated in accordance with a formula or index as set forth in the applicable Series Resolution.

<u>Authority</u> means The Central Puget Sound Regional Transit Authority, a regional transit authority duly organized and existing under and by virtue of the State Constitution, Chapter 81.112 RCW and Chapter 81.104 RCW.

<u>Authority Certificate</u> means a certificate executed by a Designated Authority Representative in connection with the issuance of Future Parity Bonds or Prior Bonds under Section 16 or in connection with the reduction of the Sales and Use Tax under Section 20(a).

<u>Average Annual Debt Service</u> means the aggregate Annual Debt Service with respect to all Parity Bonds Outstanding (including Parity Bonds being issued at the time of calculation of Average Annual Debt Service) through the scheduled maturities thereof (stated maturity dates, or mandatory sinking fund redemption dates with respect to Term Bonds), divided by the number of years or portions thereof remaining during which interest on Parity Bonds is due and/or Parity Bonds are scheduled to mature or be subject to mandatory redemption (commencing with the date of calculation).

<u>Balloon Maturity Bonds</u> means any Parity Bonds which are so designated in the Series Resolution pursuant to which such Parity Bonds are issued. Commercial paper obligations (obligations with a maturity of not more than 270 days from their date of issuance) shall be deemed to be Balloon Maturity Bonds.

<u>Base Period</u> means any consecutive 12-month period selected by the Authority out of the 24-month period immediately preceding the date of issuance of a Series of Parity Bonds for purposes of Section 16(d), or any consecutive 12-month period selected by the Authority out of the 16-month period immediately preceding the date of calculation for purposes of Section 20(a).

Board means the Board of Directors of the Authority.

Bond Counsel means a firm of lawyers nationally recognized as bond counsel and retained by the Authority.

Bond Insurance means any municipal bond insurance policy, surety bond, letter of credit or similar instrument issued to guarantee the payment of any applicable Series of Parity Bonds or to satisfy all or any portion of the Subordinate Reserve Account Requirement.

Bond Register means the registration books on which are maintained the names and addresses of the Owners of the 2005A Bonds.

Bond Registrar means, unless provided otherwise in the Bond Sale Resolution, the fiscal agent of the State of Washington, or any successor bond registrar selected by the Authority, whose duties include the registration and authentication of the 2005A Bonds, maintenance of the Bond Register, effecting transfer of ownership of the 2005A Bonds, and paying the principal of, premium, if any, and interest on the 2005A Bonds.

Bond Sale Resolution means the resolution of the Board adopted pursuant to this Resolution to specify certain additional provisions of the 2005A Bonds and their sale.

1999 Bonds means the Authority's Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999.

2005A Bonds means the Authority's Sales Tax Bonds, Series 2005A, authorized by this Resolution.

Capital Appreciation Bonds means Parity Bonds of any Series, all or a portion of the interest on which is compounded, accumulated and payable only upon redemption or on the maturity date of such Parity Bonds; provided, that if so provided in the Series Resolution authorizing their issuance, the Parity Bonds may be deemed to be Capital Appreciation Bonds for only a portion of their term. On the date on which Parity Bonds no longer are Capital Appreciation Bonds, they shall be deemed Outstanding in a principal amount equal to their Accreted Value on that date. Unless otherwise specified herein, references herein to the principal amount of Capital Appreciation Bonds shall refer to the Accreted Value of Capital Appreciation Bonds, and references to the interest rate on Capital Appreciation Bonds shall refer to the rate at which those Capital Appreciation Bonds accrete in value.

Chief Financial Officer means the chief financial officer of the Authority, and any successor to substantially the same duties.

Code means the Internal Revenue Code of 1986, as amended, and shall include all applicable regulations and rulings relating thereto.

Default means any of the events specified in Section 25.

Designated Authority Representative means the Chair of the Board, the Chief Executive Officer of the Authority or the Chief Financial Officer, or such other person as may be designated from time to time by resolution of the Board.

DTC means The Depository Trust Company, New York, New York.

Fiscal Year means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other 12-month period hereafter selected and designated as the official fiscal year of the Authority.

Future Parity Bonds means bonds, notes or other obligations of the Authority issued after the issuance of the 2005A Bonds pursuant to a Series Resolution, which are expressly stated to be secured by a pledge of Pledged Taxes on an equal and ratable basis with the Pledged Taxes required to be paid into the Subordinate Bond Account to pay and secure the payment of the principal of and interest on the 2005A Bonds.

Government Obligations has the meaning given such term in Chapter 39.53 RCW, as hereafter amended.

Junior Obligations means bonds, notes or other obligations identified as "Junior Obligations" in the resolution authorizing such obligations and secured by a pledge of Pledged Taxes (which may include some or all of those taxes) subordinate to the Parity Bonds.

Letter of Representations means the Blanket Issuer Letter of Representations with DTC dated December 9, 1998, setting forth certain understandings of the Authority and the Bond Registrar with respect to DTC's services, as it may be amended from time to time.

Local Option Taxes means the MVET, the rental car sales and use taxes authorized by RCW 81.104.160 and the Sales and Use Taxes, and initially approved at an election held on November 5, 1996, as such taxes may be imposed from time to time by the Authority.

Local Option Tax Accounts means the revenue accounts established by the Authority in the Authority's Proprietary Fund ("Enterprise Fund") for the deposit of Local Option Taxes.

Maximum Annual Debt Service means the highest Annual Debt Service with respect to Parity Bonds (including any Parity Bonds being issued at the time of calculation) that will mature or come due in the current or any future Fiscal Year.

MSRB means the Municipal Securities Rulemaking Board.

MVET means the special motor vehicle excise taxes authorized by RCW 81.104.160.

NRMSIR means each nationally recognized municipal securities information repository designated by the SEC as such in accordance with its Rule 15c2-12 (but only for so long as such designation remains in effect).

Outstanding in connection with Parity Bonds means, as of the time in question, all Parity Bonds authenticated and delivered under a Series Resolution, except: (a) Parity Bonds theretofore paid and cancelled or required to be cancelled under a Series Resolution; (b) Parity Bonds which are deemed to have been defeased in accordance with a Series Resolution; and (c) Parity Bonds in substitution for which other Parity Bonds have been authenticated and delivered pursuant to a Series Resolution.

Owner means the registered owner of any Parity Bond.

Paired Obligations means any two Series of Parity Bonds (or portions thereof) designated as Paired Obligations in the Series Resolution, which are simultaneously issued or incurred and the interest rates on which, taken together, result in irrevocably fixed interest rate bonds for the term of such Parity Bonds.

Parity Bonds means the 2005A Bonds and any Future Parity Bonds.

Parity Payment Agreement means a Payment Agreement between the Authority and a Qualified Counterparty, meeting the conditions set forth in Section 21, under which the Authority's regularly scheduled Payment obligations are expressly stated to be secured by a pledge of Pledged Taxes on an equal and ratable basis with the Pledged Taxes required to be paid into the Subordinate Bond Account to pay and secure the payment of the principal of and interest on Parity Bonds.

Payment means any regularly scheduled payment (designated as such by a Series Resolution) required to be made by or on behalf of the Authority under a Payment Agreement and which is determined according to a rate or formula set forth in the Payment Agreement.

Payment Agreement means a written agreement, for the purpose of managing or reducing the Authority's exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, investment, asset or liability management purposes, entered into on either a current or forward basis by the Authority and a Qualified Counterparty, all as authorized by any applicable laws of the State. Such agreement may or may not be characterized by a structure of reciprocity of payment.

Payment Date means any date specified in the Payment Agreement on which an Authority Payment or Receipt is due and payable under the Payment Agreement.

Payor means a Qualified Counterparty to a Payment Agreement that is obligated to make one or more payments thereunder.

Plan means "Sound Move – The Ten-Year Regional Transit System Plan" adopted May 31, 1996, to provide high-capacity transportation services in the central Puget Sound region, and as it has been and may hereafter be updated, amended or supplemented.

Pledged Taxes means the rental car sales and use taxes authorized by RCW 81.104.160(2) and the Sales and Use Taxes initially approved at an election held on November 5, 1996, together with Additional Taxes and/or MVET if pledged to the Parity Bonds pursuant to Section 15.

Prior Bond Resolution means Authority Resolution R98-47 adopted November 2, 1998, as amended, supplemented or restated from time to time.

Prior Bonds means the 1999 Bonds and other obligations that may be issued in the future by the Authority under the Prior Bond Resolution that have a pledge of Pledged Taxes that are included in Local Option Taxes on a parity with the 1999 Bonds.

Project or Projects means any planning, design, construction, additions, betterments, extensions, and improvements provided for in the Plan or other capital or capitalizable costs incurred for any purpose related to the Plan, including, without limitation, the acquisition of land.

Qualified Counterparty means a party (other than the Authority or a party related to the Authority) who is the other party to a Payment Agreement that has, or whose senior obligations are unconditionally guaranteed by a party that has, at least "A" ratings by at least two Rating Agencies, and who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

Rating Agencies means Moody's Investors Service, Inc., or its successors and assigns, Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., or its successors and assigns, Fitch Ratings or its successors and assigns, or such other securities rating agency if such other rating agency is selected by the Authority to provide a rating with respect to a Series of Parity Bonds or any portion thereof and which other rating agency as of the applicable date shall have assigned a rating to any Series of Parity Bonds or any portion thereof.

Rating Categories means the generic rating categories of the Rating Agencies, without regard to any refinement or gradation of such rating categories by a numerical modifier or otherwise.

Receipt means any payment to be made to, or for the benefit of, the Authority under a Payment Agreement by the Payor.

Record Date means the 15^{th} day of the month preceding an interest payment date for the 2005A Bonds.

Refunding Bonds means Future Parity Bonds the proceeds of which will be used to refund Authority obligations as provided in Section 17.

Resolution means this Resolution No. R2005-02.

Sales and Use Taxes means the sales and use taxes authorized by RCW 81.104.170.

SEC means the United States Securities and Exchange Commission.

Series means any separate series of Parity Bonds, including the 2005A Bonds, issued pursuant to a Series Resolution.

Series Resolution means this Resolution, the Bond Sale Resolution or another resolution or resolutions authorizing the issuance and sale of one or more Series of Parity Bonds, as such resolution may be amended or supplemented.

State means the State of Washington.

Subordinate Bond Account means the special account or accounts of the Authority created by Section 19(a) of this Resolution for the purpose of paying the principal, sinking fund installments, premium, if any, and interest on any Parity Bonds.

Subordinate Reserve Account means the special reserve account created pursuant to Section 19(b) of this Resolution.

