

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 2012 Bonds, interest on the 2012 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 2012 Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2012 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 2012 Bonds received by certain S corporations may be subject to tax, and interest on the 2012 Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the 2012 Bonds may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."



THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

\$216,165,000

**Sales Tax and Motor Vehicle Excise Tax
Refunding Bonds, Series 2012P-1**

\$97,545,000

Sales Tax Refunding Bonds, Series 2012S-1

Dated: Date of initial delivery

Due: As shown on inside cover

The Central Puget Sound Regional Transit Authority ("Sound Transit"), a Washington regional transit authority, is issuing its Sales Tax and Motor Vehicle Excise Tax Refunding Bonds, Series 2012P-1, in the aggregate principal amount of \$216,165,000 (the "2012 Prior Bonds") and its Sales Tax Refunding Bonds, Series 2012S-1, in the aggregate principal amount of \$97,545,000 (the "2012 Parity Bonds"). The 2012 Prior Bonds and the 2012 Parity Bonds are collectively referred to as the "2012 Bonds." Interest on the 2012 Prior Bonds is payable on each February 1 and August 1, commencing on February 1, 2013. Interest on the 2012 Parity Bonds is payable on each May 1 and November 1, commencing on November 1, 2012. The 2012 Bonds are being issued 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 2012 Bonds. Individual purchases of 2012 Bonds are to be made in denominations of \$5,000 and any integral multiple thereof within a single maturity and series, in book-entry form only, and purchasers will not receive certificates representing their interest in the 2012 Bonds, except as described herein. Payments of principal of and premium, if any, and interest on the 2012 Bonds are to be made to DTC by the fiscal agent of the State of Washington, currently The Bank of New York Mellon in New York, New York (the "Bond Registrar"). Disbursements of payments to DTC participants is the responsibility of DTC, and disbursement of payments to beneficial owners of the 2012 Bonds is the responsibility of DTC participants. See "THE 2012 BONDS." The 2012 Bonds are subject to redemption prior to maturity upon the terms and conditions and at the prices described herein. See "THE 2012 BONDS—Redemption and Purchase."

The 2012 Bonds are being issued to advance refund certain outstanding Parity Bonds and to pay the costs of issuing the 2012 Bonds. See "SOURCES AND USES OF FUNDS."

The 2012 Bonds are special limited obligations of Sound Transit payable from and secured solely by a pledge of the taxes described herein. The 2012 Prior Bonds are secured by a pledge of the proceeds of certain motor vehicle taxes, sales and use taxes and rental car taxes imposed by Sound Transit and amounts, if any, held in certain accounts by Sound Transit. The 2012 Parity Bonds are secured by a pledge of the proceeds of certain sales and use taxes and rental car taxes imposed by Sound Transit and amounts, if any, in certain accounts held by Sound Transit. The pledge for the payment of the 2012 Parity Bonds of certain taxes and certain amounts in certain accounts is subordinate to the pledge thereof that secures the Prior Bonds. Sound Transit has reserved the right to issue obligations in the future that are secured by pledges of those taxes and the amounts in those accounts. See "SECURITY FOR THE 2012 BONDS."

The 2012 Bonds are not obligations of the State of Washington or any political subdivision thereof other than Sound Transit. The 2012 Bonds are not secured by any lien or charge upon any general fund or upon any money or other property of Sound Transit not specifically pledged thereto.

The 2012 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Foster Pepper PLLC, Seattle, Washington, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for Sound Transit by its General Counsel and by Foster Pepper PLLC, Seattle, Washington, Bond Counsel and Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. It is expected that the 2012 Bonds will be available for delivery in New York, New York, through the facilities of DTC, or to the Bond Registrar on behalf of DTC, on or about August 22, 2012.

BofA Merrill Lynch

RBC Capital Markets

Siebert Brandford Shank & Co.

Dated: July 10, 2012

The Central Puget Sound Regional Transit Authority

\$216,165,000

Sales Tax and Motor Vehicle Excise Tax Refunding Bonds, Series 2012P-1

Due (February 1)	Principal Amount	Interest Rate	Yield	CUSIP No. 155048*
2013	\$ 13,115,000	2.00%	0.19%	BZ3
2014	4,895,000	3.00	0.34	CA7
2014	9,255,000	5.00	0.34	CR0
2015	10,460,000	4.00	0.50	CB5
2016	345,000	3.00	0.67	CC3
2017	500,000	4.00	0.86	CD1
2017	19,640,000	5.00	0.86	CS8
2018	22,520,000	5.00	1.18	CE9
2019	11,170,000	5.00	1.41	CF6
2020	5,720,000	5.00	1.66	CG4
2021	7,455,000	5.00	1.87	CH2
2022	9,310,000	5.00	2.05	CJ8
2023	11,300,000	5.00	2.22**	CK5
2024	13,425,000	5.00	2.37**	CL3
2025	15,700,000	5.00	2.50**	CM1
2026	18,130,000	5.00	2.59**	CN9
2027	20,725,000	5.00	2.67**	CP4
2028	22,500,000	5.00	2.75**	CQ2

\$97,545,000

Sales Tax Refunding Bonds, Series 2012S-1

Due (November 1)	Principal Amount	Interest Rate	Yield	CUSIP No. 15504R*
2016	\$ 1,000,000	4.00%	0.81%	EY1
2016	4,605,000	5.00	0.81	FN4
2017	5,875,000	5.00	1.07	EZ8
2018	2,540,000	5.00	1.37	FP9
2019	750,000	3.00	1.62	FA2
2019	5,695,000	5.00	1.62	FQ7
2020	6,750,000	5.00	1.86	FB0
2021	7,090,000	5.00	2.06	FC8
2022	7,440,000	5.00	2.20	FD6
2023	7,815,000	5.00	2.36***	FE4
2024	8,205,000	5.00	2.50***	FF1
2025	8,615,000	5.00	2.62***	FG9
2026	9,045,000	5.00	2.66***	FH7
2027	9,500,000	5.00	2.76***	FJ3
2028	9,975,000	5.00	2.83***	FK0
2029	1,410,000	3.25	3.30	FL8
2030	1,235,000	3.25	3.37	FM6

* The CUSIP numbers herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard and Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with Sound Transit and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the 2012 Bonds. Neither Sound Transit nor the Underwriters take responsibility for the accuracy of the CUSIP numbers.

** Priced to the February 1, 2022 par call date.

*** Priced to the November 1, 2022 par call date.

No dealer, broker, salesperson or other person has been authorized by Sound Transit or the Underwriters to give any information or to make any representations with respect to the 2012 Bonds other than those contained in this Official Statement and, if given or made, such 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 offer, solicitation or sale of the 2012 Bonds, by any person in any jurisdiction in which such offer, solicitation or sale is not authorized or in which the person making such offer, solicitation or sale is not qualified to do so or to any person to whom it is unlawful to make such offer, solicitation or sale.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information set forth 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.

Certain statements contained in this Official Statement reflect not historical facts but are forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “believe” and other similar expressions are intended to identify forward-looking statements. 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. All estimates, projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. Sound Transit specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise described in “CONTINUING DISCLOSURE.”

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 since the date of this Official Statement.

In connection with the offering of the 2012 Bonds, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the 2012 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the 2012 Bonds to certain dealers (including dealers depositing 2012 Bonds into investment trusts) and others at prices lower than the initial offering prices or prices corresponding to the yields set forth on the inside cover, and such initial offering prices may be changed, from time to time, by the Underwriters, without prior notice.

Information on web site addresses set forth in this Official Statement is not part of this Official Statement and should not be relied upon to be accurate as of the date of this Official Statement, nor should such information be relied upon in making investment decisions regarding the 2012 Bonds.

The 2012 Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities laws in reliance upon exemptions contained in such laws. The 2012 Bonds will not have been recommended by the Securities and Exchange Commission (“SEC”) or any other federal, state or foreign securities commission or regulatory authority, and no such commissions and regulatory authorities will have reviewed or passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

Sound Transit
(The Central Puget Sound Regional Transit Authority)
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(206) 398-5000
www.soundtransit.org*

Board of Directors

Name (Board Position)	Entity Representing	Elected/Appointed Position
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Julia Patterson (Vice Chair)	King County	Councilmember
Aaron Reardon (Vice Chair)	Snohomish County	County Executive
Claudia Balducci	City of Bellevue	Councilmember
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Desmond Brown	Executive Director, General Counsel
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Ric Ilgenfritz	Executive Director, Planning, Environment and Project Delivery
Ron Klein	Executive Director, Communications and External Affairs
Bonnie Todd	Executive Director, Operations
Tracy Butler	Treasurer

Advisors and Consultants

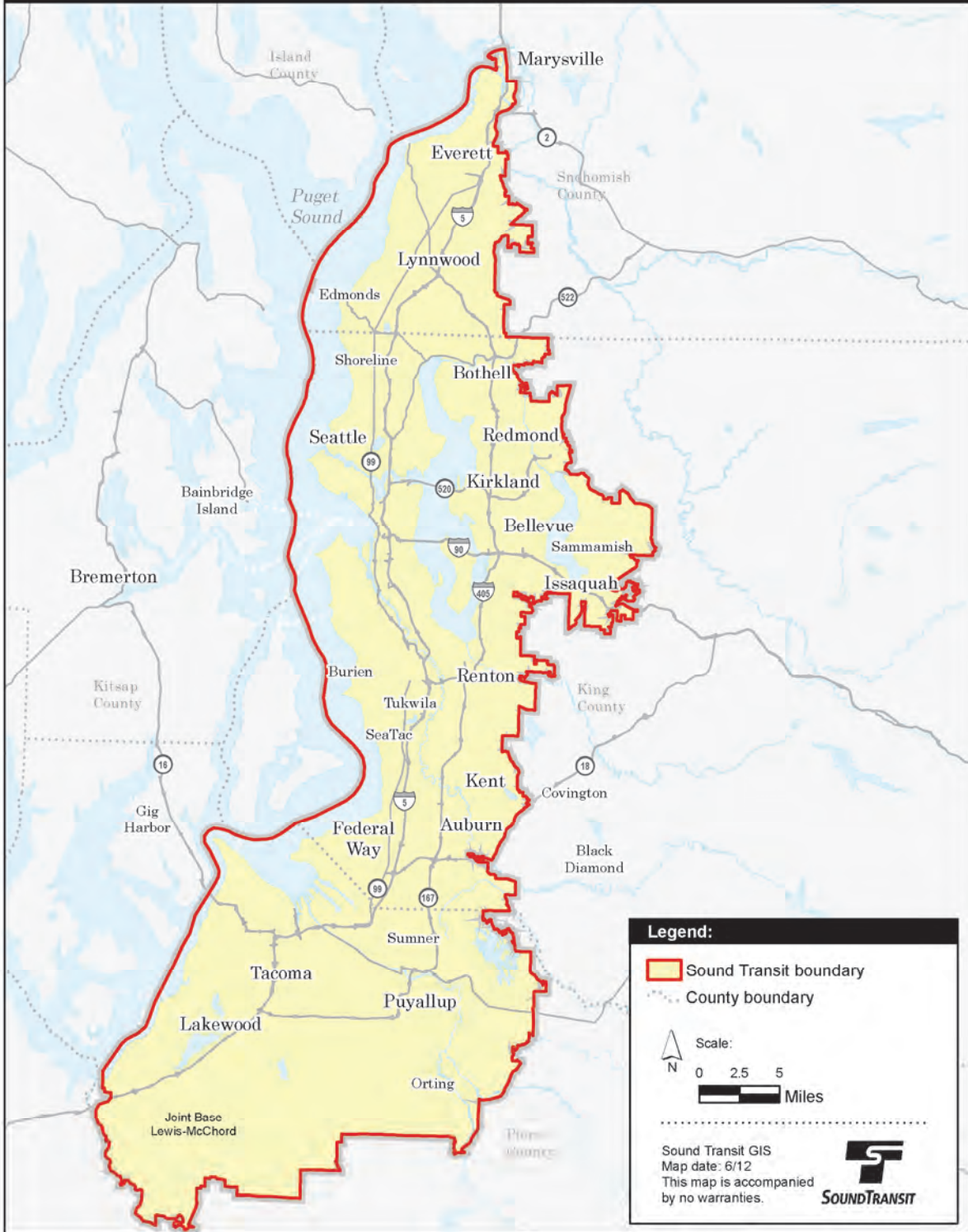
Foster Pepper PLLC	Bond Counsel and Disclosure Counsel
Public Financial Management, Inc.	Financial Advisor

* This inactive textual reference to Sound Transit's website is not a hyperlink, and Sound Transit's website is not, by such reference, incorporated herein.

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Sound Transit District



OFFICIAL STATEMENT

THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY (SOUND TRANSIT)

\$216,165,000

SALES TAX AND MOTOR VEHICLE EXCISE TAX REFUNDING BONDS, SERIES 2012P-1

\$97,545,000

SALES TAX REFUNDING BONDS, SERIES 2012S-1

INTRODUCTION

This Official Statement, including the cover, inside cover and appendices, is being provided by The Central Puget Sound Regional Transit Authority (“Sound Transit”), a Washington regional transit authority, to furnish information in connection with the issuance by Sound Transit of its Sales Tax and Motor Vehicle Excise Tax Refunding Bonds, Series 2012P-1, in the aggregate principal amount of \$216,165,000 (the “2012 Prior Bonds”), and its Sales Tax Refunding Bonds, Series 2012S-1, in the aggregate principal amount of \$97,545,000 (the “2012 Parity Bonds”). The 2012 Prior Bonds and the 2012 Parity Bonds are referred to collectively as the “2012 Bonds.”

The 2012 Prior Bonds, together with the outstanding Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (the “1999 Prior Bonds”), the outstanding Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-1 (the “2009P-1 Prior Bonds”), the outstanding Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-2T (Taxable Build America Bonds – Direct Payment) (the “2009P-2T Prior Bonds”) and any obligations issued in the future that are secured by a pledge of the Local Option Taxes (defined herein) on a parity with the pledge that secures the 1999 Prior Bonds, the 2009P-1 Prior Bonds, the 2009P-2T Prior Bonds and the 2012 Prior Bonds (the “Future Prior Bonds”), are referred to collectively as the “Prior Bonds.” The 2012 Parity Bonds, together with the outstanding Sales Tax Bonds, Series 2005A (the “2005A Parity Bonds”), the outstanding Sales Tax Bonds, Series 2007A (the “2007A Parity Bonds”), the outstanding Sales Tax Bonds, Series 2009S-2T (Taxable Build America Bonds – Direct Payment) (the “2009S-2T Parity Bonds”) and any obligations issued in the future that are secured by a pledge of the Pledged Taxes (defined herein) on a parity with the pledge that secures the 2005A Parity Bonds, the 2007A Parity Bonds, the 2009S-2T Parity Bonds and the 2012 Parity Bonds (the “Future Parity Bonds”), are referred to collectively as the “Parity Bonds.”

This Introduction does not purport to be complete, and reference is made to the entire Official Statement, including the cover, inside cover and appendices, for more complete statements with respect to the matters summarized herein. Unless otherwise defined in this Official Statement, capitalized terms used herein have the meanings set forth in Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Definitions” and “—2012 Parity Bond Resolution—Definitions.”

Sound Transit

Sound Transit is a regional transit authority encompassing portions of King, Snohomish and Pierce Counties (the “Counties”) in the central Puget Sound region of the State of Washington (the “State”). Sound Transit was created on September 17, 1993, pursuant to chapter 81.112 of the Revised Code of Washington (“RCW”).

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”) had a 2011 estimated population of approximately 2.76 million, or approximately 41% of the population in the State, and includes the cities of Seattle, Tacoma, Bellevue and Everett. A map of the District is set forth on page iv of this Official Statement.

The primary statutory purpose of Sound Transit is to develop and operate a “high capacity transportation system” within its boundaries. 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 also may include any lands, interests 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. See “SOUND TRANSIT.”

System Plan

Sound Transit has adopted its “System Plan,” which incorporates commuter rail, light rail, express bus, community connections (such as transit centers, park-and-ride lots and transit access improvements) and high-occupancy vehicle (“HOV”) facilities and other improvements. The three primary programs are regional express buses (“ST Express”); commuter rail (“Sounder”); and electric light rail (“Link”). The implementation of the initial phase of the System Plan (“Sound Move”), which was approved by voters in 1996, is scheduled for a 20-year period ending in 2016. In 2008, voters approved “Sound Transit 2” as a second phase of the System Plan to finance the expansion of the existing light rail system, commuter rail and express bus service over a 15-year period ending in 2023. See “SOUND TRANSIT.” At the 1996 and 2008 elections, approximately 57% of voters approved the propositions. The capital component of the System Plan is estimated to cost \$17.2 billion (in year of expenditure dollars) through 2023 and is expected to be financed with a combination of Sales Tax, Rental Car Tax and Motor Vehicle Tax proceeds, federal, State and local grants, bond proceeds, fares and other operating revenues, as well as interest earnings on money from such sources. See “SOUND TRANSIT—System Plan.” Many such sources, including proceeds of Local Option Taxes and Pledged Taxes available as described in “SECURITY FOR THE 2012 BONDS—Flow of Funds,” are also used to pay the cost of operating and maintaining Sound Transit and its facilities. See “SOUND TRANSIT—Historical Financial Results.”

Purpose of the 2012 Bonds

The 2012 Bonds are being issued to provide funds necessary, together with other available funds of Sound Transit, to advance refund a portion of the outstanding 2005A Parity Bonds (the “Refunded Bonds”) and to pay the costs of issuing the 2012 Bonds. See “SOURCES AND USES OF FUNDS.”

Authority for Issuance

The 2012 Bonds are authorized to be issued pursuant to chapters 81.104 and 81.112 RCW (the “Act”) and chapters 39.46 and 39.53 RCW. By Resolution No. R98-47, adopted on November 12, 1998, as amended by Resolution No. R99-4, adopted on February 11, 1999 (together, the “Original Master Resolution”), Sound Transit authorized the issuance of the 1999 Prior Bonds and Future Prior Bonds to finance a portion of the Sound Move plan. In connection with the issuance of the 2009P-1 Prior Bonds and the 2009P-2T Prior Bonds, Sound Transit amended and restated the Original Master Resolution by Resolution No. R2009-15, adopted on September 10, 2009 (the “Amended Original Master Resolution”). In connection with the 2012 Prior Bonds, Sound Transit amended and restated the Amended Original Master Resolution by Resolution No. R2012-14, adopted on June 28, 2012 (the “Master Prior Bond Resolution”), to strengthen the test for issuing Future Prior Bonds and the Sufficiency Test described herein.

The 2012 Prior Bonds are being issued pursuant to the Master Prior Bond Resolution and Resolution No. R2012-15, adopted on June 28, 2012 (together, the “2012 Prior Bond Resolutions”). The 2012 Prior Bond Resolutions, together with Resolution No. R98-48, adopted on November 12, 1998, which authorized the issuance of the 1999 Prior Bonds, and Resolution No. R2009-17, adopted on September 16, 2009, which authorized the issuance of the 2009P-1 Prior Bonds and the 2009P-2T Prior Bonds, are referred to collectively as the “Prior Bond Resolutions.”

The 2012 Parity Bonds are being issued pursuant to Resolution No. R2012-16, adopted on June 28, 2012 (the “2012 Parity Bond Resolution”). The 2012 Parity Bond Resolution, together with Resolution No. R2005-02, adopted on February 10, 2005 (the “2005A Parity Bond Resolution”), and Resolution No. R2005-07, adopted on March 2, 2005, which together authorized the issuance of the 2005A Parity Bonds, Resolution No. R2007-22, adopted on November 8, 2007 and Resolution No. R2007-27, adopted on November 29, 2007, which together authorized the issuance of the 2007A Parity Bonds, and Resolution No. R2009-16, adopted on September 10, 2009 and Resolution

No. R2009-18, adopted on September 16, 2009, which together authorized the issuance of the 2009S-2T Parity Bonds, are referred to collectively as the “Parity Bond Resolutions.” The 2012 Prior Bond Resolutions and the 2012 Parity Bond Resolution are referred to collectively as the “2012 Bond Resolutions.”

The forms of the Master Prior Bond Resolution and the 2012 Parity Bond Resolution are set forth in their entirety in Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION.”

Local Option Taxes Pledged to Prior Bonds and Pledged Taxes Pledged to Parity Bonds

In 1996, Sound Transit obtained voter approval to impose and collect two taxes within the District: a sales and use tax (the “Sales Tax”), imposed at the rate of 0.4%, and a motor vehicle excise tax (the “Motor Vehicle Tax”), imposed at the rate of 0.3%. Sound Transit imposed the Sales Tax and the Motor Vehicle Tax effective April 1, 1997, together with a 0.8% rental car tax (the “Rental Car Tax”) that did not require voter approval. In 2008, Sound Transit obtained voter approval to increase the rate at which the Sales Tax is imposed by an additional 0.5%. Sound Transit began imposing the Sales Tax at the increased rate of 0.9% effective April 1, 2009.

The Sales Tax, the Motor Vehicle Tax and the Rental Car Tax are referred to collectively as the “Local Option Taxes.” The Local Option Taxes are pledged to the payment of the Prior Bonds, including the 2012 Prior Bonds. See “SECURITY FOR THE 2012 BONDS—Security for the 2012 Prior Bonds.”

The Sales Tax and the Rental Car Tax (together with other taxes if pledged in the future to the payment of the Parity Bonds) are referred to collectively as the “Pledged Taxes.” The Pledged Taxes are pledged to the payment of the Parity Bonds, including the 2012 Parity Bonds. The pledge of the Sales Tax and the Rental Car Tax to the payment of the Parity Bonds is subordinate to the pledge thereof to the payment of the Prior Bonds. See “SECURITY FOR THE 2012 BONDS—Security for the 2012 Parity Bonds.”

The Motor Vehicle Tax is a component of the Local Option Taxes pledged to the payment of the Prior Bonds, but the Motor Vehicle Tax is not a component of the Pledged Taxes pledged to the payment of the Parity Bonds. Under current law, Sound Transit does not have authority to impose the Motor Vehicle Tax after the 1999 Prior Bonds are retired or provision is made for their payment. The last scheduled maturity of the 1999 Prior Bonds is 2028. Sound Transit has covenanted in the Master Prior Bond Resolution to use the proceeds from all Local Option Taxes (including the Motor Vehicle Tax) for the purposes and in the priorities described in “SECURITY FOR THE 2012 BONDS—Flow of Funds,” including for payment of debt service on the Parity Bonds.

See “SOUND TRANSIT TAXES.”

Security for the Prior Bonds

The 2012 Prior Bonds are payable from and secured by a pledge of the Local Option Taxes (the Sales Tax, the Motor Vehicle Tax and the Rental Car Tax), which are required to be deposited into the Local Option Tax Accounts. The 2012 Prior Bonds are also secured by amounts, if any, in the Local Option Tax Accounts, the Prior Bond Account, the Prior Reserve Account and any project account created for the deposit of Prior Bond proceeds. The pledge for the payment of the Prior Bonds of the Local Option Taxes and amounts in the Local Option Tax Accounts, the Prior Bond Account, the Prior Reserve Account and any project account created for the deposit of Prior Bond proceeds is a prior charge upon the Local Option Taxes and such accounts superior to all other charges of any kind or nature (including the payment of Parity Bonds and the payment of costs of operating and maintaining Sound Transit and its facilities).

The Prior Reserve Account was created pursuant to the Original Master Resolution to secure the payment of the principal of and premium, if any, and interest on the Prior Bonds. No proceeds from the 2012 Prior Bonds will be deposited into the Prior Reserve Account. See “SOURCES AND USES OF FUNDS” and “SECURITY FOR THE 2012 BONDS—Security for the 2012 Prior Bonds—Prior Reserve Account.”

The Master Prior Bond Resolution contains various amendments to which the Owners of the 2012 Prior Bonds will be deemed to have consented. See “SECURITY FOR THE 2012 BONDS—Security for the 2012 Prior Bonds—Special Amendments.”

As of May 1, 2012, the 1999 Prior Bonds were outstanding in the aggregate principal amount of \$315,875,000, the 2009P-1 Prior Bonds were outstanding in the aggregate principal amount of \$23,155,000 and the 2009P-2T Prior Bonds were outstanding in the aggregate principal amount of \$76,845,000. See “SOUND TRANSIT—Debt Service Requirements.”

See “SECURITY FOR THE 2012 BONDS—Security for the 2012 Prior Bonds.”

Security for the Parity Bonds

The 2012 Parity Bonds are “Subordinate Obligations,” as that term is defined in the Master Prior Bond Resolution. The 2012 Parity Bonds are payable from and secured by a pledge of the Pledged Taxes (currently, the Sales Tax and the Rental Car Tax). The Sales Tax and the Rental Car Tax are required to be deposited into the Local Option Tax Accounts. The 2012 Parity Bonds are also secured by amounts, if any, in the Parity Bond Account, the Local Option Tax Accounts, the Additional Taxes Accounts, the 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 pledge for the payment of the 2012 Parity Bonds of amounts in the Parity Bond Account, and the Additional Taxes Accounts and proceeds of the 2012 Parity Bonds deposited in any account created for the deposit of 2012 Parity Bond proceeds is a charge equal to the charge of any other Parity Bonds and superior to all other charges of any kind or nature (including the payment of costs of operating and maintaining Sound Transit and its facilities and the payment of debt service on the Prior Bonds). The pledge for the payment of the 2012 Parity Bonds of the Pledged Taxes and amounts in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount and 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, is a prior charge superior to all other charges of any kind or nature (including the payment of costs of operating and maintaining Sound Transit and its facilities), except the charge of the Prior Bonds on Local Option Taxes, and equal to the charge of any other Parity Bonds.

The Parity Reserve Account was created pursuant to the 2005A Parity Bond Resolution to secure the payment of the principal of and premium, if any, and interest on Parity Bonds for which a separate Parity Reserve Account Requirement is not established. The 2005A Parity Bonds that will remain outstanding after the issuance of the 2012 Bonds and the refunding of the Refunded Bonds are secured by the Parity Reserve Account. The 2012 Parity Bond Resolution establishes a separate Parity Reserve Account Requirement for the 2012 Parity Bonds of zero. The Parity Reserve Account Requirements for the 2007A Parity Bonds and the 2009S-2T Parity Bonds are also zero. **The 2007A Parity Bonds, the 2009S-2T Parity Bonds and the 2012 Parity Bonds have no claim on the amounts in the Parity Reserve Account.** See “SECURITY FOR THE 2012 BONDS—Security for the 2012 Parity Bonds—Parity Reserve Account.”

The 2012 Parity Bond Resolution contains various amendments to which the Owners of the 2012 Parity Bonds will be deemed to have consented. See “SECURITY FOR THE 2012 BONDS—Security for the 2012 Parity Bonds—Special Amendments.”

As of May 1, 2012, the 2005A Parity Bonds were outstanding in the aggregate principal amount of \$392,005,000 (of which \$350,645,000 will be refunded by the 2012 Bonds), the 2007A Parity Bonds were outstanding in the aggregate principal amount of \$410,110,000, and the 2009S-2T Parity Bonds were outstanding in the aggregate principal amount of \$300,000,000. See “SOUND TRANSIT—Debt Service Requirements.”

See “SECURITY FOR THE 2012 BONDS—Security for the 2012 Parity Bonds.”

Additional Bonds

Sound Transit expects to issue additional series of bonds. See “SOUND TRANSIT—System Plan.” Sound Transit has reserved the right to issue Future Prior Bonds, Future Parity Bonds and Junior Obligations as described in “SECURITY FOR THE 2012 BONDS.”

Federal Credit Payments for 2009 “Build America Bonds”

The 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds are treated as “build America bonds” under Section 54AA of the Internal Revenue Code of 1986, as amended (the “Code”). Under Subsection 54AA(g) of the Code, Sound Transit is allowed a credit payable by the United States Treasury to Sound Transit pursuant to Section 6431 of the Code in an amount equal to 35% of the interest payable on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds on each interest payment date. The obligation of the United States Treasury under Section 6431 of the Code to make direct payments to Sound Transit in respect of interest payments on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds does not constitute a full faith and credit guarantee of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds by the United States of America.

SOURCES AND USES OF FUNDS

Expected Sources and Uses of Funds

The 2012 Bonds are being issued to provide funds necessary, together with other available funds of Sound Transit, to advance refund a portion of the outstanding 2005A Parity Bonds and to pay the costs of issuing the 2012 Bonds.

Table 1 sets forth the expected sources and uses of funds, including proceeds of the 2012 Bonds, rounded to the nearest dollar.

TABLE 1
EXPECTED SOURCES AND USES OF FUNDS

	<u>2012 Prior Bonds</u>	<u>2012 Parity Bonds</u>
Sources of Funds		
Principal of the 2012 Bonds	\$ 216,165,000	\$ 97,545,000
Net Original Issue Premium	38,649,283	20,386,723
Other Available Funds ⁽¹⁾	38,333,991	0
Total Sources	<u>\$ 293,148,274</u>	<u>\$ 117,931,723</u>
Uses of Funds		
Refunding Account	\$ 281,951,114	\$ 117,678,994
Prior Reserve Account ⁽²⁾	10,646,578	0
Issuance Costs ⁽³⁾	550,582	252,729
Total Uses	<u>\$ 293,148,274</u>	<u>\$ 117,931,723</u>

(1) Includes amounts from Parity Reserve Account.

(2) See “SECURITY FOR THE 2012 BONDS—Security for the 2012 Prior Bonds—Prior Reserve Account.”

(3) Includes rating agency fees, financial advisor and legal fees, refunding trustee fees, verification agent fees, Underwriters’ discount and other costs of issuing the 2012 Bonds and refunding the Refunded Bonds.