Subordinate Reserve Account Requirement means, for Parity Bonds (and except as otherwise permitted under Section 19(b)), the lesser of: (i) Maximum Annual Debt Service or (ii) 125% of Average Annual Debt Service, provided, that upon the issuance of any Series of Parity Bonds, the Subordinate Reserve Account Requirement shall not be required to be funded or increased by an amount greater than 10% of the proceeds of that Series. For purposes of calculating the Subordinate Reserve Account Requirement, the initial issue price of Capital Appreciation Bonds shall be deemed to be the sale proceeds of such Bonds.

Supplemental Resolution means a resolution adopted by the Authority pursuant to Section 24.

Tax Stabilization Subaccount means the subaccount of that name authorized to be created pursuant to Section 2 of the Prior Bond Resolution or Section 14 of this Resolution.

Term Bonds means the Parity Bonds of any Series identified as "Term Bonds" in the Series Resolution authorizing such Parity Bonds, the payment of principal of which will be made, in part, from mandatory sinking fund redemptions prior to their stated maturities.

Variable Rate means a variable interest rate or rates to be borne by a Series of Parity Bonds or any one or more maturities within a Series of Parity Bonds. The method of computing such variable interest rate shall be specified in the Series Resolution authorizing such Parity Bonds, except that such variable interest rate shall be subject to a maximum interest rate set forth in such Series Resolution.

Variable Rate Bonds means Parity Bonds that bear interest at a Variable Rate, except that Parity Bonds (or portion thereof) the interest rate on which shall have been fixed for the remainder of their term to maturity shall no longer be Variable Rate Bonds.

Section 2. Authorization and Description of 2005A Bonds. For the purposes of paying part of the costs of carrying out the Plan and the costs of issuing and selling the 2005A Bonds, to provide for the Subordinate Reserve Account Requirement and for other Authority purposes approved by resolution of the Board, the Authority is authorized to borrow money on the credit of the Authority and issue sales tax bonds evidencing indebtedness in the maximum principal amount of not to exceed $500,000,000. Any amount received as original issue premium on the 2005A Bonds shall not reduce the principal amount of 2005A Bonds authorized under this Resolution. The general indebtedness to be incurred shall, together with the outstanding 1999 Bonds, be within the limit of up to 1.5% of the value of the taxable property within the Authority permitted without a vote of the qualified voters therein. The 2005A Bonds shall be designated "Sales Tax Bonds, Series 2005A," and shall have such other designation as determined by the Chief Financial Officer or as specified in the Bond Sale Resolution consistent with the provisions of this Resolution; shall be dated as specified by the Bond Sale Resolution; shall be in the denomination of $5,000 or any integral multiple thereof within a single maturity or such other denomination within a maturity as specified by the Bond Sale Resolution; shall be numbered separately, in the manner and with any additional designation as the Bond Registrar deems necessary for the purpose of identification; and shall bear interest payable on the dates as specified by the Bond Sale Resolution at such rate or rates as specified and approved by the Bond Sale Resolution. The 2005A Bonds shall mature on the dates and in years and amounts as specified by the Bond Sale Resolution. All or some of the 2005A Bonds may be Term Bonds, as specified by the Bond Sale Resolution.

Section 3. Bond Sale Resolution. The Board of the Authority may adopt the Bond Sale Resolution and in that resolution may provide for the matters described in this Resolution and such other matters that the Board deems necessary, appropriate, or desirable to carry out the purposes of this Resolution.

The Bond Sale Resolution may provide for Bond Insurance, and may provide conditions or covenants relating thereto, including additional terms, conditions, and covenants relating to the 2005A Bonds that are required by a provider of Bond Insurance or by a Qualified Counterparty and are consistent with the provisions of this Resolution, including but not limited to restrictions on investments and requirements of notice and consent. The Bond Sale Resolution may approve and authorize the execution and delivery on behalf of the Authority of any contracts and other documents consistent with the provisions of this Resolution for which the Authority's approval is necessary or to which the Authority is a party and that are related or incidental to the issuance and sale of the 2005A Bonds, the establishment of the initial interest rate or rates on the 2005A Bonds, and any tender, purchase, remarketing, or redemption provisions of the 2005A Bonds, including but not limited to agreements with Bond Insurance providers, Qualified Counterparties, remarketing agents, purchasers, fiscal agencies, custodians, and the Bond Registrar. The Chair of the Board, the Chief Executive Officer of the Authority and the Chief Financial Officer are each separately authorized to execute and deliver, on behalf of the Authority, any contracts and other documents consistent with the provisions of this Resolution for which the Authority's approval is necessary, or to which the Authority is a party and that are related or incidental to the issuance and sale of the 2005A Bonds.

Because of the special circumstances regarding (1) the timing of the sale of the 2005A Bonds, (2) the need for the purchasers of the 2005A Bonds to receive prompt confirmation of the sale, and (3) the expected short length of the meeting to consider the Bond Sale Resolution, the Bond Sale Resolution may be adopted at a teleconference meeting of the Board at which meeting any number of Board members may attend by telephone. Pursuant to Section 15 of Authority Resolution 1-1, as amended, Section 8.D of Resolution 1-1, as amended, shall be temporarily suspended for this purpose. Notice of such teleconference meeting shall be given pursuant to law and the teleconference technical connection for the meeting shall allow Board members to hear and to be heard by other Board members and the public.

Section 4. Registration and Transfer or Exchange of the 2005A Bonds. The 2005A Bonds shall be issued only in registered form as to both principal and interest and shall be recorded on the Bond Register. The Bond Register shall contain the name and mailing address of the Owner of each 2005A Bond and the principal amount and number of each of the 2005A Bonds held by each Owner.

2005A Bonds surrendered to the Bond Registrar may be exchanged for 2005A Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. 2005A Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the Owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any 2005A Bond during the period between any Record Date and the corresponding interest payment, principal payment, or redemption date.

The 2005A Bonds initially shall be registered in the name of Cede & Co., as the nominee of DTC. The 2005A Bonds so registered shall be held in fully immobilized form by DTC as depository in accordance with the provisions of the Letter of Representations. Neither the Authority nor the Bond Registrar shall have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the 2005A Bonds regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of principal of, premium, if any, or interest on the 2005A Bonds, or any notice which is permitted or required to be given to Owners hereunder (except such notice as is required to be given by the Bond Registrar to DTC).

For as long as any 2005A Bonds are held in fully immobilized form, DTC, its nominee or its successor depository shall be deemed to be the registered owner for all purposes hereunder and all references to registered owners, bondowners, bondholders or the like shall mean DTC or its nominee and shall not mean the owners of any beneficial interests in the 2005A Bonds. Registered ownership of such 2005A Bonds, or any portions thereof, may not thereafter be transferred except: (i) to any successor of DTC or its nominee, if that successor shall be qualified under any applicable laws to provide the services proposed to be provided by it; (ii) to any substitute depository appointed by the Authority or such substitute depository's successor; or (iii) to any person if the 2005A Bonds are no longer held in immobilized form.

Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or a determination by the Authority that it no longer wishes to continue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the Authority may appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

If (i) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (ii) the Authority determines that the 2005A Bonds are to be in certificated form, the ownership of 2005A Bonds may be transferred to any person as provided herein and the 2005A Bonds no longer shall be held in fully immobilized form.

Section 5. Payment of 2005A Bonds. Principal of, premium, if any, and interest on the 2005A Bonds shall be payable in lawful money of the United States of America. Interest on the 2005A Bonds shall be paid by checks, drafts, or warrants of the Bond Registrar, or, if requested in writing prior to the Record Date by the Owner of $1,000,000 or more in principal amount of 2005A Bonds, by wire, mailed or transferred on the interest payment date to Owners of the 2005A Bonds as those Owners and their addresses and accounts appear on the Bond Register on the Record Date (or other record date established in the Bond Sale Resolution). Principal of and premium, if any, on the 2005A Bonds shall be payable at maturity or on such date as may be specified for prior redemption upon presentation and surrender of the 2005A Bonds by the Owners at the principal corporate trust office or offices of the Bond Registrar. Notwithstanding the foregoing, payment of any 2005A Bonds registered in the name of DTC or its nominee shall be made in accordance with the Letter of Representations.

Section 6. Redemption and Open Market Purchase of 2005A Bonds.

(a) Optional Redemption. All or some of the 2005A Bonds may be subject to redemption prior to their stated maturity dates at the option of the Authority at the times and on the terms set forth in the Bond Sale Resolution.

(b) Mandatory Redemption. The Authority shall redeem any 2005A Bonds that are Term Bonds ("2005A Term Bonds"), if not redeemed under the optional redemption provisions set forth in the Bond Sale Resolution or purchased in the open market under the provisions set forth below, by lot (or in such other manner as the Bond Registrar shall determine) at par plus accrued interest on the dates and in the years and principal amounts as set forth in the Bond Sale Resolution.

If the Authority redeems under the optional redemption provisions, purchases in the open market or defeases 2005A Term Bonds, the par amount of the 2005A Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) shall be credited against one or more scheduled mandatory redemption amounts for those 2005A Term Bonds. The Chief Financial Officer shall determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of its allocation at least 45 days prior to the earliest mandatory redemption date for that maturity of 2005A Term Bonds for which notice of redemption has not already been given. If no such determination is made, the allocation shall be on a pro rata basis.

(c) Partial Redemption. Whenever less than all of the 2005A Bonds of a single maturity are to be redeemed, the Bond Registrar shall select the 2005A Bonds or portions thereof to be redeemed from the 2005A Bonds of that maturity by lot (or in such other manner as the Bond Registrar shall determine), except that, for so long as the 2005A Bonds are registered in the name of DTC or its nominee, DTC shall select the 2005A Bonds or portions thereof to be redeemed in accordance with the Letter of Representations. In no event shall any 2005A Bond be outstanding in a principal amount that is not an authorized denomination.

Portions of the principal amount of any 2005A Bond, in integral amounts of $5,000, may be redeemed, unless otherwise provided in the Bond Sale Resolution. If less than all of the principal amount of any 2005A Bond is redeemed, upon surrender of that 2005A Bond to the Bond Registrar there shall be issued to the Owner, without charge therefor, a new 2005A Bond (or 2005A Bonds, at the option of the Owner) of the same maturity, and interest rate in any authorized denominations in the aggregate total principal amount remaining unredeemed.

(d) Open Market Purchase. The Authority reserves the right and option to purchase any or all of the 2005A Bonds in the open market at any time at any price acceptable to the Authority plus accrued interest to the date of purchase.

(e) Bonds to be Canceled. All 2005A Bonds purchased or redeemed under this Section shall be canceled.