Source: Sound Transit.

Plan of Refunding

To achieve a debt service savings, a portion of 2012 Bond proceeds will be used to advance refund the portion of the outstanding 2005A Parity Bonds set forth in Table 2 (the “Refunded Bonds”).

TABLE 2
REFUNDED BONDS
(Sales Tax Bonds, Series 2005A)

Maturity (November 1)	Principal Amount	Interest Rate	Redemption Date	Redemption Price	CUSIP No.
2017	\$ 875,000	4.00%	5/1/2015	100%	15504R AM1
2017	18,980,000	5.00	5/1/2015	100	15504R AN9
2018	270,000	4.00	5/1/2015	100	15504R AP4
2018	14,405,000	5.00	5/1/2015	100	15504R AQ2
2019	425,000	4.125	5/1/2015	100	15504R AR0
2019	21,120,000	5.00	5/1/2015	100	15504R AS8
2020	215,000	4.125	5/1/2015	100	15504R AT6
2020	22,250,000	5.00	5/1/2015	100	15504R AU3
2021	160,000	4.20	5/1/2015	100	15504R AV1
2021	18,240,000	5.00	5/1/2015	100	15504R AW9
2022	19,315,000	5.00	5/1/2015	100	15504R AX7
2023	20,285,000	5.00	5/1/2015	100	15504R AY5
2024	21,300,000	5.00	5/1/2015	100	15504R AZ2
2025	40,000	4.375	5/1/2015	100	15504R BA6
2025	22,325,000	5.00	5/1/2015	100	15504R BB4
2026	23,480,000	5.00	5/1/2015	100	15504R BC2
2027	24,645,000	5.00	5/1/2015	100	15504R BD0
2028	25,875,000	5.00	5/1/2015	100	15504R BE8
2029	47,150,000	5.00	5/1/2015	100	15504R BF5
2030	49,290,000	5.00	5/1/2015	100	15504R BH1
Total	\$350,645,000				

Source: Sound Transit.

A portion of the net proceeds to be received from the sale of the 2012 Bonds and other available funds will be deposited in the Refunding Account and used to purchase direct, non-callable obligations of the United States of America (the “Acquired Obligations”) to be held by U.S. Bank National Association (the “Refunding Trustee”) under a refunding trust agreement (the “Refunding Trust Agreement”), to be dated the date of delivery of the 2012 Bonds, between Sound Transit and the Refunding Trustee. The Acquired Obligations are to mature at such times and pay interest in such amounts so that, with other available funds held by the Refunding Trustee under the Refunding Trust Agreement, sufficient money will be available to pay the interest on the Refunded Bonds coming due on and prior to the redemption date set forth above and to redeem and retire the Refunded Bonds on the redemption date.

The Arbitrage Group, Inc. will verify that the Acquired Obligations held by the Refunding Account and the interest to be earned thereon, together with any money held in the Refunding Account, will be sufficient to make all such interest payments to the redemption date for the Refunded Bonds and to pay the principal of the Refunded Bonds on the redemption date. The verification will also confirm the correctness of the mathematical computations supporting the conclusion of Bond Counsel that the 2012 Bonds are not “arbitrage bonds” as defined in Section 148 of the Code.

A portion of the proceeds of the 2012 Prior Bonds will be used to refund a portion of the outstanding 2005A Parity Bonds. Table 3 sets forth the outstanding principal amounts of the Prior Bonds and the Parity Bonds as of May 1,

2012, and the effect of issuing the 2012 Bonds and refunding the Refunded Bonds. See “SOUND TRANSIT—Debt Service Requirements.”

**TABLE 3
EFFECT OF REFUNDING**

	<u>Outstanding Balance as of May 1, 2012</u>	<u>Balance After Refunding</u>
Prior Bonds	\$ 415,875,000	\$ 632,040,000
Parity Bonds	1,102,115,000	849,015,000
Total	\$ 1,517,990,000	\$ 1,481,055,000

Source: Sound Transit.

DEBT CAPACITY

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 gross revenues of the high capacity transportation system and from otherwise unpledged 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 that may be 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. Under State law, bonds payable from any type of taxes, such as the 2012 Bonds, are considered general obligation bonds for purposes of determining the source of authority for issuance and limits on the amount of debt that may be issued.

Debt Capacity

The debt capacity of Sound Transit is determined by reference to the value of taxable property within the District. Under State law, the issuance of bonds payable from any type of taxes, such as the 2012 Bonds, is subject to constitutional and statutory debt limitations.

Sound Transit is authorized to incur debt in an amount equal to 1½% of the value of taxable property within the District without obtaining voter approval for such debt. The 1999 Prior Bonds, the 2009P-1 Prior Bonds, the 2009P-2T Prior Bonds, the 2005A Parity Bonds, the 2007A Parity Bonds and the 2009S-2T Parity Bonds were issued and the 2012 Bonds are being issued within this limit, without obtaining voter approval.

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. Table 4 sets forth the legal debt capacity for Sound Transit after giving effect to the issuance of the 2012 Bonds and the refunding of the Refunded Bonds.

TABLE 4
LEGAL DEBT CAPACITY ⁽¹⁾
(\$000s)

Assessed valuation in 2010 for collection of taxes in 2011.....	\$418,235,204
Maximum nonvoted debt (1½% of assessed valuation).....	6,273,528
Less: Outstanding 1999 Prior Bonds and 2009 Prior Bonds	(415,875)
Less: Outstanding 2005A Parity Bonds, 2007A Parity Bonds & 2009S-2T Parity Bonds...	(751,470) ⁽²⁾
Less: 2012 Prior Bonds	(216,165)
Less: 2012 Parity Bonds.....	(97,545)
Nonvoted debt capacity remaining.....	<u>\$ 4,792,473</u>
Maximum voted debt (5% of assessed valuation).....	\$ 20,911,760
Less: Aggregate outstanding nonvoted debt.....	(1,167,345) ⁽²⁾
Less: 2012 Prior Bonds	(216,165)
Less: 2012 Parity Bonds.....	(97,545)
Less: Outstanding voted debt	—
Voted debt capacity remaining.....	<u>\$ 19,430,705</u>

(1) Other than assessed valuation, as of May 1, 2012, after giving effect to the issuance of the 2012 Bonds and the refunding of the Refunded Bonds. Excludes capital leases. See “SOUND TRANSIT—Capital Leases.”

(2) Excludes the Refunded Bonds.

Sources: Assessed valuation, County assessors; all other information, Sound Transit.

THE 2012 BONDS

General

The 2012 Bonds are dated their date of initial delivery, bear interest from their dated date at the rates and mature on the dates and in the amounts set forth on the inside cover of this Official Statement, subject to prior redemption as described in “Redemption and Purchase” under this heading.

The 2012 Prior Bonds are being issued in the aggregate principal amount of \$216,165,000. The 2012 Parity Bonds are being issued in the aggregate principal amount of \$97,545,000.

The 2012 Bonds are being issued in denominations of \$5,000 and any integral multiple thereof within a single maturity and series. Interest on the 2012 Bonds is calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the 2012 Prior Bonds is payable on each February 1 and August 1, commencing on February 1, 2013. Interest on the 2012 Parity Bonds is payable on each May 1 and November 1, commencing on November 1, 2012.

Payment of the 2012 Bonds

The fiscal agent of the State (currently The Bank of New York Mellon in New York, New York) will serve as initial paying agent, authenticating agent, transfer agent and registrar for the 2012 Bonds (the “Bond Registrar”).

The 2012 Bonds are being issued as fully registered bonds under a book-entry system, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as initial securities depository for the 2012 Bonds. Individual purchases of 2012 Bonds are to be made in authorized denominations in book-entry form only. Purchasers will not receive certificates representing their interest in the 2012 Bonds, except as described in Appendix F—“DTC AND ITS BOOK-ENTRY SYSTEM.”

Payments of principal of and premium, if any, and interest on the 2012 Bonds registered in the name of DTC or its nominee are to be made to DTC by the Bond Registrar. Disbursement of payments to DTC participants is the

responsibility of DTC, and disbursement of payments to beneficial owners of the 2012 Bonds is the responsibility of DTC participants, all as described in Appendix F—“DTC AND ITS BOOK-ENTRY SYSTEM.”

Interest on certificated 2012 Bonds is payable by checks or drafts of the Bond Registrar, or, if requested in writing prior to the Record Date (the 15th day of the month preceding an interest payment date for the 2012 Bonds) by the Owner of \$1,000,000 or more in principal amount of 2012 Bonds, by wire, mailed or transferred on the applicable interest payment date to Owners of the 2012 Bonds as those Owners and their addresses and accounts appear on the Bond Register on the Record Date. Principal of and premium, if any, on the 2012 Bonds is payable on the maturity date or date fixed for redemption upon presentation and surrender of the 2012 Bonds by the Owners at the designated corporate trust office or offices of the Bond Registrar.

If any 2012 Bond is not paid when properly presented at its maturity or date fixed for redemption, Sound Transit is obligated to pay interest on that 2012 Bond at the same rate provided in that 2012 Bond from and after its maturity or date fixed for redemption until that 2012 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 Prior Bond Account or Parity Bond Account, as applicable.

Redemption and Purchase

Optional Redemption of 2012 Prior Bonds. The 2012 Prior Bonds maturing on or after February 1, 2023 are subject to redemption prior to maturity, at the option of Sound Transit, in whole or in part on February 1, 2022, or any date thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date fixed for redemption.

Optional Redemption of 2012 Parity Bonds. The 2012 Parity Bonds maturing on or after November 1, 2023 are subject to redemption prior to maturity, at the option of Sound Transit, in whole or in part on November 1, 2022, or any date thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date fixed for redemption.

Selection for Redemption of 2012 Bonds. If less than all of the 2012 Bonds of a series are to be optionally redeemed, Sound Transit may select the maturity or maturities to be redeemed. If less than all of the 2012 Bonds of any maturity of a series are to be redeemed, the 2012 Bonds or portions thereof to be redeemed are to be selected by the Bond Registrar or DTC, as applicable, by lot, or in accordance with their respective standard procedures. The 2012 Bond Resolutions provide that the portion of any 2012 Bonds of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof and that in selecting portions of such 2012 Bonds for redemption, the Bond Registrar will treat each such 2012 Bonds as representing that number of such 2012 Bonds of \$5,000 denomination that is obtained by dividing the principal amount of such 2012 Bonds to be redeemed in part by \$5,000.

Notice of Redemption. Notice of redemption of any 2012 Bonds registered in the name of DTC or its nominee is to be made in accordance with the Letter of Representations. Sound Transit shall cause notice of any intended redemption of 2012 Bonds to be given not less than 20 days nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Owner of any 2012 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 notice is actually received by that Owner.

In the case of an optional redemption, the notice may state that Sound Transit retains the right to rescind that notice on or prior to the scheduled redemption date, and that notice and optional redemption shall be of no effect to the extent that Sound Transit gives notice to the affected Owners at any time on or prior to the scheduled redemption date that Sound Transit is rescinding the redemption notice in whole or in part. Any 2012 Bonds subject to a rescinded notice of redemption shall remain Outstanding, and the rescission will not constitute a Default under the 2012 Bond Resolutions.

Effect of Notice of Redemption. If notice of redemption has been duly given, then on the date fixed for redemption each 2012 Bond or portion thereof so called for redemption shall become due and payable at the redemption price specified in such notice unless that 2012 Bond or portion thereof is subject to a rescinded notice of optional redemption. From and after the date fixed for redemption, if money for the payment of the redemption price of any 2012 Bond or portion thereof so called for redemption that becomes payable is held by the Bond Registrar, interest thereon shall cease to accrue and that 2012 Bond or portion thereof shall cease to be Outstanding and to be entitled to any benefit, protection or security under the 2012 Bond Resolutions, and the Owner of such 2012 Bond or portion thereof will have no rights in respect thereof except to receive payment of the redemption price upon delivery of such 2012 Bond to the Bond Registrar.

Purchase. Sound Transit has reserved the right and option to purchase any or all of the 2012 Bonds in the open market at any time at any price acceptable to Sound Transit plus accrued interest to the date of purchase.

Registration and Transfer or Exchange of 2012 Bonds

The 2012 Bonds initially are to be registered in the name of Cede & Co., as the nominee of DTC. The 2012 Bonds so registered initially are to be held by DTC as securities depository in the book-entry system in accordance with the provisions of the Letter of Representations, all as described in Appendix F—“DTC AND ITS BOOK-ENTRY SYSTEM.”

Neither Sound Transit nor the Bond Registrar shall have any responsibility or obligation to DTC participants or to the persons for whom they act as nominees with respect to the 2012 Bonds regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of principal of or premium, if any, or interest on the 2012 Bonds, or any notice which is permitted or required to be given to Owners under the 2012 Bond Resolutions (except such notice as is required to be given by the Bond Registrar to DTC).

For as long as any 2012 Bonds are held by DTC in the book-entry system, DTC or its nominee shall be deemed to be the Owner for all purposes under the 2012 Bond Resolutions and all references to Owners shall mean DTC or its nominee and shall not mean the owners of beneficial interests in the 2012 Bonds.

The 2012 Bonds surrendered to the Bond Registrar may be exchanged for 2012 Bonds in any authorized denomination of an equal aggregate principal amount and of the same series, interest rate and maturity. The 2012 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 2012 Bond during the period beginning on the date the Bond Registrar receives direction to send notice of redemption of that 2012 Bond and ending on the date the Bond Registrar sends such notice.

SOUND TRANSIT TAXES

Introduction

Sound Transit has obtained voter approval to impose and collect two taxes within the District: the Sales Tax and the Motor Vehicle Tax, both of which Sound Transit initially imposed effective April 1, 1997, together with the Rental Car Tax, which did not require voter approval. In 2008, Sound Transit obtained voter approval to impose the Sales Tax at an increased rate.

A map of the District is set forth on page iv of this Official Statement. See Appendix D—“DEMOGRAPHIC AND ECONOMIC INFORMATION” for a discussion of the demographics and economy of the District.

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 various sales and

use taxes to generate revenues to carry out essential governmental purposes. Neither the State nor any local governments within the State collect an income tax.

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 in the District currently are imposed by the State and local taxing entities at aggregate rates ranging from 8.6% to 9.5%. These rates include Sound Transit's 0.9% Sales Tax.

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. On November 4, 2008, voters within the District approved an increase in the Sales Tax of 0.5%, and Sound Transit increased the rate of the Sales Tax to 0.9% effective April 1, 2009. In 2011, Sound Transit received or accrued \$528 million on account of the Sales Tax. See Table 5 under this heading for historical information regarding Sound Transit's Sales Tax revenues. Sound Transit has reserved the right to reduce the rate of the Sales Tax to as low as 0.8% upon satisfaction of the conditions set forth in the Master Prior Bond Resolution and the Parity Bond Resolutions. See "SECURITY FOR THE 2012 BONDS—Security for the 2012 Prior Bonds—Covenant to Levy Local Option Taxes" and "—Security for the 2012 Parity Bonds—Covenant to Impose Pledged Taxes" and Appendix B—"FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Covenants—Tax Levy Covenant" and "—2012 Parity Bond Resolution—Covenants—Pledged Taxes."