Section 7. Notice of Redemption. The Authority shall cause notice of any intended redemption of 2005A Bonds to be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Owner of any 2005A Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the Owner of any 2005A Bond. Interest on 2005A Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the 2005A Bond or 2005A Bonds called are not redeemed when presented pursuant to the call. In addition, the redemption notice shall be mailed by the Bond Registrar within the same period, postage prepaid, to the Rating Agencies, to any provider of Bond Insurance, to each NRMSIR or the MSRB, and to such other persons and with such additional information as the Chief Financial Officer shall determine or as specified in the Bond Sale Resolution, but none of these additional mailings shall be a condition precedent to the redemption of 2005A Bonds. Notwithstanding the foregoing, for so long as the 2005A Bonds are registered in the name of DTC or its nominee, notice of redemption shall be given in accordance with the Letter of Representations.

Section 8. Failure to Redeem 2005A Bonds. If any 2005A Bond is not redeemed when properly presented at its maturity or call date, the Authority shall be obligated to pay interest on that 2005A Bond at the same rate provided in the 2005A Bond from and after its maturity or call date until that 2005A Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Subordinate Bond Account and the Bond has been called for payment by giving notice of that call to the Owner of each of those unpaid 2005A Bonds.

Section 9. Form and Execution of 2005A Bonds. The 2005A Bonds shall be typed, printed, photocopied, or lithographed on good bond paper in a form consistent with the provisions of this Resolution, the Bond Sale Resolution, and State law; shall be signed by the Chair of the Board and the Chief Executive Officer, either or both of whose signatures may be manual or in facsimile; and the seal of the Authority or a facsimile reproduction thereof shall be impressed or printed thereon.

Only 2005A Bonds bearing a Certificate of Authentication in substantially the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Resolution:

CERTIFICATE OF AUTHENTICATION

This 2005A Bond is one of the fully registered The Central Puget Sound Regional Transit Authority Sales Tax Bonds, Series 2005A, described in the Bond Resolution.

WASHINGTON STATE FISCAL AGENT
Bond Registrar

By ______________________________
Authorized Signer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the 2005A Bond so authenticated has been duly executed, authenticated, and delivered and is entitled to the benefits of this Resolution.

If any officer whose manual or facsimile signature appears on a 2005A Bond ceases to be an officer of the Authority authorized to sign bonds before the 2005A Bond bearing his or her manual or facsimile signature is authenticated or delivered by the Bond Registrar or issued by the Authority, that 2005A Bond nevertheless may be authenticated, delivered, and issued and, when authenticated, issued, and delivered, shall be as binding on the Authority as though that person had continued to be an officer of the Authority authorized to sign bonds. Any 2005A Bond also may be signed on behalf of the Authority by any person who, on the actual date of signing of the 2005A Bond, is an officer of the Authority authorized to sign bonds, although he or she did not hold the required office on the date of issuance of the 2005A Bonds.

Section 10. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the 2005A Bonds, which shall be open to inspection by the Authority at all times. The Bond Registrar is authorized, on behalf of the Authority, to authenticate and deliver 2005A Bonds transferred or exchanged in accordance with the provisions of the 2005A Bonds and this Resolution, to serve as the Authority's paying agent for the 2005A Bonds, and to carry out all of the Bond Registrar's powers and duties under this Resolution. The Authority reserves the right in its discretion to appoint special paying agents, registrars, or trustees in connection with the payment of some or all of the principal of, premium, if any, or interest on the 2005A Bonds. If a new Bond Registrar is appointed by the Authority (other than the Washington State fiscal agent), notice of the name and address of the new Bond Registrar shall be mailed to the Owners of the 2005A Bonds appearing on the Bond Register at the time the Bond Registrar prepares the notice. The notice may be mailed together with the next interest payment due on the 2005A Bonds, but, to the extent practicable, shall be mailed no later than the Record Date for any principal payment or redemption date of any 2005A Bond.

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on the 2005A Bonds. The Bond Registrar may become the Owner of 2005A Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of the Owners of the 2005A Bonds.

This section and other relevant portions of this Resolution shall constitute a "system of registration" as that term is used in RCW 39.46.030.

Section 11. Sale of 2005A Bonds. The Chief Financial Officer shall provide for the sale of the 2005A Bonds by a negotiated sale with purchasers, as identified in the Bond Sale Resolution, that have been chosen through a competitive selection process by the Chief Financial Officer after the evaluation of responses to the requests for proposals. The Chief Financial Officer is authorized to specify a date and time of sale of the 2005A Bonds, to prepare and deem final a preliminary official statement for the 2005A Bonds, to negotiate the terms of a proposed purchase contract with the purchasers of the 2005A Bonds, and to specify other matters in his or her determination necessary, appropriate, or desirable to carry out the sale of the 2005A Bonds. The terms of that sale shall be consistent with this Resolution and the Bond Sale Resolution and shall be confirmed by the Bond Sale Resolution. The 2005A Bonds shall be delivered to the purchasers as provided in the Bond Sale Resolution immediately upon payment to the Authority of the purchase price plus any accrued interest to the date of closing in immediately available federal funds in Seattle, Washington, at the Authority's expense or at another time or place upon which the Chief Financial Officer and the purchasers may mutually agree at the purchasers' expense.

CUSIP numbers will be printed on the 2005A Bonds if requested by the purchasers, but neither failure to print CUSIP numbers on any 2005A Bond nor error with respect thereto shall constitute cause for a failure or refusal by the underwriters to accept delivery of and pay for the 2005A Bonds in accordance with the purchase offer. All expenses in relation to the printing of CUSIP numbers on the 2005A Bonds shall be paid by the Authority, but the fee of the CUSIP Service Bureau for the assignment of those numbers shall be the responsibility of and shall be paid by the purchasers.

Section 12. Preservation of Tax Exemption for Interest on 2005A Bonds. The Authority covenants that it will take all actions necessary to prevent interest on the 2005A Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the 2005A Bonds or other funds of the Authority treated as proceeds of the 2005A Bonds at any time during the term of the 2005A Bonds which will cause interest on the 2005A Bonds to be included in gross income for federal income tax purposes. The Authority also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to the 2005A Bonds, take all actions necessary to comply (or to be treated as having complied) with that requirement in connection with the 2005A Bonds, including the calculation and payment of any penalties that the Authority has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on the 2005A Bonds from being included in gross income for federal income tax purposes. The Authority certifies that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

Section 13. Deposit, Use and Investment of Proceeds. Unless provided otherwise in the Bond Sale Resolution, the principal proceeds and premium, if any, received from the sale and delivery of the 2005A Bonds shall be paid into or allocated to the "2005A Bond Proceeds Account" of the Authority or such other accounts or subaccounts of the Authority as the Chief Financial Officer may designate, and used to pay all or part of the costs of carrying out the Plan, issuing and selling the 2005A Bonds, to provide for the Subordinate Reserve Account Requirement and for other Authority purposes approved by resolution.

The Chief Financial Officer may establish and may transfer, record, allocate or restrict proceeds of the 2005A Bonds among such accounts or subaccounts of the Authority and make such transfers, recordings, allocations, restrictions or deposits on terms he or she may deem necessary, appropriate or desirable to carry out the purposes of this Resolution and consistent with the Bond Sale Resolution.

Accrued interest on the 2005A Bonds received from the sale and delivery of the 2005A Bonds, if any, shall be paid into or allocated to the Subordinate Bond Account prior to the first debt service payment date with respect to those 2005A Bonds. Until needed to pay the costs described herein, the Authority may invest principal proceeds of the 2005A Bonds temporarily in any legal investment, and the investment earnings shall be deposited in such accounts as may be designated by the Chief Financial Officer. Earnings subject to a federal tax or rebate requirement may be withdrawn from any such account and used for those tax or rebate purposes.

Any proceeds of 2005A Bonds remaining after paying the costs of carrying out the Plan, issuing and selling the 2005A Bonds, providing for the Subordinate Reserve Account Requirement, and for other Authority purposes approved by resolution, may be used to pay principal of and interest on the 2005A Bonds consistent with applicable law.

All Pledged Taxes allocated to the payment of the principal of and interest on the 2005A Bonds shall be deposited in the Subordinate Bond Account.

Proceeds of the 2005A Bonds may be invested in any legal investment of the Authority.

Section 14. Local Option Tax Accounts; Flow of Funds.

(a) Local Option Tax Accounts and Additional Taxes Accounts. The Authority maintains Local Option Tax Accounts into which it promptly deposits Pledged Taxes upon the receipt thereof. The Authority may create a Tax Stabilization Subaccount in the Local Option Tax Accounts and deposit Pledged Taxes collected in any Fiscal Year into that subaccount or withdraw Pledged Taxes deposited therein from such subaccount and use amounts in such subaccount for any lawful purposes in accordance with the flow of funds set forth in Section 14(b), including for the purposes set forth in Section 20(a), and subject to the requirements set forth in the Prior Bond Resolution. The Tax Stabilization Subaccount may be the same subaccount of that name established under Section 2(a) of the Prior Bond Resolution. Notwithstanding the foregoing, the Authority may provide that Additional Taxes shall be deposited into Additional Taxes Accounts, including a separate tax stabilization subaccount therein.

(b) Flow of Funds. Pledged Taxes deposited in the Local Option Tax Accounts shall be used by the Authority only for the following purposes and in the following order of priority:

First, to make all payments required to be made into the bond account for the Prior Bonds in the following order:

(1) to pay the interest when due on the Prior Bonds (including regularly scheduled payment obligations under parity payment agreements for Prior Bonds); and

(2) to pay the maturing principal (including sinking fund redemptions) of the Prior Bonds;

Second, to make all payments required to be made into the reserve account for the Prior Bonds by Section 7(b) of the Prior Bond Resolution to meet the reserve account requirement for the Prior Bonds and to make all payments required to be made pursuant to a reimbursement obligation in connection with a Qualified Letter of Credit or Qualified Bond Insurance (as defined in the Prior Bond Resolution) with respect to the reserve account requirement for the Prior Bonds;

Third, to make all payments required to be made into the Subordinate Bond Account in the following order:

(1) to pay the interest when due on Parity Bonds (including regularly scheduled payment obligations under Parity Payment Agreements for Parity Bonds);

(2) to pay the maturing principal (including sinking fund redemptions) of Parity Bonds; and

(3) to reimburse the provider of any Bond Insurance (other than Bond Insurance obtained to satisfy all or a part of the Subordinate Reserve Account Requirement, and other than the provider of a letter of credit, standby bond purchase agreement or other liquidity facility) for payments of the principal and/or interest on Parity Bonds; provided, that if there is not sufficient money to make all payments under all reimbursement agreements the payments will be made to the providers on a pro rata basis;

Fourth, to make all payments required to be made into the Subordinate Reserve Account by Section 19(b) to meet the Subordinate Reserve Account Requirement and to make all payments required to be made pursuant to a reimbursement obligation in connection with Bond Insurance with respect to the Subordinate Reserve Account Requirement; provided, that if there is not sufficient money to make all payments under all reimbursement agreements the payments will be made to the providers on a pro rata basis;

Fifth, to make all payments required to be made into any other bond redemption account and reserve account created to pay the principal of, premium, if any, and interest on any Junior Obligations (to the extent any such obligations are issued with a pledge of Pledged Taxes superior to the payment of operation and maintenance expenses), provided, that the Authority may determine by resolution that items in this "Fifth" category shall be paid in any specified order of priority;

Sixth, to pay costs of operating and maintaining the Authority and its facilities; and

Seventh, for any lawful purpose of the Authority, including without limitation the purchase of bonds; to make termination payments required under any Payment Agreement or a payment agreement for other Authority obligations; and to pay Junior Obligations with a pledge of Pledged Taxes junior to the payment of operation and maintenance expenses; provided, that the Authority may determine by resolution that items in this "Seventh" category shall be paid in any specified order of priority.