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 1.0% if none of the Counties then is imposing a sales and use tax for criminal justice purposes. All of the Counties currently impose a sales and use tax for criminal justice purposes at the authorized maximum rate of 0.1%.

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 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 the use of 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 tax and the use tax on occasion. This may occur again in the future. See "INITIATIVES AND REFERENDA." Among the various items not currently subject to the Sales Tax are most personal services, motor vehicle fuel, most food for off-premises consumption, trade-ins and purchases for resale. Most lodging is not subject to the Sales Tax because the State Legislature has limited the total sales taxes that may be imposed on lodging.

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 (the "DOR"), which usually occurs on a monthly basis.

Sound Transit has entered into an agreement with the DOR for State administration of the Sales Tax and the Rental Car Tax. Under this agreement, the DOR administers and collects the taxes from retailers, taxpayers 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 DOR charges an ongoing administrative fee for this service of 0.7% on 4/9ths of the Sound Transit monthly tax distribution through 2025 and on all of the monthly tax distributions after 2025. The DOR agreement also provides for reimbursement of DOR for costs of modifications or changes to the administration of Sound Transit taxes as well as refunds not in the ordinary course of administering the taxes. The agreement expires December 31, 2014, is subject to automatic renewal for five successive three-year periods and is subject to termination by either party upon proper written notice.

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 those of other states. Congress has required that state sales taxes be more uniform

before Congress will permit taxation of interstate mail-order and Internet sales imposed by jurisdictions in states in which the selling entities have no physical presence. The 2003 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 shift local sales tax revenue from the jurisdiction of the location from which a product is shipped or delivered to the jurisdiction in which the destination of the shipment or delivery is located.

In 2007, the State Legislature enacted the sourcing provisions, which became effective in July 2008. As a result, there was a shift in sales tax revenues among jurisdictions in the State. The State Legislature established a mitigation account to mitigate certain effects of the sourcing provisions. Sound Transit's taxing district includes the majority of retail, residential and commercial establishments within the Counties that comprise the Central Puget Sound region, so the overall impact of the legislation has been limited.

Rental Car Tax

General. In 1992, the State Legislature authorized regional transit authorities that impose the Motor Vehicle Tax to impose an incremental sales and use tax upon retail car rentals that are otherwise taxable by the State pursuant to chapters 82.08 and 82.12 RCW. Sound Transit imposed the Rental Car Tax upon car rentals in the District at the rate of 0.8% of the rental value, effective April 1, 1997. Both the Rental Car Tax and the Sales Tax are collected upon taxable retail car rentals in the District. In 2011, Sound Transit received or accrued approximately \$2.0 million on account of the Rental Car Tax. See Table 5 under this heading for historical information regarding Sound Transit's Rental Car Tax revenues.

The State currently imposes a rental car tax of 5.9%. In addition to the State tax, King County and Pierce County currently impose 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 is imposed in the District by the State and local taxing entities at aggregate rates ranging from 6.7% to 7.7%. These rates include Sound Transit's 0.8% Rental Car Tax.

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 DOR on the same frequency as the retail sales tax (which the rental car companies also collect from their customers). The DOR disburses Rental Car Tax proceeds to Sound Transit on a monthly basis pursuant to the contract described in "Sales Tax—Method of Collection" under this heading.

Historical Sales Tax and Rental Car Tax Revenues

Table 5 sets forth historical Sales Tax and Rental Car Tax revenues as reported in Sound Transit's audited financial statements for the years 2002 through 2011. The proceeds of the Sales Tax and Rental Car Tax, together with the Motor Vehicle Tax, are pledged to the payment of the Prior Bonds, including the 2012 Prior Bonds. The Sales Tax and the Rental Car Tax (but not the Motor Vehicle Tax) are currently the only components of the Pledged Taxes pledged to the payment of the Parity Bonds, including the 2012 Parity Bonds.

TABLE 5
HISTORICAL SALES TAX AND RENTAL CAR TAX REVENUES
(\$000s)

Year	Sales Tax Revenue ^{(1) (2)}	Growth Rate	Rental Car Tax Revenue ⁽²⁾	Growth Rate	Total ^{(1) (2)}	Growth Rate
2011	\$ 528,022	4.7%	\$ 1,958	(18.7)%	\$ 529,980	4.6%
2010	504,101	14.3	2,409	(16.0)	506,510	14.1
2009	440,929	66.2	2,869	14.9	443,798	65.7
2008	265,358	(5.3)	2,498	(1.3)	267,856	(5.3)
2007	280,263	8.1	2,531	4.3	282,794	8.1
2006	259,164	8.1	2,427	8.1	261,591	8.1
2005	239,785	9.5	2,245	3.6	242,030	9.4
2004	219,020	6.0	2,166	(0.7)	221,186	5.9
2003	206,665	1.0	2,182	1.4	208,847	1.0
2002	204,566	—	2,151	—	206,718	—

(1) The rate of the Sales Tax was increased to 0.9% from 0.4% effective April 1, 2009.

(2) On an accrual basis.

Source: Sound Transit.

Motor Vehicle Tax

Pledge of Motor Vehicle Tax. The Motor Vehicle Tax is a component of the Local Option Taxes pledged to the payment of the Prior Bonds, but the Motor Vehicle Tax is not a component of the Pledged Taxes pledged to the payment of the Parity Bonds. Under current law, Sound Transit does not have authority to impose the Motor Vehicle Tax after the 1999 Prior Bonds are retired or provision is made for their payment. The last scheduled maturity of the 1999 Prior Bonds is 2028. Sound Transit has covenanted in the Master Prior Bond Resolution to use the proceeds from all Local Option Taxes (including the Motor Vehicle Tax) for the purposes and in the priorities described in “SECURITY FOR THE 2012 BONDS—Flow of Funds,” including for payment of debt service on Parity Bonds. See “SECURITY FOR THE 2012 BONDS—Security for the 2012 Prior Bonds” and “—Security for the 2012 Parity Bonds.”

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. In 2011, Sound Transit received or accrued \$65.9 million on account of the Motor Vehicle Tax. See Table 6 under this heading for historical information regarding Sound Transit’s Motor Vehicle Tax revenues. In November 2002, the State’s voters approved Initiative Measure No. 776 (“I-776”). I-776 required all motor vehicle license tab fees to be limited to a maximum of \$30. The initiative purported to repeal the statutory authority relied upon by Sound Transit to impose the Motor Vehicle Tax. In 2006, the State Supreme Court upheld Sound Transit’s continued collection of the Motor Vehicle Tax. The Court ruled that the State Constitution’s contract clause (Article I, Section 23) prevents an initiative from impairing the contractual obligation between Sound Transit and its bondholders. This decision confirmed Sound Transit’s authority to continue collecting the full amount of the Motor Vehicle Tax so long as the 1999 Prior Bonds remain Outstanding.

Method of Collection. The values of motor vehicles are determined by statute. Passenger vehicles generally are valued at a percentage of the manufacturer’s suggested retail price. The percentages are prescribed by a statute in effect at the time Sound Transit 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. A vehicle registration is 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 contract with the State Department of Licensing for the collection and disbursement of the Motor Vehicle Tax through 2015. The agreement may be extended for three additional terms, in increments up to five years each, upon written consent of both parties. Under this contract, the State 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 State Department of Licensing for all reasonable ongoing direct and indirect administrative costs in collecting the Motor Vehicle Tax.

Historical Motor Vehicle Tax Revenues

Table 6 sets forth historical Motor Vehicle Tax revenues as reported in Sound Transit’s audited financial statements for the years 2002 through 2011.

TABLE 6
HISTORICAL MOTOR VEHICLE TAX REVENUES
((\$000s))

Year	Motor Vehicle Tax Revenue ⁽¹⁾	Growth Rate
2011	\$65,893	0.2%
2010	65,788	(2.2)
2009	67,290	(1.9)
2008 ⁽²⁾	68,621	(5.2)
2007	72,403	3.1
2006	70,202	5.9
2005	66,308	2.5
2004	64,714	5.8
2003	61,189	4.9
2002	58,319	–

(1) On an accrual basis.

(2) Beginning in December 2008, Sound Transit and the State Department of Licensing began a process to issue refunds for Motor Vehicle Tax overpayments affecting some vehicle owners who live near but outside the District. The overpayments affected approximately 1.5% of the vehicles that were assessed the Motor Vehicle Tax. Approximately \$3.8 million was refunded. The State Department of Licensing revised its process for issuing license renewals in January 2009 to ensure that overpayments do not continue to occur.

Source: Sound Transit.

SECURITY FOR THE 2012 BONDS

Limited Obligations

The 2012 Bonds are not obligations of the State or any political subdivision thereof other than Sound Transit. The 2012 Bonds are not secured by any lien or charge upon any general fund or upon any money or other property of Sound Transit not specifically pledged thereto.

Flow of Funds

Sound Transit holds all accounts created under the Master Prior Bond Resolution and the Parity Bond Resolutions, including the Prior Bond Account, the Prior Reserve Account, the Parity Bond Account and the Parity Reserve Account. Sound Transit maintains Local Option Tax Accounts and has covenanted in the Master Prior Bond

Resolution to deposit all Local Option Taxes in the Local Option Tax Accounts promptly upon receipt. Under the Master Prior Bond Resolution, Local Option Taxes 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. Under the Parity Bond Resolutions, 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 Master Prior Bond 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 in the following order:

- (1) to pay the interest when due on the Prior Bonds (including regularly scheduled Payments under Prior Payment Agreements); 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 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 Prior Letter of Credit or Qualified Prior Insurance with respect to the Prior Reserve Account Requirement;

Third, to make all payments required to be made into the Parity 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 for Parity Bonds);
- (2) to pay the maturing principal (including sinking fund redemptions) of Parity Bonds;
- (3) to reimburse the provider of any Bond Insurance (other than Bond Insurance obtained to satisfy all or a part of the Parity 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;

Fourth, to make all payments required to be made into the Parity Reserve Account required under any resolution authorizing the issuance of Parity Bonds to meet the Parity 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 Parity Reserve Account Requirement;

Fifth, to make all payments required to be made into any other bond redemption account and reserve account created to pay the principal of and 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 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 Sound Transit and its facilities; and

Seventh, for any lawful purpose of Sound Transit; provided, that Sound Transit may determine that items in this “*Seventh*” category shall be paid in a specified order of priority.

Security for the 2012 Prior Bonds

Pledge of Local Option Taxes. The Prior Bonds, including the 2012 Prior Bonds, are special limited obligations of Sound Transit payable from and secured solely by a pledge of Local Option Taxes and amounts, if any, in the Local Option Tax Accounts, the Prior Bond Account, the Prior Reserve Account and any project account created for the deposit of Prior Bond proceeds. See “SOUND TRANSIT TAXES” for information regarding the Local Option Taxes.

The pledge for the payment of the Prior Bonds of the Local Option Taxes and of amounts in the Local Option Tax Accounts, the Prior Bond Account, the Prior Reserve Account, and any project account created for the deposit of Prior Bond proceeds is a prior charge upon the Local Option Taxes and such accounts superior to all other charges of any kind or nature.

Covenant to Levy Local Option Taxes. Sound Transit has covenanted in the Master Prior Bond Resolution that so long as any Prior Bonds remain Outstanding, Sound Transit will levy the Motor Vehicle Tax at a rate of not less than 0.3% and the Sales Tax at a rate of not less than 0.9%, except that Sound Transit may levy the Sales Tax at a rate of not less than 0.8% so long as the Sufficiency Test described below is met.

The Master Prior Bond Resolution provides that if Sound Transit is levying the Sales Tax at a rate less than 0.9% and the Sufficiency Test is not met for a Fiscal Year, Sound Transit will be required, within 90 days after the end of that Fiscal Year, to take all action required on its part to increase the rate of the Sales Tax levied, but not to exceed 0.9%, for the purpose of meeting the Sufficiency Test.

Sound Transit has covenanted in the Master Prior Bond Resolution to take all reasonable actions necessary to levy and provide for the continued collection of the Local Option Taxes and the application of those taxes for payment of the Prior Bonds in accordance with the Master Prior Bond Resolution.

Sufficiency Test. The Sufficiency Test is met when the ratio of Local Option Taxes collected to Annual Prior Bond Debt Service in each Fiscal Year is not less than three to one. The Master Prior Bond Resolution provides that, for purposes of calculating the Sufficiency Test, Sound Transit will add to Local Option Taxes collected in any Fiscal Year any amount withdrawn from the Tax Stabilization Subaccount in that Fiscal Year and deposited into the Local Option Tax Accounts, and will subtract from Local Option Taxes collected in any Fiscal Year any amount withdrawn from the Local Option Tax Accounts and deposited into the Tax Stabilization Subaccount. However, for purposes of the Sufficiency Test the amount withdrawn from the Tax Stabilization Subaccount in any Fiscal Year may not exceed 0.50 times the Annual Prior Bond Debt Service in such Fiscal Year. See the definitions of “Annual Prior Bond Debt Service” and “Sufficiency Test” in Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Definitions.”

Sales Tax Rate. Sound Transit currently is imposing the Sales Tax at a rate of 0.9%, which is the maximum currently permitted under State law. Sound Transit has reserved the right, to the extent permitted by law and approved by the voters (if a vote is required), to pledge to the payment of the Prior Bonds any Sales Tax imposed at a rate in excess of 0.9%.

Federal Credit Payments. The federal credit payments received and expected to be received by Sound Transit in respect of the 2009P-2T Prior Bonds are required to be deposited in the Prior Bond Account (which reduces the amount of Local Option Taxes required to be deposited into the Prior Bond Account) and to be taken into account as “Receipts” under a “Prior Payment Agreement” in calculating Annual Prior Bond Debt Service (which reduces the amount of Annual Prior Bond Debt Service in calculating the Prior Reserve Account Requirement and satisfying the Sufficiency Test for reducing the Sales Tax rate and certain conditions for issuing Future Prior Bonds).

No Pledge of Operating Revenues. Sound Transit’s operating and non-operating revenues (other than Local Option Taxes) are not pledged to the payment of Prior Bonds.

Tax Stabilization Subaccount. The Master Prior Bond Resolution authorizes Sound Transit to create a Tax Stabilization Subaccount within the Local Option Tax Accounts. Sound Transit may deposit Local Option Taxes collected in such Fiscal Year into the Tax Stabilization Subaccount or withdraw Local Option Taxes on deposit therein from the Tax Stabilization Subaccount and use amounts in the Tax Stabilization Subaccount for any lawful purposes in accordance with the “Flow of Funds” described under this heading, including for the purpose of meeting the Sufficiency Test as a condition to reducing Sales Tax rate as described above in “Covenant to Levy Local Option Taxes” and “Sufficiency Test.” Deposits into and withdrawals from the Tax Stabilization Subaccount may not otherwise be taken into account in calculating Annual Prior Bond Debt Service (such as in calculating the Prior Reserve Account Requirement or satisfying the conditions for issuing Future Prior Bonds).