Additional Taxes deposited in Additional Taxes Accounts shall be used by the Authority for the purposes and in the order of priority set forth above, beginning with the paragraph "Third".

Section 15. Pledge of Pledged Taxes. From and after the issuance and delivery of the 2005A Bonds and so long as any of the 2005A Bonds remain Outstanding, the Authority irrevocably obligates and binds itself to impose, collect and deposit all Pledged Taxes into the Local Option Tax Accounts and the Additional Taxes Accounts, as applicable, and to set aside and pay into the Subordinate Bond Account, from Pledged Taxes, on or prior to the date on which the interest on, principal of, premium, if any, and sinking fund requirements for the 2005A Bonds shall become due, the amounts necessary to pay that interest, principal, sinking fund requirements and premium coming due on 2005A Bonds. All Parity Bonds now or hereafter Outstanding shall be equally and ratably payable and secured hereunder without priority by reason of date of adoption of the Series Resolution providing for their issuance or by reason of their Series or date of sale or delivery; provided, however, that any Series of Parity Bonds also may be payable from and secured by Bond Insurance specifically pledged to or provided for that Series of Parity Bonds. The Authority may also, at its sole option, apply amounts legally available from any other source to the repayment of Parity Bonds or to make the deposits required hereunder. The Authority expressly reserves the right (but is not obligated) to include and pledge Additional Taxes, the MVET, and/or receipts resulting from an Adopted Rate Adjustment, as "Pledged Taxes." The Board determines that the future inclusion of such Additional Taxes or the MVET as Pledged Taxes will benefit the Authority and the Owners of Parity Bonds. The inclusion of Additional Taxes as Pledged Taxes will not constitute a pledge of those Additional Taxes to the payment of Prior Bonds unless the Authority expressly provides therefor.

All Parity Bonds are special limited obligations of the Authority payable from and secured solely by Pledged Taxes and amounts, if any, in the Subordinate Bond Account, Subordinate Reserve Account, the Local Option Tax Accounts, the Additional Taxes Accounts, Tax Stabilization Subaccount and any project account created for the deposit of Parity Bond proceeds, subject to the prior pledge of money in the Local Option Tax Accounts and the Tax Stabilization Subaccount that has been created in favor of the Prior Bonds. The 2005A Bonds are "Subordinate Lien Obligations" as that term is defined by and under the Prior Bond Resolution.

There is hereby pledged for the payment of the 2005A Bonds (a) amounts in the Subordinate Bond Account, the Subordinate Reserve Account, the Additional Taxes Accounts and proceeds of the 2005A Bonds deposited in any account created for the deposit of 2005A Bond proceeds, and such pledge is hereby declared to be a prior charge upon the amounts in such accounts, and (b) the Pledged Taxes and amounts in the Local Option Tax Accounts and the Tax Stabilization Subaccount and interest earnings thereon, to the extent amounts and earnings in the

Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount represent revenues from Pledged Taxes, and such pledge is hereby declared to be a prior charge upon the Pledged Taxes and the accounts described in this paragraph superior to all other charges of any kind or nature except the charge of the Prior Bonds on Local Option Taxes, and equal to the charge of any Future Parity Bonds.

Following the occurrence of a "Default" within the meaning of Section 14 of the Prior Bond Resolution, Pledged Taxes may not be used to pay the principal of or interest on Parity Bonds unless all deposits and payments required to be made with respect to the Prior Bonds have been fully made or paid.

Section 16. Issuance of Future Parity Bonds and Prior Lien Bonds. Following the issuance of the 2005A Bonds, except as provided in Section 17 the Authority may issue various Series of Future Parity Bonds only upon compliance with the following conditions as certified by a Designated Authority Representative:

(a) there is no deficiency in the Subordinate Bond Account;

(b) an amount equal to the Subordinate Reserve Account Requirement (including for the Future Parity Bonds to be issued) shall be on deposit or shall be otherwise provided for in the Subordinate Reserve Account on or prior to the date of issuance of such Future Parity Bonds, all in accordance with Section 19(b);

(c) no Default (as defined in Section 25) has occurred and is continuing; and

(d) an Authority Certificate is delivered upon the issuance of such Future Parity Bonds, which shall state that:

(i) *Prior Bonds Coverage Test*. Local Option Taxes received during the Base Period were not less than 1.5 times "Maximum Annual Debt Service" (as defined in the Prior Bond Resolution) on all Prior Bonds that will be outstanding upon the issuance of such series of Future Parity Bonds (the "Prior Bonds Coverage Requirement"); and

(ii) *Parity Bond Coverage Test for Period While MVET Not Included as Pledged Taxes*. Pledged Taxes received during the Base Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement (and after all MVET have been applied for that purpose) were not less than 1.5 times Maximum Annual Debt Service during the period that MVET will not be included as Pledged Taxes to secure the Future Parity Bonds; and

(iii) *Parity Bond Coverage Test for Period While MVET and/or Additional Taxes Are Included as Pledged Taxes*. Pledged Taxes received during the Base Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement, were not less than 1.5 times Maximum Annual Debt Service during the period that MVET and/or Additional Taxes will be included as Pledged Taxes to secure the Future Parity Bonds.

In preparing such certificate: (A) the Local Option Taxes and/or Pledged Taxes during the Base Period may be only those shown in audited or unaudited financial statements of the Authority; (B) the Designated Authority Representative shall take into account in calculating amounts received during the Base Period any Adopted Rate Adjustment, Additional Taxes and MVET included as Pledged Taxes pursuant to Section 15, and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Period; (C) MVET and/or Additional Taxes may not be taken into account to meet the requirements of clause (iii) above unless the Authority receives an opinion of Bond Counsel to the effect that the pledge of such MVET and/or Additional Taxes to such Future Parity Bonds is in full force and effect for the period in which they are included as Pledged Taxes; (D) any Adopted Rate Adjustment, Additional Taxes and/or extension of an existing tax shall be taken into account only if a certified public accountant, economic consultant or financial advisor experienced with state or local taxation or municipal bonds certifies that it is reasonable to expect that such adjusted, new or extended taxes will be received in the amounts assumed for purposes of the Authority Certificate; and (E) deposits into and withdrawals from the Tax Stabilization Subaccount during the Base Year may not be taken into account.

The Authority covenants that it will not issue additional series of Prior Bonds unless it delivers an Authority Certificate as set forth in this Section 16 in addition to any certificates that may be required under the Prior Bond Resolution. The Authority further covenants that it will not issue any obligations that are secured by a pledge of any or all of the Pledged Taxes subordinate to the pledge of any such taxes to the Prior Bonds but senior to the pledge of such taxes to the Parity Bonds.

Section 17. Refunding Bonds. The Authority, by means of a Series Resolution and in compliance with the provisions of Section 16 (except as otherwise provided below), may issue Refunding Bonds as follows:

(a) Refunding Bonds may be issued at any time, consistent with applicable law, upon delivery of an Authority Certificate for the purpose of refunding (including by purchase) Authority obligations, including amounts to pay principal thereof and redemption premium, if any, and interest thereon to the date of redemption (or purchase), making future Subordinate Reserve Account deposits, paying for Bond Insurance, making payment to a provider of a letter of credit for Parity Bonds, making any settlement payment in connection with the termination of a hedging instrument relating to the Refunding Bonds or the Parity Bonds to be refunded, paying the expenses of issuing the Refunding Bonds and of effecting such refunding.

(b) Refunding Bonds also may be issued for the purpose of refunding Parity Bonds without regard to the requirements of Section 16(d), if a Designated Authority Representative certifies that the Annual Debt Service on such Refunding Bonds in any Fiscal Year will not exceed the Annual Debt Service by more than $5,000 on the Parity Bonds to be refunded were such refunding not to occur.

(c) Refunding Bonds also may be issued, consistent with applicable law, without regard to the requirements of Section 16, for the purpose of refunding (including by purchase) any Authority obligations (other than Junior Obligations) for the payment of which sufficient funds are not available, or are forecasted by a Designated Authority Representative to be unavailable, in the future.

Section 18. Junior Obligations; Obligations with Pledge of Revenues. The Authority may issue Junior Obligations for any lawful purpose of the Authority. The resolution authorizing a series of Junior Obligations shall provide that the maturity date of Junior Obligations may not be accelerated (not including any indirect acceleration of the maturity thereof through reimbursement obligations to the provider of a credit facility occurring as a result of the mandatory tender for purchase of Junior Obligations) and shall further provide that following the occurrence of a Default, Pledged Taxes may not be used to pay the principal of or interest on Junior Obligations unless all deposits and payments required to be made with respect to the Prior Bonds and the Parity Bonds have been fully made or paid. In addition, the Authority reserves the right to issue obligations payable from revenues of the Authority other than Pledged Taxes.

Section 19. Subordinate Bond Account and Subordinate Reserve Account.

(a) Subordinate Bond Account. The Subordinate Bond Account is hereby created as a special account of the Authority for the purpose of providing for and securing the payment of Parity Bonds and the payment of Parity Payment Agreements meeting the requirements of Section 21. The Subordinate Bond Account is pledged to the payment of Parity Bonds and Parity Payment Agreements meeting the requirements of Section 21, and shall be separate and apart from all other accounts of the Authority. Notwithstanding the foregoing, only regularly scheduled payments made under a Parity Payment Agreement are secured by this Section 19.

Subject to the requirements of Section 14(b), the Authority hereby irrevocably obligates and binds itself for so long as any 2005A Bonds remain Outstanding to set aside or cause to be set aside into the Subordinate Bond Account from Pledged Taxes:

(i) on or before each interest payment date with respect to 2005A Bonds, an amount that is sufficient to pay the interest scheduled to become due on Outstanding 2005A Bonds on such date;

(ii) on or before each principal payment date with respect to 2005A Bonds, an amount that is sufficient to pay the principal of all 2005A Bonds maturing on such date;

(iii) on or before each redemption date selected or scheduled for 2005A Bonds (including any scheduled mandatory redemption date for Term Bonds), an amount that is sufficient to pay the principal of and any premium on all 2005A Bonds to be redeemed on such date and, to the extent such date is not a scheduled interest payment date, the interest payable on all 2005A Bonds to be redeemed on such date; and

(iv) regularly scheduled payments under a Parity Payment Agreement.