Local Option Taxes in the Tax Stabilization Subaccount are pledged in the Master Prior Bond 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 Resolutions to secure the payment of the Parity Bonds, subordinate to the pledge thereof that secures the Prior Bonds.

There currently is no Tax Stabilization Subaccount, and there is no guarantee that Sound Transit will create or fund the Tax Stabilization Subaccount at any time while the 2012 Bonds are Outstanding.

Prior Bond Account. Sound Transit's "Sales Tax and Motor Vehicle Excise Tax Bond Account" (the "Prior Bond Account") was created pursuant to the Original Master Resolution and is held by Sound Transit as 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 (i) the interest, or principal and interest, next coming due on the Prior Bonds and (ii) regularly scheduled Payments under Prior Payment Agreements.

Prior Reserve Account. Sound Transit's "Sales Tax and Motor Vehicle Excise Tax Bond Reserve Account" (the "Prior Reserve Account") was created pursuant to the Original Master Resolution, is used solely to secure the payment of debt service on the Prior Bonds and is held by Sound Transit as a trust account for the Owners of the Prior Bonds. Sound Transit has covenanted in the Master Prior Bond Resolution to maintain on hand in the Prior Reserve Account an amount equal to the lesser of (i) 125% of Average Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds or (ii) the sum of (A) 100% of the Annual Prior Bond Debt Service with respect to the Outstanding 1999 Prior Bonds and (B) 50% of the Annual Prior Bond Debt Service with respect to all other Outstanding Prior Bonds (including the 2012 Prior Bonds), in each case in the Fiscal Year in which Maximum Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds occurs; provided, that at the time of issuance of any series of Prior Bonds, the Prior Reserve Account Requirement allocable to a series of Prior Bonds shall not exceed 10% of the initial principal amount of that series of Prior Bonds. Notwithstanding the foregoing, so long as the municipal bond insurance policy or the municipal bond debt service reserve fund policy for the 1999 Prior Bonds is in effect, if in any Fiscal Year the Local Option Taxes received are less than 2.5 times Maximum Annual Prior Bond Debt Service, the foregoing clause (ii) above shall be adjusted to read "100% of Maximum Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds," and any additional amount required to be on deposit in the Prior Reserve Account shall be provided within one year by 12 approximately equal monthly installments; and provided further, that the foregoing clause (ii) shall be so adjusted until after two consecutive Fiscal Years in which Local Option Taxes received are not less than 2.5 times Maximum Annual Prior Bond Debt Service (the "Prior Reserve Account Requirement").

Sound Transit has reserved the right to satisfy the Prior Reserve Account Requirement by deposits of cash, investments, a Qualified Prior Letter of Credit, or Qualified Prior Insurance, or a combination of the foregoing. Sound Transit satisfied the Prior Reserve Account Requirement for the 1999 Prior Bonds by obtaining Qualified Prior Insurance in the form of two municipal bond debt service reserve fund policies from Financial Guaranty Insurance Company ("FGIC") with an aggregate face amount of \$31,661,180. Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings have all withdrawn their ratings for FGIC. Those ratings withdrawals did not affect the status of the FGIC municipal bond debt service reserve fund policies as Qualified Prior Insurance. National Public Finance Guarantee Corporation ("National") has reinsured the two FGIC municipal bond debt service reserve fund policies, pursuant to an Assignment and Assumption Agreement by and between MBIA Insurance Corporation ("MBIA") and National, pursuant to which MBIA has assigned to National, and National has assumed, all of MBIA's rights, interests and obligations under (a) the Reinsurance Agreement by and between MBIA and FGIC and (b) the Trust Agreement by and among FGIC, MBIA and The Bank of New York Mellon, as trustee. As a result of the Reinsurance Agreement with National the debt service reserve fund policies are currently rated "Baa2" by Moody's and "BBB" by Standard & Poor's.

The Master Prior Bond Resolution provides that in computing the amount on hand in the Prior Reserve Account, Qualified Prior Insurance and/or a Qualified Prior Letter of Credit are to be valued at the face amount thereof and all other obligations purchased as an investment of money therein are to be valued at market at least annually. Any deficiency created in the Prior Reserve Account must be made up within one year after 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 Qualified Prior Insurance or a Qualified Prior Letter of Credit.

Upon issuance of the 2012 Bonds, Sound Transit expects the Prior Reserve Account to be funded at not less than the Prior Reserve Account Requirement of \$51,081,382, as follows: (i) \$31,661,180 of aggregate face value of the two municipal bond debt service reserve fund policies described above, (ii) \$9,032,530 of investments of proceeds of the 2009P-2T Prior Bonds and earnings thereon and (iii) \$10,646,578 of investments transferred from the reserve account for the 2005A Bonds. No proceeds of the 2012 Prior Bonds will be deposited into the Prior Reserve Account. See “SOURCES AND USES OF FUNDS.”

Future Prior Bonds. Sound Transit has reserved the right to issue Future Prior Bonds, including Refunding Prior Bonds, secured by a pledge of Local Option Taxes on a parity with the pledge that secures the 1999 Prior Bonds, the 2009P-1 Prior Bonds, the 2009P-2T Prior Bonds and the 2012 Prior Bonds. The issuance of Future Prior Bonds is subject to the following conditions:

- (1) There is no deficiency in the Prior Bond Account, and an amount equal to the Prior Reserve Account Requirement (including for the Future Prior Bonds to be issued) will be on deposit in the Prior Reserve Account.
- (2) No Default has occurred and is continuing. For a description of provisions relating to Defaults and remedies upon Default, see “Defaults and Remedies” below and Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Defaults” and “—Remedies Upon Default.”
- (3) Sound Transit certifies (by an “Authority Prior Bond Certificate”) that Local Option Taxes received during any consecutive 12-month period out of the 18-month period next preceding the date of issuance of the Future Prior Bonds were not less than three times Maximum Annual Prior Bond Debt Service on all Prior Bonds that will be Outstanding upon the issuance of the Future 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 will be required to deliver an Authority Prior Bond Certificate in connection with the issuance of the 2012 Prior Bonds.

Refunding Prior Bonds. Upon compliance with the conditions for issuing Future Prior Bonds described above, Sound Transit may issue Refunding Prior Bonds, at any time for the purpose of refunding (including by purchase) Prior Bonds, making future Prior Reserve Account deposits, paying for a Credit Facility, making any settlement payment in connection with the termination of a hedging instrument relating to the Refunding Prior Bonds, and paying the expenses of issuing the Refunding Prior Bonds and of effecting such refunding.

Sound Transit may issue Refunding Prior Bonds without satisfying any of the conditions for issuing Future Prior Bonds described above if in every Fiscal Year the Annual Prior Bond Debt Service on the Refunding Prior Bonds does not exceed the Annual Prior Bond Debt Service by more than \$5,000 on the Prior Bonds to be refunded were the refunding not to occur. In addition, Refunding Prior Bonds may be issued without the requirement for an Authority Prior Bond Certificate for the purpose of refunding (including by purchase) any Prior Bonds for the payment of which sufficient Local Option Taxes are not available.

Prior Payment Agreements. Sound Transit has reserved the right to make Payments under Payment Agreements secured by a pledge of Local Option Taxes on a parity with the pledge that secures the Prior Bonds (“Prior Payment Agreement”) if the Payment Agreement satisfies the requirements for Future Prior Bonds described above. “Payment Agreement” means a written agreement, for the purpose of managing or reducing Sound Transit’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 Sound Transit 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. See Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Prior Payment Agreements.” The Master Prior Bond Resolution requires that the federal credit payments received by Sound Transit in respect of the 2009P-2T Prior Bonds be taken into account as “Receipts” under a “Prior Payment Agreement” in calculating Annual Prior Bond Debt Service.

Defaults and Remedies. The following events constitute a Default under the Master Prior Bond Resolution: (1) failure to make required payments into the Prior Bond Account or Prior Reserve Account; (2) failure to pay principal of and premium, if any, or interest when due on the Prior Bonds, or to redeem Term Prior Bonds in the required amounts; or (3) failure to observe or perform any other covenants in the Master Prior Bond Resolution or any resolution authorizing the issuance of Prior Bonds, 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 taking all action reasonably possible to remedy the failure.

Upon the occurrence of a Default, the Owners of at least 20% in aggregate principal amount of Prior Bonds Outstanding may appoint a Prior Bondowners' Trustee to exercise the rights of the Owners of the Prior Bonds, all as described in the Master Prior Bond Resolution. See "No Acceleration Upon Default" under this heading and Appendix B—"FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Remedies Upon Default." If a Prior Bondowners' Trustee has been appointed, certain of the Owners' remedies may not be exercised individually by the Owners without the consent of the Prior Bondowners' Trustee.

Special Amendments. The Owners from time to time of the Outstanding Prior Bonds, other than the Owners from time to time of Outstanding 1999 Prior Bonds (whose consent shall be required consistent with the Master Prior Bond Resolution), by taking and holding the same, shall be deemed to have consented to the adoption by Sound Transit of any resolutions amendatory or supplemental to the Master Prior Bond Resolution for any one or more of the following purposes:

- (1) After the 1999 Prior Bonds are no longer Outstanding, to delete the Motor Vehicle Tax from the definition of "Local Option Taxes";
- (2) After the 1999 Prior Bonds are no longer Outstanding, to levy the Motor Vehicle Tax at a rate of less than three-tenths of one percent (which rate may be zero);
- (3) To delete from the Master Prior Bond Resolution the Default described in clause (1) in "Defaults and Remedies" above;
- (4) To establish for any one or more series of Future Prior Bonds a separate reserve account requirement for such series (which may be zero) and, if applicable, a separate reserve account or accounts to secure such series, which series shall not be secured by the Prior Reserve Account, and which separate reserve account or accounts shall not secure the Prior Bonds secured by the Prior Reserve Account, and in satisfying the conditions to the issuance of Future Prior Bonds that will not be secured by the Prior Reserve Account, to disregard the requirement that an amount equal to the Prior Reserve Account Requirement (including for the Future Prior Bonds to be issued) be on deposit or otherwise provided for in the Prior Reserve Account on or prior to the date of issuance of such Future Prior Bonds;
- (5) To permit federal credit payments received in respect of Outstanding Build America Prior Bonds (other than federal credit payments received under a Payment Agreement) to be deposited into the Prior Bond Account and credited against the Local Option Taxes otherwise required to be deposited into the Prior Bond Account; or
- (6) To permit federal credit payments scheduled to be received in any Fiscal Year in respect of Outstanding Build America Prior Bonds (other than federal credit payments received under a Payment Agreement) to be credited against Prior Bond Debt Service in calculating Annual Prior Bond Debt Service for that Fiscal Year.

Security for the 2012 Parity Bonds

Pledge of Pledged Taxes. The Parity Bonds, including the 2012 Parity Bonds, are special limited obligations of Sound Transit payable from and secured by a pledge of the Pledged Taxes. The Sales Tax and the Rental Car Tax

(but not the Motor Vehicle Tax) are currently the only components of the Pledged Taxes. See “SOUND TRANSIT TAXES” for more information regarding the Pledged Taxes.

The 2012 Parity Bonds are also secured by amounts, if any, in the Parity Bond Account, the Local Option Tax Accounts, the Additional Taxes Accounts, the Tax Stabilization Subaccount and any project account created for the deposit of Parity Bond proceeds and 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), 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 pledge for the payment of the 2012 Parity Bonds of amounts in the Parity Bond Account, the Additional Taxes Accounts and proceeds of the 2012 Parity Bonds deposited in any account created for the deposit of 2012 Parity Bond proceeds is a charge equal to the charge of any other Parity Bonds and superior to all other charges of any kind or nature. The pledge for the payment of the 2012 Parity Bonds of the Pledged Taxes and amounts in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount and 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, is a prior charge 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 other Parity Bonds.

Covenant to Impose Pledged Taxes. Sound Transit has covenanted in the 2012 Parity Bond Resolution that so long as any 2012 Parity Bonds remain Outstanding, Sound Transit will impose the Sales Tax at a rate of not less than 0.9% and will impose the Rental Car Tax at a rate of not less than 0.8%, except that Sound Transit may impose the Sales Tax rate at a rate of not less than 0.8% in the manner described below in “Permissive Reduction of Sales Tax Rate.” Sound Transit has further covenanted in the Parity Bond Resolutions (i) 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 payment of the Parity Bonds in accordance with the Parity Bond Resolutions; (ii) to 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 payment of the Prior Bonds in accordance with the Master Prior Bond Resolution and the application of those Local Option Taxes in accordance with the Master Prior Bond Resolution and the Parity Bond Resolutions; and (iii) not to take any action that limits, terminates, reduces or otherwise impairs the authority of Sound Transit to impose and collect all Local Option Taxes and Pledged Taxes.

Permissive Reduction of Sales Tax Rate. Sound Transit has reserved the right to reduce the rate of the Sales Tax to as low as 0.8%, provided that Sound Transit certifies in an Authority Pledged Taxes Sufficiency Certificate that:

- (i) Prior Bonds Coverage Test. Local Option Taxes received during any consecutive 12-month period selected by Sound Transit out of the 16-month period immediately preceding the date of calculation (for purposes of an Authority Pledged Taxes Sufficiency Certificate, the “Base Parity Period”) were not less than 1.5 times Maximum Annual Prior Bond Debt Service on all Prior Bonds Outstanding on the date such certification is made (the “Prior Bonds Coverage Requirement”);
- (ii) Parity Bonds Coverage Test for Period While Motor Vehicle Tax is Not Included as Pledged Taxes. Pledged Taxes received during the Base Parity Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement (and after all the Motor Vehicle Tax has been applied for that purpose) were not less than 1.5 times Maximum Annual Parity Bond 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 Parity 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 Parity Bond Debt Service during the period that the Motor Vehicle Tax and/or Additional Taxes will be included as Pledged Taxes to secure Parity Bonds Outstanding on the date such certification is made.

The Parity Bond Resolutions provide that in preparing an Authority Pledged Taxes Sufficiency Certificate:

- (1) the Local Option Taxes and/or Pledged Taxes during the Base Parity Period may be only those shown in audited or unaudited financial statements of Sound Transit;
- (2) in calculating amounts received during the Base Parity Period, Sound Transit must take into account any Adopted Parity Rate Adjustment, Additional Taxes and Motor Vehicle Tax included as Pledged Taxes and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Parity Period;
- (3) the Sales Tax received during the Base Parity Period is to be adjusted to reflect the reduced rate of less than 0.9%;
- (4) the Motor Vehicle Tax and/or Additional Taxes may not be taken into account to meet the requirements described in clause (iii) above unless Sound Transit receives an opinion of Bond Counsel to the effect that the pledge of such Motor Vehicle Tax 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
- (5) any Adopted Parity Rate Adjustment, Additional Taxes and/or extension of an existing tax 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 adjusted, new or extended taxes will be received in the amounts assumed for purposes of the Authority Pledged Taxes Sufficiency Certificate.