(b) Subordinate Reserve Account. The Subordinate Reserve Account is hereby created as a special account of the Authority for the purpose of securing the payment of the principal of, premium, if any, and interest on the Parity Bonds. The Subordinate Reserve Account is pledged to the payment of Parity Bonds, shall be separate and apart from all other accounts of the Authority. The Authority hereby covenants that on the date of issuance of each Series of Parity Bonds, the Authority will assure that the amount on hand in the Subordinate Reserve Account shall be sufficient to meet the Subordinate Reserve Account Requirement. Notwithstanding the foregoing, for any Series of Future Parity Bonds the Authority may establish a separate Subordinate Reserve Account Requirement for that Series, and amounts or Bond Insurance to satisfy that separate requirement shall be held in a separate account or subaccount of the Authority for the purpose of securing solely that Series; such Series of Parity Bonds shall not be secured by other amounts in the Subordinate Reserve Account or by Bond Insurance providing any portion of the Subordinate Reserve Account Requirement for other Parity Bonds. Any Series for which a separate Subordinate Reserve Account Requirement has been established shall not be secured by the Subordinate Reserve Account and shall not be provided with any rights or protections under this Section 19(b). The debt service on any Series for which a separate Subordinate Reserve Account Requirement has been established shall not be included in the calculation of the Subordinate Reserve Account Requirement for all other Series of Parity Bonds.

The Subordinate Reserve Account Requirement shall be maintained by deposits of cash, investments, Bond Insurance, or a combination of the foregoing. To the extent that the Authority obtains Bond Insurance in substitution for amounts in the Subordinate Reserve Account, all or a portion of the money on hand in the Subordinate Reserve Account shall be transferred to the Subordinate Bond Account or another account as permitted by the Code. In computing the amount on hand in the Subordinate Reserve Account, Bond Insurance shall be valued at the face amount thereof, and all other obligations purchased as an investment of money therein shall be valued at market at least annually. The market value of securities then credited to the Subordinate Reserve Account shall be determined and any deficiency in the Subordinate Reserve Account shall be made up in equal monthly installments within six months after the date of such valuation. As used herein, the term "cash" shall include U.S. currency, cash equivalents and evidences thereof, including demand deposits, certified or cashier's checks.

Bond Insurance to satisfy all or any portion of the Subordinate Reserve Account Requirement shall be issued by an insurance company or financial institution authorized to conduct business in any state of the United States as of the time of issuance of such Bond Insurance, and which, as of the time of issuance of such Bond Insurance, is rated in one of the two highest Rating Categories for unsecured debt or insurance underwriting or claims paying ability by the Rating Agencies.

Whenever there is a sufficient amount in the Subordinate Bond Account and the Subordinate Reserve Account to pay the principal of, premium, if any, and interest on all Outstanding Parity Bonds, the money in the Subordinate Reserve Account may be used to pay such principal, premium, if any, and interest. Amounts in the Subordinate Reserve Account in excess of the Subordinate Reserve Account Requirement may, at the Authority's discretion, be withdrawn to redeem and retire Outstanding Parity Bonds and to pay the interest due to such date of redemption and premium, or used for any other lawful purposes. When a Series of Parity Bonds is refunded in whole or in part, money may be withdrawn from the Subordinate Reserve Account to pay or provide for the payment of Refunding Bonds; provided, that immediately after such withdrawal there shall remain in or be credited to the Subordinate Reserve Account an amount at least equal to the Subordinate Reserve Account Requirement. The Authority also may transfer out of the Subordinate Reserve Account any money required in order to prevent any Parity Bonds from becoming "arbitrage bonds" under the Code.

If a deficiency in the Subordinate Bond Account shall occur prior to a principal or interest payment date on the Parity Bonds, such deficiency shall be made up from the Subordinate Reserve Account by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the Subordinate Reserve Account in such amounts as will provide amounts in the Subordinate Bond Account sufficient to pay when due the principal and interest of the Parity Bonds, and if a deficiency still exists immediately prior to a payment date and after the withdrawal of cash, the Authority shall then draw upon any Bond Insurance for the Parity Bonds, on a pro rata basis, in sufficient amount to make up the deficiency. Such draw shall be made at such times and under such conditions as such Bond Insurance shall provide. If the Authority fails to make any payment required to be made under a reimbursement agreement with the issuer of Bond Insurance, the issuer thereof shall be entitled to exercise all remedies available at law or under this Resolution; provided, that no acceleration of the Parity Bonds shall be permitted, and no remedies which adversely affect Owners of the Parity Bonds shall be permitted. Any deficiency created in the Subordinate Reserve Account by reason of any such withdrawal shall be made up from the next available Pledged Taxes (after required deposits and payments with respect to the Parity Bonds and Prior Bonds have been made under Section 14(b), clauses <u>First</u>, <u>Second</u> and <u>Third</u>), or from Bond Insurance, but in no event later than within one year of the date such deficiency occurs.

In making the payments and credits to the Subordinate Reserve Account required by this Section 19(b), to the extent that the Authority has obtained Bond Insurance for specific amounts required pursuant to this section to be paid out of the Subordinate Reserve Account such amounts so covered by Bond Insurance shall be credited against the amounts required to be maintained in the Subordinate Reserve Account by this Section 19(b). In the event the provider of the Bond Insurance shall no longer meet the requirements for the provider of Bond Insurance or be insolvent or no longer in existence, the Subordinate Reserve Account Requirement shall be satisfied with other Bond Insurance, or in equal monthly payments, within twelve months after the insolvency of the provider of Bond Insurance or after the date the provider no longer meets the requirements or is no longer in existence, out of Pledged Taxes (or out of other money on hand and legally available for such purpose) after making necessary provisions for the payments required to be made with respect to the Prior Bonds or into the Subordinate Bond Account.

(c) <u>Deposits into Accounts</u>. For purposes of this Resolution, the Authority shall be considered to have paid or deposited amounts into any account when it records, allocates, restricts or debits the Authority's records. The Authority shall be considered to have withdrawn amounts from any account when it records, unrestricts or credits the Authority's records.

(d) <u>Investment of Amounts in Accounts</u>. Amounts in the Local Option Tax Accounts, the Additional Taxes Accounts, the Subordinate Bond Account and the Subordinate Reserve Account shall be invested by the Authority in any legal investment for funds of regional transit authorities of the State.

Section 20. <u>Covenants</u>. The Authority makes the following covenants with the Owners of the 2005A Bonds for as long as any of the same remain Outstanding:

(a) <u>Tax Covenants</u>. The Authority shall impose the rental car sales and use tax authorized by RCW 81.104.160(2) at a rate of not less than eight-tenths of one percent and the Sales and Use Tax at a rate of not less than four-tenths of one percent; provided, that the Authority may impose the Sales and Use Tax at a rate of less than four-tenths of one percent but not less than three-tenths of one percent so long as an Authority Certificate is delivered on or prior to the date of that reduction in rate and within 30 days of the end of each Fiscal Year during which the Sales and Use Tax has been so reduced, which Authority Certificate shall comply with the requirements described below. To the extent permitted by law and approved by the voters (if a vote is required), the Authority may, in a Series or Supplemental Resolution, pledge to the repayment of the Parity Bonds the Sales and Use Tax in excess of four-tenths of one percent, the rental car sales and use tax authorized by RCW 81.104.160(2) in excess of eight-tenths of one percent and any other tax authorized by law. Notwithstanding the foregoing, the Authority may at its discretion pledge amounts attributable to any increase of the Sales and Use Tax rate above four-tenths of one percent and any increase in the rental car sales and use tax above eight-tenths of one percent to any other obligations or to other Authority purposes.

If the Authority desires to impose the Sales and Use Tax at a rate less than four-tenths of one percent, an Authority Certificate shall be delivered that states that:

(i) *Prior Bonds Coverage Test*. Local Option Taxes received during the Base Period were not less than 1.5 times "Maximum Annual Debt Service" (as defined in the Prior Bond Resolution) on all Prior Bonds outstanding on the date the Authority Certificate is given (the "Prior Bonds Coverage Requirement"); and

(ii) *Parity Bonds Coverage Test for Period While MVET Not Included as Pledged Taxes*. Pledged Taxes received during the Base Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement (and after all MVET have been applied for that purpose) were not less than 1.5 times Maximum Annual Debt Service during the period that MVET will not be included as Pledged Taxes to secure Parity Bonds Outstanding on the date the Authority Certificate is given; and

(iii) *Parity Bonds Coverage Test for Period While MVET and/or Additional Taxes Are Included as Pledged Taxes*. Pledged Taxes received during the

Base Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement were not less than 1.5 times Maximum Annual Debt Service during the period that MVET and/or Additional Taxes will be included as Pledged Taxes to secure Parity Bonds Outstanding on the date the Authority Certificate is given.

In preparing such certificate: (A) the Local Option Taxes and/or Pledged Taxes during the Base Period may be only those shown in audited or unaudited financial statements of the Authority; (B) the Designated Authority Representative shall take into account in calculating amounts received during the Base Period any Adopted Rate Adjustment, Additional Taxes and MVET included as Pledged Taxes pursuant to Section 15, and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Period; (C) the Sales and Use Tax received during the Base Period shall be adjusted to reflect the reduced rate less than four-tenths of one percent; (D) MVET and/or Additional Taxes may not be taken into account to meet the requirements of clause (iii) above unless the Authority receives an opinion of Bond Counsel to the effect that the pledge of such MVET and/or Additional Taxes to Parity Bonds is in full force and effect for the period in which they are included as Pledged Taxes; and (E) any Adopted Rate Adjustment, Additional Taxes and/or extension of an existing tax shall be taken into account only if a certified public accountant, economic consultant or financial advisor experienced with state or local taxation or municipal bonds certifies that it is reasonable to expect that such adjusted, new or extended taxes will be received in the amounts assumed for purposes of the Authority Certificate.

There may be added to Local Option Taxes and/or to Pledged Taxes collected in the Base Period, amounts withdrawn from the Tax Stabilization Subaccount in the Base Period and deposited into the Local Option Tax Accounts and/or the Additional Taxes Accounts (provided, that the amount withdrawn from the Tax Stabilization Subaccount in the Base Period may not be deemed to have exceeded 0.25 times the debt service on Parity Bonds in that Base Period).

If the Authority is imposing the Sales and Use Tax authorized by RCW 81.104.170 at a rate less than four-tenths of one percent and if the Authority is unable to deliver an Authority Certificate as described above within 30 days of the end of any Fiscal Year, it shall, within 90 days of the end of that Fiscal Year, take all action required on its part to increase the rate of that Sales and Use Tax imposed, but not to exceed the rate of four-tenths of one percent for the purpose of being able to deliver such Authority Certificate.