In addition, Sound Transit may add to Local Option Taxes and/or to Pledged Taxes collected in the Base Parity Period amounts withdrawn from the Tax Stabilization Subaccount in the Base Parity 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 Parity Period may not be deemed to have exceeded 0.25 times the debt service on Parity Bonds in that Base Parity Period).

Sound Transit has covenanted in the Parity Bond Resolutions that, if Sound Transit is imposing the Sales Tax at a rate less than 0.9% and if Sound Transit is unable to deliver an Authority Pledged Taxes Sufficiency Certificate as described above within 30 days after the end of any Fiscal Year, it will, within 90 days after the end of that Fiscal Year, take all action required on its part to increase the rate of that Sales Tax imposed, but not to exceed the rate of 0.9%, for the purpose of being able to deliver that Authority Pledged Taxes Sufficiency Certificate.

Pledge of Additional Taxes. In the 2012 Parity Bond Resolution, Sound Transit has reserved the right (but is not obligated) to pledge additional taxes to the payment of the Parity Bonds, including the Motor Vehicle Tax. Any taxes other than Local Option Taxes that in the future Sound Transit includes as Pledged Taxes and pledges to the payment of Parity Bonds are referred to collectively as “Additional Taxes.” Sound Transit must use Additional Taxes deposited in Additional Taxes Accounts for the purposes and in the order of priority set forth in the “Flow of Funds” under this heading, beginning with the paragraph “*Third.*”

Increases in Tax Rates. Sound Transit currently is imposing the Sales Tax at a rate of 0.9%, which is the maximum currently permitted under State law. Sound Transit may be authorized to impose the Rental Car Tax at a rate in excess of 0.8%. The additional tax revenue attributable to any increase of such tax rate will not, automatically, be subject to the pledge that secures the 2012 Parity Bonds. However, Sound Transit has reserved the right to pledge such additional tax revenue, if any, to the payment of the Parity Bonds.

Federal Credit Payments. The federal credit payments received and expected to be received by Sound Transit in respect of the 2009S-2T Parity Bonds are required to be deposited in the Parity Bond Account (which reduces the amount of Pledged Taxes required to be deposited into the Parity Bond Account) and to be taken into account as “Receipts” under a “Parity Payment Agreement” in calculating Annual Parity Bond Debt Service (which reduces the amount of Annual Parity Bond Debt Service in satisfying certain conditions for reducing the Sales Tax rate and for issuing Future Parity Bonds).

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

Tax Stabilization Subaccount. The Master Prior Bond Resolution authorizes Sound Transit to create a Tax Stabilization Subaccount within the Local Option Tax Accounts. The Parity Bond Resolutions also authorize Sound Transit to create a Tax Stabilization Subaccount, if not created under the Master Prior Bond 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 under this heading, including for the purpose of satisfying the conditions for reducing the Sales Tax rate as described above in "Permissive Reduction of Sales Tax Rate." Deposits into and withdrawals from the Tax Stabilization Subaccount may not be taken into account in calculating Annual Parity Bond Debt Service for purposes of satisfying conditions to issuing Future Parity Bonds. See "Future Parity Bonds" under this heading.

Local Option Taxes in the Tax Stabilization Subaccount are pledged in the Master Prior Bond Resolutions 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 Resolutions to secure the payment of the Parity Bonds, subordinate to the pledge thereof that secures the Prior Bonds.

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

There currently is no Tax Stabilization Subaccount or Additional Taxes Accounts, and there is no guarantee that Sound Transit will create or fund the Tax Stabilization Subaccount at any time while the 2012 Bonds are Outstanding.

Parity Bond Account. The Parity Bond Account was created pursuant to the 2005A Parity Bond Resolution. Sound Transit is required to make monthly deposits into the Parity Bond Account from Pledged Taxes, subject to the "Flow of Funds" described under this heading, so that the balance therein will be sufficient to pay (i) the interest, or principal and interest, next coming due on the Parity Bonds and (ii) regularly scheduled Payments under Parity Payment Agreements.

Parity Reserve Account. The Parity Reserve Account was created pursuant to the 2005A Parity Bond Resolution to secure the payment of the principal of and premium, if any, and interest on Parity Bonds for which a separate Parity Reserve Account Requirement is not established. The 2005A Parity Bonds that will remain outstanding after the issuance of the 2012 Bonds and the refunding of the Refunded Bonds are the only Parity Bonds currently secured by the Parity Reserve Account. Sound Transit covenanted in the 2005A 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 Parity Reserve Account will be sufficient to meet the Parity Reserve Account Requirement. The Parity Reserve Account Requirement for Parity Bonds secured by the Parity Reserve Account 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 Parity Reserve Account Requirement is not required to be funded or increased by an amount greater than 10% of the proceeds of that series of Parity Bonds. In connection with the issuance of the 2012 Bonds and the refunding of the Refunded Bonds, Sound Transit expects to withdraw certain amounts from the Parity Reserve Account. The remaining balance of \$3,172,035, equal to the Parity Reserve Account Requirement for the \$41,360,000 aggregate principal amount of 2005A Parity Bonds that will remain outstanding after the issuance of the 2012 Bonds and the refunding of the Refunded Bonds, consists of investments of proceeds of the 2005A Parity Bonds and earnings thereon. See "SOURCES AND USES OF FUNDS."

As provided in the 2005A Parity Bond Resolution, Sound Transit may establish a separate Parity Reserve Account Requirement for any series of Future Parity Bonds, and amounts or any Bond Insurance to satisfy that separate requirement are then to 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 Parity Reserve Account or by Bond Insurance providing any portion of the Parity Reserve Account Requirement for other Parity Bonds. The 2012 Parity Bond Resolution establishes a separate Parity Reserve Account Requirement for the 2012 Parity Bonds of zero. The Parity Reserve Account Requirements for the 2007A Parity Bonds and the 2009S-2T Parity Bonds are

also zero. **The 2007A Parity Bonds, the 2009S-2T Parity Bonds and the 2012 Parity Bonds have no claim on the amounts in the Parity Reserve Account.**

Future Parity Bonds. Sound Transit has reserved the right to issue Future Parity Bonds secured by a pledge of Pledged Taxes on a parity with the pledge that secures the Parity Bonds upon compliance with the following conditions:

- (1) There is no deficiency in the Parity Bond Account;
- (2) An amount equal to the Parity Reserve Account Requirement (including for the Future Parity Bonds to be issued) will be on deposit or will otherwise be provided for in the Parity Reserve Account upon the issuance of the Future Parity Bonds;
- (3) No Default has occurred and is continuing under the Parity Bond Resolutions; and
- (4) Sound Transit certifies in an Authority Parity Bond Certificate that, upon the issuance of the Future Parity Bonds:
 - (i) Prior Bonds Coverage Test. Local Option Taxes received during any consecutive 12-month period selected by Sound Transit out of the 24-month period immediately preceding the date of calculation (for purposes of an Authority Parity Bond Certificate, the “Base Parity Period”) were not less than 1.5 times Maximum Annual Prior Bond Debt Service 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 Motor Vehicle Tax is Not Included as Pledged Taxes. Pledged Taxes received during the Base Parity Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement (and after all Motor Vehicle Tax has been applied for that purpose) were not less than 1.5 times Maximum Annual Parity Bond 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 Bond Coverage Test for Period While Motor Vehicle Tax and/or Additional Taxes Are Included as Pledged Taxes. Pledged Taxes received during the Base Parity 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 Parity Bond 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.

The Parity Bond Resolutions provide that in preparing an Authority Parity Bond Certificate:

- (1) the Local Option Taxes and/or Pledged Taxes during the Base Parity Period may be only those shown in audited or unaudited financial statements of Sound Transit;
- (2) in calculating amounts received during the Base Parity Period, Sound Transit must take into account any Adopted Parity Rate Adjustment, Additional Taxes and Motor Vehicle Tax included as Pledged Taxes and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Parity Period;
- (3) the Motor Vehicle Tax and/or Additional Taxes may not be taken into account to meet the requirements described in clause 4(iii) above unless Sound Transit receives an opinion of Bond Counsel to the effect that the pledge of such Motor Vehicle Tax 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;

- (4) any Adopted Parity Rate Adjustment, Additional Taxes and/or extension of an existing tax 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 adjusted, new or extended taxes will be received in the amounts assumed for purposes of the Authority Parity Bond Certificate; and
- (5) deposits into and withdrawals from the Tax Stabilization Subaccount during the Base Parity Period may not be taken into account.

Refunding Parity Bonds. Upon delivery of an Authority Parity Bond Certificate, Sound Transit may issue Parity Bonds at any time for the purpose of refunding (including by purchase) any Sound Transit obligations, making future Parity 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 Parity Bonds or other Sound Transit obligations to be refunded and paying the expenses of issuing such Refunding Parity Bonds and of effecting such refunding.

Sound Transit may issue Refunding Parity Bonds to refund Parity Bonds without an Authority Parity Bond Certificate described above if, in every Fiscal Year, the Annual Parity Bond Debt Service on the Parity Bonds to be issued does not exceed the Annual Parity Bond Debt Service by more than \$5,000 on the Parity Bonds to be refunded were the refunding not to occur. In addition, Refunding 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) for the payment of which sufficient funds are not available or are forecasted to be unavailable in the future.

Sound Transit expects to deliver an Authority Parity Bond Certificate in connection with the issuance of the 2012 Parity Bonds.

Parity Payment Agreements. Sound Transit has reserved the right to make Payments under Payment Agreements secured by a pledge of Pledged Taxes equal to the pledge that secures the Parity Bonds (“Parity Payment Agreements”) if the Payment Agreement satisfies the requirements for issuing Future Parity Bonds described above. “Payment Agreement” means a written agreement, for the purpose of managing or reducing Sound Transit’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 Sound Transit 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. See Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—2012 Parity Bond Resolution—Parity Payment Agreements.” The federal credit payments received by Sound Transit in respect of the 2009S-2T Parity Bonds are required to be taken into account as “Receipts” under a “Parity Payment Agreement” in calculating Annual Parity Bond Debt Service.

Defaults and Remedies. The following events constitute a Default under the Parity Bond Resolutions: (1) a “Default” has occurred and is continuing under the Master Prior Bond Resolution; (2) failure to make required payments into the Parity Bond Account or Parity Reserve Account and such default is not remedied; (3) failure to pay principal, premium, if any, or interest when due, or to purchaser or redeem Term Parity Bonds in the required amounts; or (4) material failure to observe and perform any other covenants in the Parity Bond Resolutions, 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 “Security for the 2012 Prior Bonds—Defaults and Remedies” under this heading for a summary of events that constitute a “Default” under the Master Prior Bond Resolution. See also Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Defaults” and “—Remedies Upon Default” and “—2012 Parity Bond Resolution—Defaults” and “—Remedies Upon Default.”

Following the occurrence of a Default under the Master 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.

Upon the occurrence of a Default, the Owners of at least 50% in aggregate principal amount of Parity Bonds Outstanding may appoint a Parity Bondowners' Trustee to exercise the rights of the Owners of the Parity Bonds, all as described in the Parity Bond Resolutions. See "No Acceleration Upon Default" under this heading and Appendix B—"FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—2012 Parity Bond Resolution—Remedies Upon Default." If a Parity Bondowners' Trustee has been appointed, certain of the Owners' remedies may not be exercised individually by the Owners without the consent of the Parity Bondowners' Trustee.

Special Amendments. The Owners from time to time of the Outstanding 2012 Parity Bonds and any Future Parity Bonds will be deemed to have consented to the adoption by Sound Transit of a resolution supplementing or amending the 2012 Parity Bond Resolution for any one or more of the following purposes:

- (1) To delete from the 2012 Parity Bond Resolution and any Parity Bond Authorizing Resolution the Default described in clause (2) in "Defaults and Remedies" above;
- (2) To permit federal credit payments received in respect of Outstanding Build America Parity Bonds (other than federal credit payments received under a Payment Agreement) to be deposited into the Parity Bond Account and credited against the Pledged Taxes otherwise required to be deposited into the Parity Bond Account;
- (3) To permit federal credit payments scheduled to be received in any Fiscal Year in respect of Outstanding Build America Parity Bonds (other than federal credit payments received under a Payment Agreement) to be credited against Parity Bond Debt Service in calculating Annual Parity Bond Debt Service for that Fiscal Year; or
- (4) In satisfying the conditions to the issuance of Future Parity Bonds that will not be secured by the Parity Reserve Account, to disregard the requirement that an amount equal to the Parity Reserve Account Requirement (including for the Future Parity Bonds to be issued) be on deposit or otherwise provided for in the Parity Reserve Account on or prior to the date of issuance of such Future Parity Bonds.

Junior Obligations and Other Obligations

Sound Transit has reserved the right to issue obligations secured by a pledge of the Pledged Taxes subordinate to that of the Prior Bonds and the Parity Bonds ("Junior Obligations") for any lawful purpose of Sound Transit. 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). Following the occurrence of a Default under the Master Prior Bond Resolution and Parity Bond Resolutions, Local Option 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—"FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—2012 Prior Bond Resolution—Junior Obligations; Obligations with Pledge of Revenues."

Defeasance

Sound Transit has reserved the right to defease any of the 2012 Bonds by depositing irrevocably with an escrow agent money and/or noncallable Government Obligations which, together with the earnings thereon and without any reinvestment thereof, are sufficient to pay the principal of and premium, if any, on any such particular 2012 Bonds or portions thereof (the "Defeased Bonds") as the same shall become due, together with all interest accruing thereon to the maturity date or scheduled redemption date, and, in the case of Defeased Bonds to be redeemed prior to maturity, irrevocably calling the Defeased Bonds for redemption on the scheduled redemption date, and paying or making provision for payment of all fees, costs and expenses of that escrow agent due or to become due with respect to the Defeased Bonds.

In connection with a defeasance, Sound Transit is required to cause to be delivered an opinion of nationally recognized tax counsel. Depending on the opinion delivered, upon defeasance, either (i) the Defeased Bonds may be deemed not to be Outstanding, and the Owners of the Defeased Bonds will be restricted exclusively to the money or Government Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to the Defeased Bonds or (ii) Sound Transit may terminate its obligations under any of its covenants under the Master Prior Bond Resolution or the 2012 Parity Bond Resolution, other than its covenants to maintain its existence and to make payments when due on the Prior Bonds or the Parity Bonds, as the case may be. See Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Defeasance” and “—2012 Prior Bond Resolution—Defeasance.”

The term “Government Obligations” has the meaning given in chapter 39.53 RCW, as amended, currently: (1) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (2) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (3) public housing bonds and project notes fully secured by contracts with the United States; and (4) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

Other Covenants

Sound Transit has made various covenants in the 2012 Bond Resolutions. 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 of Directors 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—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Covenants” and “—2012 Parity Bond Resolution—Covenants.”