The Authority shall take all reasonable actions necessary to impose and provide for the continued collection of the Pledged Taxes and the application of those taxes for repayment of the 2005A Bonds in accordance with this Resolution. The Authority shall take all reasonable actions necessary to impose and provide for the continued collection of the Local Option Taxes and the application of those taxes for the repayment of the Prior Bonds in accordance with the Prior Bond Resolution and the application of those Local Option Taxes in accordance with the Prior Bond Resolution and this Resolution. Except as expressly permitted under this Section 20(a), the Authority shall not take any action that limits, terminates, reduces or otherwise impairs its authority to impose and collect all Local Option Taxes.

(a) <u>Maintenance of its Facilities</u>. The Authority will at all times keep and maintain or cause to be maintained its transit facilities and equipment and operate the same and the business or businesses in connection therewith in the manner determined by the Board.

(b) <u>Property and Liability Insurance</u>. The Authority will maintain insurance or institute a self-insurance program, if such insurance is obtainable at reasonable rates and upon reasonable conditions, against such risks, in such amounts, and with such deductibles as the Board shall deem prudent for the protection of the Authority.

(c) <u>Books and Records</u>. The Authority will keep books of account and accurate records of all of its revenue, including tax receipts, received from any source whatsoever, and of all costs of administration and maintenance and operation of all of its business that are in accordance with applicable accounting principles as in effect from time to time.

Section 21. <u>Parity Payment Agreements</u>. A Payment made under a Payment Agreement may be secured by a pledge of Pledged Taxes equal to the pledge securing the 2005A Bonds if the Payment Agreement satisfies the requirements for issuing Future Parity Bonds described in Section 16, taking into consideration regularly scheduled Payments and Receipts (if any) under the Payment Agreement. The following shall be conditions precedent to the use of any Payment Agreement on a parity with the 2005A Bonds:

(a) The Authority shall obtain an opinion of Bond Counsel with respect to the due authorization, validity and enforceability of such Payment Agreement as to the Authority, and opining that the action proposed to be taken is authorized or permitted by this Resolution or the applicable provisions of any Supplemental Resolution and will not adversely affect the exemption from federal income taxation of the interest on any Outstanding Parity Bonds.

(b) Prior to entering into a Payment Agreement, the Authority shall adopt a Series Resolution or supplemental resolution which shall:

(i) set forth the manner in which the Payments and Receipts are to be calculated and a schedule of Payment Dates;

(ii) establish general provisions for the rights of parties to Payment Agreements; and

(iii) set forth such other matters as the Authority deems necessary or desirable in connection with the management of Payment Agreements as are not inconsistent with the provisions of this Resolution.

The Payment Agreement may obligate the Authority to pay, on one or more scheduled and specified Payment Dates, the Payments in exchange for the Payor's obligation to pay or to cause to be paid to the Authority, on scheduled and specified Payment Dates, the Receipts. The Authority may also enter into Payment Agreements that are not reciprocated by the other party to the agreement.

If the Authority enters into a Parity Payment Agreement, Payments shall be made from the Subordinate Bond Account and Annual Debt Service shall include any regularly scheduled Authority Payments adjusted by any regularly scheduled Receipts during a Fiscal Year or Base Year, as applicable. Receipts shall be paid directly into the Subordinate Bond Account. Obligations to make unscheduled payments, such as termination payments, may not be entered into on a parity with the Parity Bonds.

Nothing in this section shall preclude the Authority from entering into Payment Agreements with a claim on Pledged Taxes junior to that of the Parity Bonds. Furthermore, nothing in this section shall preclude the Authority from entering into obligations on a parity with the Parity Bonds in connection with the use of Payment Agreements or similar instruments if the Authority obtains an opinion of Bond Counsel that the obligations of the Authority thereunder are consistent with this Resolution.

Section 22. Defeasance. In the event that cash and/or noncallable Government Obligations, maturing at such time or times and bearing interest to be earned thereon in amounts sufficient to redeem and retire the 2005A Bonds or any of them in accordance with their terms are set aside with a trustee or escrow agent in a special account to effect such redemption or retirement and such money and the principal of and interest on such obligations are irrevocably pledged for such purpose, then no further payments need to be made into the Subordinate Bond Account for the payment of the principal of and interest on the 2005A Bonds so provided for and such 2005A Bonds shall cease to be entitled to any benefit or security of this Resolution except the right to receive the funds so set aside and pledged, and such 2005A Bonds shall be deemed not to be Outstanding. Prior to such defeasance the Authority shall obtain a verification from an independent certified public accountant that such Government Obligations and cash are sufficient to pay such 2005A Bonds and an opinion of Bond Counsel that such defeasance will not adversely affect the exemption from federal income taxation of interest on any Outstanding 2005A Bonds. The Authority shall include in the refunding or defeasance plan such provisions as the Authority deems necessary for the random selection of any defeased 2005A Bonds that constitute less than all of a particular maturity of the 2005A Bonds, for notice of the defeasance to be given within 30 days of any defeasance of 2005A Bonds to the Owners of such Bonds and to such other persons as the Authority shall determine, and for any required replacement of bond certificates for defeased 2005A Bonds. The defeased 2005A Bonds shall be deemed no longer Outstanding, and the Authority may apply any money in any other account established for the payment of redemption of the defeased 2005A Bonds to any lawful purposes as it shall determine. If the 2005A Bonds are registered in the name of DTC or its nominee, notice of any defeasance of 2005A Bonds shall be given to DTC in the manner prescribed in the Letter of Representations for notices of redemption of the 2005A Bonds.

In the event that the principal of and/or interest due on the 2005A Bonds is paid by the provider of Bond Insurance, the 2005A Bonds shall not be considered paid by the Authority, and the covenants, agreements and other obligations of the Authority to the Owners of the 2005A Bonds shall continue to exist and the provider of such Bond Insurance shall be subrogated to the rights of the Owners.

Section 23. Lost, Stolen, Mutilated or Destroyed 2005A Bonds. In case any 2005A Bond or Bonds shall be lost, stolen, mutilated or destroyed, the Bond Registrar may execute and deliver a new 2005A Bond of like date, number and tenor to the Owner thereof upon the Owner paying the expenses and charges of the Authority in connection therewith and upon the Owner filing with the Authority evidence satisfactory to the Authority that such 2005A Bond was actually lost, stolen or destroyed (including the presentation of a mutilated 2005A Bond) and of ownership thereof, and upon furnishing the Authority with indemnity satisfactory to the Authority.

Section 24. Supplements and Amendments.

(a) Without Owners' Consent. The Authority may adopt at any time without the consent or concurrence of the Owner of any 2005A Bond, a Supplemental Resolution or Resolutions amendatory or supplemental to this Resolution for any one or more of the following purposes:

(i) To authorize a Parity Payment Agreement pursuant to Section 21;

(ii) To add covenants and agreements of the Authority for the purpose of further securing the payment of the 2005A Bonds; provided, that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in this Resolution;

(iii) To prescribe further limitations and restrictions upon the issuance of Parity Bonds and/or the incurrence of obligations under Parity Payment Agreements which are not contrary to or inconsistent with the limitations and restrictions in this Resolution;

(iv) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of this Resolution;

(v) To subject additional property, Additional Taxes, MVET, income or revenues to the pledge of this Resolution or confirm as further assurance any pledge or provision for payment of the 2005A Bonds created by this Resolution and to make such confirming changes as shall be necessary or desirable in connection therewith;

(vi) To cure any ambiguity or defect or inconsistent provision in this Resolution or to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable; provided that such modifications shall not materially and adversely affect the security for the payment of any 2005A Bonds;

(vii) To qualify this Resolution under the Trust Indenture Act of 1939, as amended, as long as there is no material adverse effect on the security for the payment of 2005A Bonds;

(viii) To obtain or maintain a rating with respect to any Series of Parity Bonds or to modify the provisions of this Resolution to obtain from any Rating Agency a rating on any Series of Parity Bonds or any portion thereof which is higher than the rating which would be assigned without such modification (so long as it does not adversely affect the interests of Owners in a manner that would require Owner consent under Section 24(b)); or

(ix) To modify any of the provisions of this Resolution in any other respect that does not materially and adversely affect the security for the payment of any 2005A

Bond and will not cause any Rating Agency to lower a rating on any 2005A Bonds.

(b) With Owners' Consent. This Resolution may be amended from time to time by a Supplemental Resolution approved by the Owners of a majority in aggregate principal amount of the 2005A Bonds then Outstanding. So long as the payment of principal of and interest on 2005A Bonds is guaranteed by Bond Insurance, the provider of that Bond Insurance may exercise approval on behalf of all the Owners of the 2005A Bonds so guaranteed. However, without the specific consent of the Owner of each 2005A Bond, no Supplemental Resolution shall (1) permit the creation of a charge on Pledged Taxes superior to the payment of the 2005A Bonds; (2) reduce the percentage of Bond Owners which are required to consent to any Supplemental Resolution; or (3) give to any 2005A Bond or Bonds any preference over any other 2005A Bond or Bonds. No Supplemental Resolution shall change the date of payment of the principal of any 2005A Bond, reduce the principal amount or Accreted Value of any 2005A Bond, change the rate or extend the time of payment of interest thereof, reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any 2005A Bond may first be called for redemption prior to its fixed maturity date without the specific consent of the Owner of that 2005A Bond; and no such amendment shall change or modify any of the rights or obligations of the Bond Registrar or provider of Bond Insurance the 2005A Bonds without its written consent.

(a) The Authority shall provide notice to the Rating Agencies then rating 2005A Bonds, and to the providers of credit facilities for the 2005A Bonds, upon any amendment to this Resolution.

(b) Nothing herein shall limit the Authority's ability to adopt resolutions authorizing the issuance of Prior Bonds.

Section 25. Defaults. Any one or more of the following events shall constitute a "Default" under this Resolution and each Series Resolution:

(a) If any "Default" shall have occurred and be continuing as described in Section 14 of the Prior Bond Resolution;

(b) If the Authority shall default in the performance of any obligation with respect to payments into the Subordinate Bond Account or Subordinate Reserve Account and such default is not remedied;

(c) If default shall be made in the due and punctual payments of the principal of and premium, if any, on any of the Parity Bonds when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise;

(d) If default shall be made in the due and punctual payment of any installment of interest on any Parity Bond;

(e) If the Authority shall fail to purchase or redeem Term Bonds in an aggregate principal amount at least equal to the sinking fund requirements for the applicable Fiscal Year; or

(f) If the Authority shall materially default in the observance and performance of any other of the covenants, conditions and agreements on the part of the Authority contained in this Resolution or any other Series Resolution and such default shall have continued for a period of 90 days after discovery by the Authority or written notice to the Authority; provided, that if such failure can be remedied, but not within such 90-day period, and if the Authority has taken all action reasonably possible to remedy such failure within such 90-day period, such failure shall not become a Default for so long as the Authority shall diligently proceed to remedy the Default.

Section 26. Remedies Upon Default. The remedies of the Owners during the continuance of a Default shall, to the extent permitted by law, be governed by this Section 26.

(a) Bondowners' Trustee. So long as a Default shall not have been remedied, a Bondowners' Trustee may be appointed by the Owners of at least 50% in principal amount of the Parity Bonds then Outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners or by their attorneys-in-fact duly authorized and delivered to the Bondowners' Trustee and the Authority. Any Bondowners' Trustee appointed under the provisions of this Section shall be a bank or trust company organized under the laws of the State or the State of New York or a national banking association. The bank or trust company acting as Bondowners' Trustee may be removed at any time, and a successor Bondowners' Trustee may be appointed, by the Owners of a majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners or by their attorneys-in-fact duly authorized.

The Bondowners' Trustee appointed in the manner herein provided, and each successor thereto, is hereby declared to be a trustee for the Owners of all the Parity Bonds and is empowered to exercise all the rights and powers herein conferred on the Bondowners' Trustee.

(b) Suits at Law or in Equity. The Bondowners' Trustee may upon the happening of a Default, and during the continuance thereof, take such steps and institute such suits, actions or other proceedings in its own name, or as trustee, all as it may deem appropriate for the protection and enforcement of the rights of Owners to collect any amounts due and owing the Authority and pledged to the Parity Bonds, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this Resolution; provided, that upon the occurrence of a Default, payment of the Parity Bonds shall not be subject to acceleration.

Any action, suit or other proceedings instituted by the Bondowners' Trustee shall be brought in its name as trustee for the Owners and all such rights of action upon or under any of the Parity Bonds or the provisions of this Resolution may be enforced by the Bondowners' Trustee without the possession of any Bonds, and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law, and the Owners of the Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the Owners of the Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of the Parity Bonds; to execute any paper or documents for the receipt of such money, and to do all acts with respect thereto that the Owner might have done in person. Nothing in this section shall be deemed to authorize or empower the Bondowners' Trustee to consent to accept or adopt, on behalf of any Owner of any Parity Bond, any plan or reorganization or adjustment affecting the Parity Bonds or any right of any Owner, or to authorize or empower the Bondowners' Trustee to vote the claims of the Owners in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the Authority shall be a party.

(c) Books of Authority Open to Inspection. The Authority covenants that if a Default shall have happened and shall not have been remedied, the books of record and account of the Authority shall at all times be subject to the inspection and use of the Bondowners' Trustee and to individual Owners.

The Authority covenants that if a Default shall happen and shall not have been remedied, the Authority will continue to account, as a trustee of an express trust, for all Pledged Taxes and other accounts pledged under this Resolution.

(d) Payment of Funds to Bondowners' Trustee. The Authority covenants that if a Default shall happen and shall not have been remedied, the Authority, upon demand of the Bondowners' Trustee, shall pay over to the Bondowners' Trustee (i) forthwith, all amounts in the Subordinate Bond Account, Subordinate Reserve Account, and any project account created for the deposit of Parity Bond proceeds, and (ii) as promptly as practicable after receipt thereof, all Pledged Taxes subsequently received by the Authority and pledged under this Resolution, subject to the prior charge thereon in favor of the Owners of the Prior Bonds, and further subject to any deposits and payments required to be made under Section 15 of the Prior Bond Resolution.

(e) Application of Funds by Bondowners' Trustee. During the continuance of a Default, the Pledged Taxes and other funds received by the Bondowners' Trustee pursuant to the provisions of the preceding paragraph shall be applied by the Bondowners' Trustee first, to the payment of the reasonable and proper charges, expenses and liabilities paid or incurred by the Bondowners' Trustee and second, in accordance with the provisions of Section 14(b) of this Resolution.

In the event that at any time the funds held by the Bondowners' Trustee and the Bond Registrar shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the Parity Bonds, such funds (other than funds held for the payment or redemption of particular Parity Bonds which have theretofore become due at maturity or by call for redemption) and all Pledged Taxes received or collected for the benefit or for the account of Owners of the Parity Bonds by the Bondowners' Trustee shall be applied as follows:

First, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, earliest maturities first, and, if the amount available shall not be sufficient to pay in full any installment or installments or interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second, to the payment to the persons entitled thereto of the unpaid principal and premium, if any, of any Parity Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, earliest maturities first, and, if the amount available shall not be sufficient to pay in full all the Parity Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal and premium, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

(f) Relinquishment of Funds Upon Remedy of Default. If and whenever all overdue installments of interest on all Parity Bonds, together with the reasonable and proper charges, expenses and liabilities of the Bondowners' Trustee and the Owners of Parity Bonds, their respective agents and attorneys, and all other sums payable by the Authority under this Resolution, including the principal of, premium, if any, and accrued unpaid interest on all Parity Bonds which shall then be payable, shall either be paid by or for the account of the Authority, or provision satisfactory to the Bondowners' Trustee shall be made for such payment, and all Defaults under this Resolution or the Parity Bonds shall be made good or secured to the satisfaction of the Bondowners' Trustee or provision deemed by the Bondowners' Trustee to be adequate shall be made therefor, the Bondowners' Trustee shall pay over to the Authority all money and securities then remaining unexpended and held by the Bondowners' Trustee and thereupon all such funds shall thereafter be applied as provided in this Resolution. No such payment over to the Authority by the Bondowners' Trustee or resumption of the application of Pledged Taxes as provided in this Resolution shall extend to or affect any subsequent Default under this Resolution or impair any right consequent thereon.

(g) Suits by Individual Bondowners. No Owner shall have any right to institute any action, suit or proceeding at law or in equity unless a Default shall have happened and be continuing and unless no Bondowners' Trustee has been appointed as herein provided, but any remedy herein authorized to be exercised by the Bondowners' Trustee may be exercised individually by any Owner, in his or her own name and on his or her own behalf or for the benefit of all Owners, in the event no Bondowners' Trustee has been appointed, or with the consent of the Bondowners' Trustee if such Bondowners' Trustee has been appointed; provided, that nothing in this Resolution or in the Parity Bonds shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Parity Bonds to the Owners thereof at the respective due dates therein specified, or affect or impair the right of action, which is absolute and unconditional, of such Owners to enforce such payment.

(h) Remedies Granted in Resolution not Exclusive. No remedy granted in this Resolution to the Bondowners' Trustee or the Owners of the Bonds is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to every other remedy given under this Resolution or existing at law or in equity on or after the date of adoption of this Resolution.

Section 27. Continuing Disclosure for the 2005A Bonds.

(a) This Section 27 constitutes the written undertaking (the "Undertaking") for the benefit of the holders of the 2005A Bonds as required by SEC Rule15c2-12 (the "Rule"). For purposes of this undertaking, the term "holders of the 2005A Bonds" shall have the meaning intended for such term under the Rule.

(b) (b)The Authority as an "obligated person" within the meaning of the Rule undertakes to provide or cause to be provided, either directly or through a designated agent:

(i) To each NRMSIR, and to a state information depository, if one is established in the State and recognized by the SEC (the "SID"), annual financial information and operating data regarding the Authority of the type included in the Official Statement for the 2005A Bonds as follows: (i) audited financial statements prepared in accordance with generally accepted accounting principles applicable to Washington municipalities and consistent with requirements of the Washington State Auditor, except that if any audited financial statements are not available by nine months after the end of any Fiscal Year, the annual financial information filing shall contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the Authority, and the Authority's audited financial statements shall be filed in the same manner as the annual financial information filing when and if they become available; (ii) operating and financial information consisting of (A) aggregate principal amount of Prior Bonds and Parity Bonds Outstanding; (B) amount of Local Option Taxes and Pledged Taxes levied and collected by type; (C) any change by type in the rate or in the total amount of Local Option Taxes or Pledged Taxes the Authority is authorized to levy; and (D) a sufficiency calculation of the type set forth in Section 20(a) if the Authority is required to provide an Authority Certificate under that Section.

Except as otherwise provided above, the annual financial information described above will be provided to each NRMSIR and the SID not later than the last day of the ninth month after the end of each Fiscal Year of the Authority, commencing with the Authority's fiscal year ending December 31, 2004. The annual financial information may be provided in a single or in multiple documents, and may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Authority is an obligated person as defined by the Rule, which documents have been filed with each NRMSIR and the SID. If the document incorporated by reference is a "final official statement" it must be available from the Municipal Securities Rulemaking Board ("MSRB").

(ii) To each NRMSIR or to the MSRB, and to the SID, timely notice of the occurrence of any of the following events with respect to the 2005A Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the 2005A Bonds; (vii) modifications to the rights of the holders of the 2005A Bonds; (viii) Bond calls (other than scheduled mandatory redemptions of Term Bonds); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the 2005A Bonds; and (xi) rating changes.

(c) To each NRMSIR or to the MSRB, and to the SID, timely notice of a failure by the Authority to provide required annual financial information on or before the date specified in paragraph (a) above.

(d) This Undertaking may be amended without the consent of any holder of any 2005A Bond, any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID or the MSRB, under the circumstances and in the manner permitted by the Rule. The Authority will give notice to each NRMSIR or the MSRB, and to the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information being provided.

(e) If the Authority fails to comply with this Undertaking, the Authority will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the Authority learns of that failure. No failure by the Authority or other obligated person to comply with this Undertaking shall constitute a default with respect to the 2005A Bonds. The sole remedy of any holder of a 2005A Bond will be to take such actions as that holder deems necessary and appropriate to compel the Authority or other obligated person to comply with this Undertaking.

(f) To the extent authorized by the SEC, the Authority may satisfy the Undertaking by transmitting the required filings using http://www.disclosureusa.org (or such other centralized dissemination agent as may be approved by the SEC).

(g) The Authority's obligations under the Undertaking shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the then Outstanding 2005A Bonds. In addition, the Undertaking, or any provision thereof, will be null and void if the Authority (i) obtains an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws to the effect that those portions of the Rule which require the Authority to comply with the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the 2005A Bonds; and (ii) notifies the SID and either the MSRB or each then existing NRMSIR of such termination.

Section 28. <u>Resolution a Contract</u>. This Resolution shall constitute a contract with the Owners of the Bonds.

Section 29. Severability. If any one or more of the provisions of this Resolution shall be declared by any court of competent jurisdiction to be contrary to law, then such provision or provisions shall be deemed separable from, and shall in no way affect the validity of, any of the other provisions of this Resolution or of the Bonds issued pursuant to the terms hereof.