No Lien

The Owners of the 2012 Bonds do not have a lien on money in any account held by Sound Transit. Sound Transit may be able to file for bankruptcy under Chapter 9 of the Bankruptcy Code. Filing for bankruptcy does not constitute a Default under the Master Prior Bond Resolution or under the Parity Bond Resolutions. Legal proceedings necessary to resolve the status of post-bankruptcy money in the accounts contractually pledged in favor of the Owners of the 2012 Bonds could be time consuming. Substantial delays or reductions in payments to the Owners of the 2012 Bonds could result. Even if a court determines that post-bankruptcy money in such accounts is payable to the Owners of the Prior Bonds or the Parity Bonds, the court may permit Sound Transit to spend such money in such accounts to pay operation and maintenance costs of Sound Transit or to pay general creditors, notwithstanding any provision of the 2012 Bond Resolutions to the contrary.

No Acceleration Upon Default

Upon the occurrence and continuance of a Default under the 2012 Bond Resolutions, payment of the principal amount of the Prior Bonds and 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.

SOUND TRANSIT

Introduction

Sound Transit is a regional transit authority created under chapter 81.112 RCW on September 17, 1993. Sound Transit is not a general purpose municipal government. The primary statutory purpose of Sound Transit 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 HOV 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 shown on page iii of this Official Statement.

Corporate Powers

Sound Transit’s corporate powers include 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. A map of the District is set forth on page iv of this Official Statement. The District includes, among other cities, Seattle, Tacoma, Bellevue and Everett. The estimated 2011 population within the District was 2.76 million. (The city of Covington, with an estimated 2011 population of 17,640, 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 in certain cases approval by voters within the area to be annexed. Sound Transit’s service area generally encompasses the District.

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. A number of the Board members also are members of the governing boards of local transit agencies. The State Secretary of Transportation also serves on the Board. The local elected officials include County executives, County councilmembers, mayors and city councilmembers 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 ii of this Official Statement.

None of the Board members or other officers of Sound Transit has any interest in the issuance of the 2012 Bonds that is prohibited by law.

Key Staff Biographies

Joni Earl, Chief Executive Officer. Appointed unanimously by the Board in 2001, Ms. Earl became Acting Executive Director—and then Chief Executive Officer—for Sound Transit, assuming full authority over the agency. Previously, she served as Chief Operating Officer. Prior to joining Sound Transit, Ms. 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, Ms. Earl served as City Manager for Mill Creek, Washington, and held positions as Director of Internal Management and as the Chief Fiscal Officer for Kitsap County, Washington. She also served on the Board of Directors and Audit Committee of Cascade Bank. Ms. Earl received her Masters Degree in Business Administration from the University of Puget Sound and her Bachelor's Degree from Washington State University; she is also a graduate of Harvard University's State & Local Government Executive Program. In 2005, she was named one of Seattle Magazine's 25 Most Influential People of the Puget Sound region and one of Puget Sound Business Journal's 20 Women of Influence.

Desmond Brown, Executive Director, General Counsel. Mr. Brown joined Sound Transit in 1997 after 11 years as a real estate attorney with the Seattle law firm Preston Gates & Ellis LLP (now K&L Gates 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.

Brian McCartan, Executive Director, Finance and Information Technology. With over 23 years of experience in financial management, Mr. McCartan oversees the accounting, financial planning, treasury, grants, risk management and information technology divisions of Sound Transit. Prior to joining Sound Transit, he served as Debt Manager for the City of Seattle, where he worked on financing capital projects, including the issuance of over \$800 million in revenue bonds, bond anticipation notes and certificates of participation, including taxable, tax-exempt, fixed and variable rate obligations. As an International Economist for the U.S. Treasury in Washington D.C., he served in the Office of Foreign Exchange Operations, which managed the \$32 billion Exchange Stabilization Fund, a multi-currency enterprise fund used to finance U.S. international monetary operations. Mr. McCartan holds a Master of Arts from Yale University in International Finance & Economics and a Bachelor of Arts from the University of Washington.

Ahmad Fazel, Executive Director, Design, Engineering and Construction Management. Mr. Fazel joined Sound Transit in 2000 as the Systems Engineering Manager, became the Director of Link Light Rail a year later, and became the Director of Design, Engineering and Construction Management in 2010. With over 26 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 the buildout of Denver's first two segments of light rail. Mr. Fazel also has served as Systems Engineer for the Tri-County Metropolitan Transportation District of Oregon (Tri-Met). He holds a Bachelor of Science in Mechanical Engineering from Washington State University.

Ric Ilgenfritz, Executive Director, Planning, Environment and Project Development. Mr. Ilgenfritz joined Sound Transit in 2001 from the National Marine Fisheries Service (now NOAA Fisheries), where he served as point-person for implementing the Endangered Species Act within the Columbia/Snake River basin. He chaired a nine-member interagency team charged with developing federal salmon recovery strategy. He has served as External Relations Director of the National Marine Fisheries Service, where he was responsible for external relations in the Northwest Regional Office. Mr. Ilgenfritz was Legislative Director for U.S. Senator Patty Murray from 1995 to 1998 and has served as staff member on the subcommittee on Transportation in the U.S. House of Representatives. He holds a Bachelor of Arts in Journalism from the University of Oregon.

Ron Klein, Director, Communications and External Affairs. Mr. Klein joined Sound Transit in January 2009. Prior to joining Sound Transit, Mr. Klein spent eight years at Pierce County, where he was responsible for media relations, public outreach, and operation of the county's cable TV channel. Prior to Pierce County, Mr. Klein

worked for advertising and public relations firms in the Seattle/Tacoma area. Mr. Klein received a Bachelor of Arts from the University of Washington.

Bonnie Todd, Director, Operations. Ms. Todd joined the staff of Sound Transit as Director of Operations in 2007. Ms. Todd manages Sound Transit service operations that include ST Express regional buses, Sounder Commuter Rail and Link Light Rail in Seattle and Tacoma, as well as Sound Transit service planning, customer service, accessibility, facilities maintenance, fleet, equipment, signage, parking and customer facilities across all transportation modes. Ms. Todd worked in Washington, D.C. at the Washington Metropolitan Area Transit Authority and the American Public Transit Association (“APTA”). While serving as Director, System Safety Programs at APTA, she developed the Bus Safety Management Program Standards for the APTA Safety Audit Program. She then moved to Miami and served as Chief Miami-Dade Transit Safety and Security where she achieved a 78% reduction in serious crime in the Miami-Dade Transit System. She later served as Chief of Quality Assurance and earned a special recognition award from the National Association of Counties for the design and development of the Miami-Dade Transit Hurricane Preparedness Manual in 2006. Ms. Todd earned a Masters Degree in Business Administration from Florida International University in Miami and a Bachelor of Science Degree in Management from the University of Maryland, University College.

Tracy Butler, Treasurer. Ms. Butler joined Sound Transit in 2007. She oversees cash, investment, debt management and financial management functions of the fare collection systems. Prior to joining Sound Transit, Ms. Butler served as the Treasurer at Salem Hospital in Salem, Oregon, where she managed the investment of the general operating fund, construction fund, endowment fund and retirement fund and worked on the issuance of variable rate, fixed rate and synthetic fixed rate bonds. She also served as Management Consultant at Optima Management and Consultant of the Guaranteed Fund project at the International Labor Organization in Geneva, Switzerland prior to coming to the United States in 2000. Ms. Butler is a Certified Treasury Professional. She holds a Masters Degree in Public and Business Administration from Willamette University in Oregon and a Bachelor of Arts in Business Administration from the American Graduate School of Business in Switzerland.

System Plan

Adoption of System Plan. Sound Transit was created primarily to implement 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 State Department of Transportation (“WSDOT”).

The regional high-capacity transportation implementation program was required 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. 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. Upon formation of Sound Transit, the joint regional policy committee ceased to exist.

Sound Transit adopted its “System Plan,” which incorporates commuter rail, light rail, express bus, community connections (such as transit centers, park-and-ride lots and transit access improvements) and HOV facilities and other improvements. The System Plan consists of three primary programs: HOV access improvements, transit centers and park-and-ride lots to support a system of regional express buses (“ST Express”); commuter rail (“Sounder”); and electric light rail (“Link”). The implementation of the initial phase of the System Plan (“Sound Move”), which was approved by voters in 1996, is scheduled for a 20-year period ending in 2016. The second phase of the System Plan (“Sound Transit 2”), which was approved by voters in 2008, is scheduled for a 15-year period ending in 2023. In the 2008 election, as in the 1996 election, approximately 57% of voters approved the proposition.

Sound Move. In 1996, central Puget Sound voters approved implementation of the Sound Move plan to build a high-capacity public transit system. Since then, Sound Transit has built and now operates 24 ST Express bus routes, 75 miles of Sounder Commuter Rail and 17 miles of Link Light Rail. Sound Transit is working on completing other elements of the Sound Move plan, including extending Link Light Rail from downtown Seattle to the University of Washington, and extending Sounder Commuter Rail an additional 7.5 miles from Tacoma to Lakewood.

Sound Transit 2. In 2008, voters approved Sound Transit 2 as a second phase of the System Plan to finance the expansion of light rail, commuter rail and express bus service over a 15-year period ending in 2023. Sound Transit 2 also included improved access to transit through expanded bike facilities, better pedestrian access and additional parking in certain locations. New services will be phased in over several years. The ST Express bus service began increased service in 2009. Several additions to Link Light Rail are under construction and scheduled to begin service in 2021, and several others are in beginning phases of discussions and design.

The map on the following page shows completed and proposed System Plan projects.

SOUND TRANSIT: CURRENT SERVICE AND APPROVED PROJECTS



Progress to Date. Sound Transit makes service available to 80% of residents of the Counties and had more than 25 million passenger boardings in 2011. Sound Transit’s ST Express bus service began in 1999 and currently has 24 ST Express bus routes. Sounder Commuter Rail began operations in 2000 and now operates 75 miles of commuter rail. Link Light Rail began with the 1.6 mile Tacoma Link Light Rail in 2003, and the Central Link Light Rail, connecting downtown Seattle to the Seattle-Tacoma International Airport (the “Airport”), began service in 2009. Sound Transit has received two full funding grant agreements from the Federal Transit Administration (the “FTA”): a \$500 million grant for Central Link Light Rail, which is in closeout, and an \$813 million grant for University Link. In addition, Sound Transit has design work underway for extension of Link Light Rail from downtown Seattle to Redmond (East Link) and from the University of Washington campus to Lynnwood (Northgate Extension and North Corridor).

Sound Transit expects to make capital expenditures associated with the System Plan through 2023 and to finance those expenditures with, among other sources, Sales Tax, Rental Car Tax and Motor Vehicle Tax proceeds, federal, State and local grants, future bond proceeds, fares and other operating revenues, as well as with interest earnings on money from such sources. Many such sources, including proceeds of Local Option Taxes and Pledged Taxes available as described in “SECURITY FOR THE 2012 BONDS—Flow of Funds,” are also used to pay the cost of operating and maintaining Sound Transit and its facilities. See “Historical Financial Results” under this heading.

Sound Transit periodically updates its long-term financial plan to include the most recent estimated sources and uses of funds for the agency. The most recent financial plan was updated in May 2012. The current Board-adopted capital plan for Sound Transit 2 includes estimates that the capital projects will cost (in year of expenditure dollars): \$11 billion for Link Light Rail, \$1 billion for Sounder Commuter Rail, \$400 million for ST Express bus service and \$500 million for other capital expenditures. Sound Transit has faced significant budget challenges as a result of the recent recession and subsequent sluggish economic recovery. The revenue forecast included in the May 2012 financial plan predicts a decline in tax revenues in the years 2009-2023 of \$3.9 billion (25%) compared to the July 2008 forecast on which Sound Transit 2 was based. See “Financial Plan” below. As a result of the 25% lower revenue forecast, Sound Transit no longer expects to be able to complete all of Sound Transit 2 within the original 15-year time period and it has identified certain projects that are currently suspended until additional revenues become available.

The Board’s policy decisions as to services, equipment, route alignment, fares and other matters 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, earthquakes, volcanic eruptions, legal challenges, changes in law and other circumstances. Any of these circumstances, among others, could delay the implementation or increase costs of the remainder of the System Plan, increase operating expenses or result in the need to revise the System Plan. The ability of Sound Transit to issue debt is subject to market conditions and Sound Transit’s debt capacity, which is based on the assessed value of property within the District, as described under “DEBT CAPACITY.” The 2012 Bonds are secured by a gross pledge of certain taxes and, therefore, the security for the 2012 Bonds does not depend on implementation of the System Plan.

Transit Improvement Plan. The Board adopted a 2012 Transit Improvement Plan that includes projected capital and operating expenditures for the construction and operation of the Sound Transit system. At the time of adoption of this plan, Sound Transit projected that the total cost of the capital program during the period 2012 through 2017 will be approximately \$5,272 million, as set forth in Table 7, to be financed by future bond proceeds and revenues of Sound Transit. “Service Delivery” includes the forecast of operating expenses, including contingency; “Project Delivery” includes budget information for projects as costs to date; and “Agency Administration” includes administrative costs that support Sound Transit’s capital and service delivery programs.

TABLE 7
2012-2017 TRANSIT IMPROVEMENT PLAN
(\$000s)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Service Delivery	\$ 199,800	\$ 212,350	\$ 219,978	\$ 229,093	\$ 248,719	\$ 257,449	\$1,367,338
Project Delivery	761,516	723,856	556,907	549,768	395,059	173,894	3,161,000
Agency Administration	113,154	112,176	112,625	117,532	141,220	146,770	743,477
Total	\$1,074,470	\$1,048,382	\$ 889,510	\$ 896,393	\$ 784,998	\$ 578,112	\$5,271,815

Source: Sound Transit.

Financial Plan. Sound Transit maintains a long-term (1997-2040) Financial Plan in accordance with the “Guidance for Transit Financial Plans” of the FTA. The Financial Plan is updated annually to reflect current forecasts of all Sound Transit sources and uses of funds.

The May 2012 Financial Plan projected \$11.8 billion in Local Option Tax revenues in the years 2009-2023, which was approximately \$3.9 billion (25%) below the revenue forecast included as part of Sound Transit 2. The May 2012 Financial Plan projected receipts of \$2.5 billion in grant funds in the years 2009-2023: \$1.4 billion from three discretionary FTA grants and the remainder from FTA formula grants and other competitive grant programs.

Sound Transit uses a financial forecasting model that incorporates financial policies, assumptions, revenue forecasts and program cost estimates needed to calculate cash flow, bond issues and key performance indicators such as cash balances and debt service coverage ratios. Assumptions used in the financing forecasting model include the following average annual growth rates in the years 2009-2023: Sales Tax revenues, 4.5%; Rental Car Tax revenues, 1.0%; Motor Vehicle Tax revenues, 3.0%; and consumer price index, 2.1%.