Section 30. Ratification of Prior Acts. Any action taken consistent with the Authority but prior to the effective date of this Resolution, including but not limited to issuing requests for proposals for financing or underwriting services, executing engagement letters for financing or underwriting services based on responses to such requests, preparing and issuing disclosure materials relating to the 2005A Bonds, and executing contracts or other documents, is ratified, approved, and confirmed.

ADOPTED by the Board of The Central Puget Sound Regional Transit Authority at a regular meeting thereof held the 10th day of February, 2005.

/s/ John W. Ladenburg
John W. Ladenburg
Board Chair

ATTEST:

/s/ Marcia Walker
Marcia Walker
Board Administrator

APPENDIX C
DEMOGRAPHIC INFORMATION

The boundaries of the District incorporate areas within King, Pierce and Snohomish Counties. (A map of the District is set forth on page iii of this Official Statement.) King County consists of 2,128 square miles, Pierce County consists of 1,676 square miles, and Snohomish County consists of 2,098 square miles, ranking 11th, 23rd and 13th, respectively, in geographical size of the State's 39 counties. King County ranks first, Pierce County ranks second and Snohomish County ranks third in population. The Counties constitute the financial, economic and industrial center of the Pacific Northwest region. The City of Seattle, encompassing 91.6 square miles, is the center of economic activity in the District.

The population of the District is estimated to be 2,615,114 as of 2004, which comprises approximately 83% of the population of the Counties (91% of King County's population, 79% of Pierce County's population and 64% of Snohomish County's population), and 43% of the State's population.

As of November 2004, the Seattle-Bellevue-Everett-Tacoma metropolitan areas (approximately but not necessarily co-terminus with the District boundaries) accounted for 3.02 million jobs, or 55% of the State's total employment. The District economy is well diversified in the aerospace, manufacturing, trade, high technology, services, construction, tourism and government sectors.

TABLE C-1.
POPULATION IN THE COUNTIES

Year	King County	Pierce County	Snohomish County	Total
2004	1,788,300	744,000	644,800	3,177,100
2003	1,779,300	733,700	637,500	3,150,500
2002	1,774,300	725,000	628,000	3,127,300
2001	1,758,300	713,400	618,600	3,090,300
2000	1,737,046	700,818	606,024	3,043,888
1999	1,720,098	691,565	591,590	3,003,253
1990	1,507,305	586,203	465,628	2,559,136
1980	1,269,898	485,667	337,720	2,093,285

Sources: 1999 and 2001 through 2004, State Office of Financial Management; 1980, 1990 and 2000, U.S. Department of Commerce, Bureau of Census.

TABLE C-2.
ANNUAL AVERAGE NONAGRICULTURAL EMPLOYMENT IN THE COUNTIES

	2004	2003	2002	2001	2000
Total	1,594,600	1,572,000	1,582,800	1,628,500	1,631,000
Natural Resources and Mining	1,760	1,800	1,700	1,700	1,800
Construction	95,900	92,900	93,000	97,500	101,000
Manufacturing	163,150	169,170	184,400	205,200	213,500
Trade, Transportation and Utilities	309,500	305,700	308,500	320,100	327,000
Information	75,500	75,000	75,900	80,400	79,600
Financial Activities	105,400	103,400	99,800	101,600	100,500
Professional and Business Services	206,100	199,000	198,600	208,800	221,200
Education and Health Services	175,900	171,800	170,800	166,400	164,800
Leisure and Hospitality	149,300	143,700	140,900	144,100	146,400
Other Services	60,800	60,300	59,800	58,600	57,800
Government	251,000	249,100	249,000	243,500	236,800

Source: State Employment Security Department.
Note: Totals may not add due to rounding.

TABLE C-3.
ANNUAL AVERAGE UNEMPLOYMENT IN THE COUNTIES

	King County		Pierce County		Snohomish County	
Year	Labor Force	% Unemployed	Labor Force	% Unemployed	Labor Force	% Unemployed
2004	1,040,600	5.4%	367,300	6.4%	352,600	6.2%
2003	1,018,500	6.8	355,700	7.8	346,800	8.0
2002	1,023,400	6.5	347,300	7.5	348,100	7.7
2001	1,013,700	5.1	331,700	6.4	337,200	5.4
2000	1,031,100	3.6	334,400	5.3	339,000	4.2
1999	1,035,300	3.2	336,200	4.6	348,600	3.9

Source: State Employment Security Department.

TABLE C-4.
MAJOR PRIVATE EMPLOYERS IN THE COUNTIES

Employer	Business Activity
The Boeing Company	Aerospace manufacturer
Microsoft Corporation	Software developer
Providence Health System	Health-care services
Group Health Cooperative	Health-care services
Quest Communications	Telecommunications
Alaska Air Group, Inc.	Airline
Nordstrom Inc.	Department stores
Weyerhaeuser Co.	Forest products
Bon Macy’s	Department stores
Kroger Company	Grocery stores
MultiCare Health System	Health-care services
Virginia Mason Medical Center	Health-care services
Swedish Health Services	Health-care services
Franciscan Health System	Health-care services
Costco Inc.	Membership warehouses
Safeco Corporation	Insurance and financial services
Key Bank of Washington	Banking and financial services
Paccar Inc.	Heavy duty truck manufacturer
Cingular Wireless	Telecommunications
Washington Mutual Inc.	Banking and financial services
Seattle Times Company	Newspaper publisher
Eddie Bauer Inc.	Casual apparel and home furnishings
Verizon Communications	Telecommunications
Goodrich Corp.	Commercial aircraft repair
Lowes	Home improvement retailer

Source: 2005 Puget Sound Business Journal Book of Lists.

TABLE C-5.
PERSONAL INCOME IN THE COUNTIES
($000s)

Year	King County	Pierce County	Snohomish County
2002	$77,524,000	$21,367,000	$19,847,000
2001	76,977,000	20,629,000	19,483,000
2000	77,271,000	19,416,000	18,514,000

Source: U.S. Bureau of Economic Analysis.

TABLE C-6.
PER CAPITA INCOME IN THE COUNTIES

Year	King County	Pierce County	Snohomish County
2002	$44,135	$29,221	$31,312
2001	43,924	28,711	31,225
2000	44,437	27,582	30,393

Source: U.S. Bureau of Economic Analysis.

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APPENDIX D
FORM OF APPROVING OPINION OF BOND COUNSEL

The Central Puget Sound Regional
Transit Authority

Re: $442,815,000 The Central Puget Sound Regional Transit Authority Sales Tax Bonds, Series 2005A

We have served as bond counsel to The Central Puget Sound Regional Transit Authority, (the “Authority”) in connection with the issuance of the above-referenced bonds (the “2005A Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The 2005A Bonds are issued by the Authority pursuant to Resolutions Nos. R2005-02 and R2005-07 (collectively, the “Bond Resolution”) to provide funds to finance part of the cost of the Authority’s regional transit system plan, to pay the costs of issuance and sale of the 2005A Bonds, to provide for the Subordinate Reserve Account Requirement and for other Authority purposes, all as set forth in the Bond Resolution. Reference is made to the Bond Resolution for the definitions of capitalized terms used and not otherwise defined herein.

The 2005A Bonds are payable solely out of the Authority’s Subordinate Bond Account, into which account the Authority irrevocably has pledged and bound itself to deposit Pledged Taxes in an amount sufficient to pay principal of and interest on the 2005A Bonds as they respectively become due, all at the times and in the manner set forth in the Bond Resolution.

The Pledged Taxes have been pledged to the payment of the 2005A Bonds, and this pledge constitutes a charge upon the Pledged Taxes and amounts in certain accounts specified in the Bond Resolution superior to all other charges of any kind or nature except the charge of the Prior Bonds on Local Option Taxes, and equal to the charge of any Future Parity Bonds.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the 2005A Bonds or otherwise used in connection with the 2005A Bonds.

Under the Internal Revenue Code of 1986, as amended (the “Code”), the Authority is required to comply with certain requirements after the date of issuance of the 2005A Bonds in order to maintain the exclusion of the interest on the 2005A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2005A Bond proceeds and the facilities financed or refinanced with 2005A Bond proceeds, limitations on investing gross proceeds of the 2005A Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2005A Bonds. The Authority has covenanted in the Bond Resolution to comply with those requirements, but if the Authority fails to comply with those requirements, interest on the 2005A Bonds could become taxable retroactive to the date of issuance of the 2005A Bonds. We have not undertaken and do not undertake to monitor the Authority's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the 2005A Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The Authority is a duly organized and legally existing regional transit authority under the laws of the State of Washington;

2. The 2005A Bonds have been duly authorized and executed by the Authority and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the resolutions of the Authority relating thereto;

3. The 2005A Bonds constitute valid and binding special limited obligations of the Authority payable solely out of the Pledged Taxes to be paid into the Subordinate Bond Account, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases; and

4. Assuming compliance by the Authority after the date of issuance of the 2005A Bonds with applicable requirements of the Code, the interest on the 2005A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the 2005A Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2005A Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the 2005A Bonds received by certain S corporations may be subject to tax, and interest on the 2005A Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the 2005A Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX E
BOOK-ENTRY ONLY SYSTEM

The information relating to the Book-Entry System in this Appendix has been furnished by DTC, and has not been independently verified by the Underwriters or Sound Transit. Neither the Underwriters or Sound Transit makes any representation whatsoever as to the accuracy, adequacy or completeness of such information.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2005A Bonds. The Series 2005A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2005A Bond will be issued for each maturity the Series 2005A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2005A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2005A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2005A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2005A Bonds, except in the event that use of the book-entry system for the Series 2005A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2005A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2005A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2005A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2005A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2005A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Sound Transit as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2005A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the Series 2005A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Sound Transit or the Registrar, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Registrar or Sound Transit, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Sound Transit or the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2005A Bonds at any time by giving reasonable notice to Sound Transit or the Registrar. Under such circumstances, in the event that a successor depository is not obtained, Series 2005A Bonds are required to be printed and delivered.

Sound Transit may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2005A Bonds will be printed and delivered.

THE ABOVE INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM DTC, BUT SOUND TRANSIT TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER SOUND TRANSIT NOR THE REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES OR BENEFICIAL OWNERS WITH RESPECT TO DTC'S RECORD KEEPING, PAYMENTS BY DTC OR PARTICIPANTS, NOTICES TO BE DELIVERED BY DTC, OR ANY OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE SERIES 2005A BONDS.

So long as Cede & Co. is the registered owner of the Series 2005A Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2005A Bonds (other than under the captions "TAX EXEMPTION" and "Ongoing Disclosure" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2005A Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, Sound Transit or the Registrar shall send them to DTC only.

For every transfer and exchange of the Series 2005A Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

APPENDIX F
SPECIMEN SERIES 2005A BOND INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J Genader

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Anne G. Gill

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Noraida Lauro

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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