Transit Operations

Partner Agencies. Sound Transit purchases buses and trains that are operated and maintained by its partner agencies—King County Metro, Community Transit, Pierce Transit, BNSF Railway Company (“BNSF”) and the National Railroad Passenger Corporation (“Amtrak”)—with the exception of Tacoma Link Light Rail, which is operated directly by Sound Transit. In May 2000, Sound Transit entered into a 40-year agreement with BNSF for the operation of the Sounder commuter trains by BNSF between Seattle and Tacoma. In December 2003, Sound Transit entered into another agreement with BNSF for the operation of the Sounder commuter trains by BNSF between Seattle and Everett. The term of this agreement is for 12 years, with an option of five additional years that must be agreed to by both parties. Effective March 1, 2010, Sound Transit entered into a five-year agreement with Amtrak for the operations and maintenance of its Sounder Commuter Rail rolling stock. This agreement has one two-year option renewal at Sound Transit’s consent and three one-year renewal options at the mutual consent of both parties. Sound Transit’s current operations contracts for ST Express buses with Community Transit, King County Metro and Pierce Transit expire on December 31, 2013, with an additional one-year option to extend through the end of 2014. Effective July 19, 2009, Sound Transit entered into an operations contract for King County Metro to operate Link Light Rail in King County for five years. Sound Transit has entered into an agreement with the King County Department of Transportation to share the downtown Seattle transit tunnel for light rail operations. The agreement is in effect until 2014, at which point Sound Transit will either be required to purchase the tunnel or Sound Transit and the King County Department of Transportation will enter into another operating agreement for joint use.

ST Express. Through its partner agencies, Sound Transit currently operates 24 ST Express bus routes in the Counties. ST Express bus ridership in 2011 was 13.7 million. This compares to 12.5 million in 2010 and 12.9 million in 2009. ST Express buses currently carry more than 50,000 passengers each weekday. The ST Express capital program is focused on providing two types of transportation improvements: community connection facilities and HOV improvements. Community connection facilities 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 has constructed 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 improve the existing HOV network within the District. Sound Transit expects to increase ST Express bus service in the highest-need corridors by improving service frequency, expanding hours of operation and adding trips to relieve overloads.

Sound Transit 2 includes funding for additional improvements to ST Express bus facilities and service and to construct new maintenance and operations facilities to support existing and future ST Express services through at least 2020. Sound Transit increased service levels by improving service frequency, expanding hours of operation and adding trips to relieve overloads in the following corridors: I-5 (Everett/Lynnwood to Seattle and Tacoma to the Airport), I-90 (Issaquah to Bellevue and Seattle), I-405 (Everett to Bellevue), SR 167 (Puyallup, Sumner and Auburn to Seattle) and SR 522 (Woodinville and Bothell to Seattle). In addition, new service was added to the SR 520 corridor to further develop bus rapid transit connecting Redmond and Bellevue and Redmond and the University of Washington.

Sounder Commuter Rail. The Sounder Commuter Rail capital program is expected to create 82.5 miles of peak-period train service, of which 75 miles are currently in service, primarily using existing BNSF railroad tracks between Everett, Seattle, Tacoma and Lakewood. The Sounder Commuter Rail system uses conventional railroad locomotives and passenger coaches. The goal of the Sounder 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 expects 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 to improve the speed and reliability of trains in the corridor.

The Sounder 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, being developed through a partnership between Sound Transit and other public agencies (including Washington State Ferries), are planned for the Mukilteo and Edmonds waterfronts. Ten stations are currently in service and the majority of track and signal improvements between Tacoma and Everett are in place.

Sounder Commuter Rail service between Tacoma and Seattle began in 2000 with two round trips on weekdays and weekend event service. Service has gradually been expanded, and there are now nine round trips between Tacoma and Seattle and four round trips (with two more trips provided by Amtrak) between Everett and Seattle on weekdays, as well as event service on weekends.

Sounder Commuter Rail ridership in 2011 was 2.5 million. This compares to 2.4 million in 2010 and 2.5 million in 2009. Sounder trains currently carry more than 9,900 passengers each weekday.

Sound Transit and BNSF have entered into agreements that allow Sound Transit to operate the Sounder service on the entire 83-mile BNSF 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 and the payment of certain amounts to acquire easements from BNSF. See Note 12 in Appendix A—"AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010."

Sound Transit expects to increase the capacity of the Lakewood-Seattle Sounder service by four additional round trips. Sound Transit also expects to construct an expanded Sounder station in Tukwila and access improvements for Sounder Commuter Rail and bus riders at seven stations.

Link Light Rail. The System Plan initially envisioned a 21-mile light rail system running from the University District in Seattle, through downtown Seattle, to just south of the Airport in the city of SeaTac. Sound Transit is building these projects in phases. The first phase is the 14-mile "initial segment" line with 12 stations running from downtown Seattle to Tukwila. Sound Transit received a \$500 million "Full Funding Grant" from the FTA to pay a

portion of the costs of the Seattle to Airport segment. Service on the Seattle to Tukwila segment began in July 2009. The second phase, Tukwila to the Airport, opened in December 2009.

Link Light Rail ridership in 2011 was 7.8 million. This compares to 7 million in 2010, which was the first full year of operation. Link Light Rail currently carries nearly 23,000 passengers each weekday.

The last phase of the original System Plan is University Link, a three-mile light rail extension that includes a tunnel east from the Downtown Seattle Transit Tunnel, crossing under Interstate 5 and proceeding east and then north to the Capitol Hill Station serving the First Hill/Capitol Hill urban center. The tunnel route then crosses under the ship canal to an interim terminus at the University of Washington station at Husky Stadium, serving the University of Washington campus and the surrounding neighborhoods. The University Link project received \$813 million in grants from the FTA, which is expected to fund approximately 40% of the \$1.9 billion cost of building the line. Construction began in March 2009 with operations expected to begin in 2016. The tunnel boring machines finished their underground digging of the new light rail tunnels between the Capitol Hill Station and the University of Washington station in April 2012, and the cross-passages between the tunnels are being excavated and lined. By 2030, the Capitol Hill Station of the Link Light Rail is expected to serve 14,000 riders daily, and 25,000 riders are expected to board the Link Light Rail at the University of Washington station daily.

Sound Transit 2 includes 36 new miles of light rail service to the north, east and south. Sound Transit 2 includes extension of service from the University of Washington north to Northgate and then to Lynnwood, with seven stations (the "North Link"). Service to Northgate is expected to open by 2021, with service to Lynnwood opened by 2023. Environmental review for the North Link was completed in 2006, and final design, which includes what the stations will look like and the technical specifications for the stations and tracks and how they will be built, began in the fall of 2010.

Light rail service from downtown Seattle across Interstate 90 to Bellevue and downtown Redmond (the "East Link") is planned, with service to Bellevue and Redmond by 2023. This East Link expects to serve 50,000 daily riders by 2030. Since Sound Transit 2 was approved by the voters, Sound Transit has been furthering relationships in the community and received records of decision by the FTA and the Federal Highway Administration, which allows the East Link to move forward to finalizing the design of the alignment, stations, art installations and construction methods.

Link Light Rail also is planned from the Airport to north of Federal Way (the "South Link"). Service to the Highline Community College area has been accelerated, and is expected to open by 2016 with service to the Redondo/Star Lake area by 2023. Sound Transit expects 4,500 daily boardings at this South Link station.

Tacoma Link Light Rail is free and 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, and local Pierce Transit buses. Tacoma Link began service in August 2003. Ridership in 2011 was approximately 972,429. Tacoma Link Light Rail trains currently carry more than 3,000 passengers each weekday.

Financial Policies

The Board has adopted an Asset Liability Management Policy that contains investment, debt management and swap policies. The objectives of the investment policy are, in order of priority, safety, liquidity and return on investment. The policies provide that Sound Transit will maintain a minimum cash balance of two months' operating expenses and up to three months of forecasted capital expenditures and the amount budgeted annually for the system-wide emergency and contingency fund. The balance currently totals approximately \$233 million. The Prior Bonds and the Parity Bonds are secured by a gross pledge of certain taxes, but for planning purposes, under Sound Transit's current debt management policy the debt service coverage ratio is to be set at an average coverage ratio of 2.0x for net revenues over annual debt service costs and the debt service coverage ratio on bonds is not to fall below 1.5x in any single year. The debt policy establishes that Sound Transit will manage its debt obligations to minimize its net debt service payments. Under the swap policy, Sound Transit may consider the use of swaps in connection with the issuance of debt obligations consistent with its overall Asset Liability Management Policy as a means of reducing exposure to interest rate fluctuations and/or lower net borrowing costs. Sound Transit has not entered into any

swaps or issued any variable rate debt and has no current plans to do so. See “Payment Agreements” under this heading. The Board may revise the Asset Liability Management Policy at any time.

Labor Relations

As of May 2012, Sound Transit employed 533 permanent employees. Sound Transit currently has seven employees represented by the Amalgamated Transit Union, Local 758 AFL-CIO. The union contract was renegotiated in 2011 and is effective from October 2011 through September 30, 2014. Sound Transit management believes that employee relations are satisfactory.

Employee Benefits

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 2011 on a covered payroll of \$41.2 million was 12%, or \$4.9 million, and the employee contribution rate was 10%, or \$4.1 million.

Prior to December 31, 1999, Sound Transit employees had a choice of participating in either the 401(a) Plan or in the State Public Employees’ Retirement System (“PERS”). However, the 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. 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 were eligible to continue their membership in PERS for the duration of their continuous employment with Sound Transit. As of December 31, 2011, there was one remaining employee participating in PERS. See Note 11 in Appendix A—“AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010.”

Sound Transit does not participate in the federal Social Security System.

Sound Transit provides no other post-employment benefits (“OPEB”) to employees, other than free transit passes.

Risk Management

In the ordinary course of planning, building, and operating its regional transit systems and services to improve mobility for the Central Puget Sound, which includes construction projects and agency and rail operations, Sound Transit is exposed to various types of risks and exposures 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 and insurance program. Sound Transit has implemented a commercial insurance program for its agency and railroad operation that provides first-level coverage for property, primary and excess liability, commercial auto liability, premises pollution liability, public officials and employment practices liability, crime and fidelity, and fiduciary liability to provide protections from these risks and exposures.

For ST Express bus operations, under Sound Transit’s agreements, insurance coverage is provided by its bus transit partner agencies, which is included in the pro-rata transit operations cost rate established by Sound Transit and its bus transit partner agencies. However under its interagency agreement for ST Express bus service operations and maintenance in Pierce County, Sound Transit reimburses Pierce Transit for the costs of all individual claims paid up to \$1 million per occurrence for all liability claims generated from ST Express bus service through December 31, 2009. The Sound Transit/Pierce Transit operations and maintenance agreement that was executed for services post December 31, 2009 (January 1, 2010 forward) transfers this risk back to Pierce Transit and establishes the same pro-rata transit operations cost rate as the other bus transit partners (i.e., King County Metro and Community Transit).

Sound Transit also utilizes two Owner-Controlled Insurance Programs (“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. Its first program was secured in 2001, primarily for construction of the Central Link Light Rail initial

segment and subsequently amended to include the Airport Link Light Rail segment and provides coverage from January 1, 2001 through December 31, 2009, with three years of completed operations coverage. The exception is the professional liability and contractor's pollution policy, which provides coverage through December 31, 2016 with an additional three-year reporting period extending to December 31, 2019. This insurance policy was extended to provide professional liability and contractor's pollution liability insurance coverage for the final design of the University Link Light Rail project.

A second OCIP was implemented in October 2008 for the University Link Light Rail projects. The funding of the premium payments in 2009 and 2010 of \$6.2 million and \$5.8 million respectively. The University Link OCIP insurance coverage is provided from October 20, 2008 through September 30, 2016. This coverage includes; primary commercial general liability, excess general liability, builders risk, excess builders risk, and contractors pollution liability insurance.

On each of its policies, Sound Transit is responsible for deductibles or self-insurance retentions, with the trigger of coverage on a per occurrence or on a claims-made basis. For its Central Link Light Rail Initial Segment and Airport Link Light Rail OCIP commercial general liability policy, Sound Transit purchased a deductible liability protection policy to supplement the commercial general liability deductible responsibility of \$500,000 per occurrence, which collateralized Sound Transit's probable maximum claims exposure at the inception of the policy, estimated by the commercial general liability insurer at \$6.5 million. This amount was deposited with the insurer in an interest-bearing loss fund account. Sound Transit engages an actuary annually to prepare an actuarial report to estimate its total claim exposure under all of its insurance and risk management programs. The reserve claim amount estimated to be paid within the next year are included in other current liabilities.

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, capital expenditures, reserves and revenues for the upcoming Fiscal Year. Sound Transit also prepares a multi-year capital plan. The capital plan contains project-by-project summaries of total cost estimates, known project risks and authorized capital budgets by phase, such as preliminary engineering, final design, construction and property acquisition. 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 2012 was adopted by the Board on December 15, 2011.

Sound Transit's financial system and reporting tools allow management to monitor activity as needed. Monthly reports produced for internal distribution identify budgets, contract commitments and expenditures for programs at a detailed level. Sound Transit produces quarterly financial reports and progress reports for external distribution. Both of these reports provide budget versus actual information. Under the Board's adopted budget policies, budget amendments that increase budget authority require adoption by a two-thirds affirmative vote of all Board members.

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 chapter 43.09 RCW for proprietary funds. See Note 2 in Appendix A—"AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010" for a summary of Sound Transit's significant accounting policies.

Audit and Reporting Committee. Sound Transit's Audit and Reporting Committee meets quarterly to review Sound Transit's financial performance and pending and active audit activities.

Financial Statements. Sound Transit's financial statements are audited annually by an independent auditor. Sound Transit's audited financial statements for the years ended December 31, 2011 and 2010, including the accompanying notes, are set forth in Appendix A—"AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010." Sound Transit has not requested that its independent auditor provide consent for inclusion in this

Official Statement of its report set forth in Appendix A. Sound Transit's independent auditor has not been engaged to perform and has not performed, since the date of its report set forth in Appendix A, any procedures on the financial statements addressed in that report, nor has Sound Transit's independent auditor performed any procedures relating to this Official Statement. Sound Transit's independent auditor also prepares an annual single audit of Sound Transit's financial statements for submission to the federal government.

Internal Audit. Sound Transit has an independent internal audit function reporting to the deputy Chief Executive Officer and the Audit and Reporting Committee. This function provides audit services including compliance, incurred cost and performance audits based on an annual audit plan approved by the Audit and Reporting Committee and developed through a risk-based planning process. The Internal Audit Division is staffed with a Director (CPA), and two full-time senior internal auditors, one of whom is a Certified Internal Auditor, and the other a Certified Information Systems Auditor. The Internal Audit Division complies with the international professional practices framework promulgated by the Institute of Internal Auditors.

State Accountability Audits. The State Auditor's Office performs an annual audit of Sound Transit's accountability for public resources and compliance with State laws and regulations and Sound Transit policies and procedures. The most recent audit, for 2010, reported no findings.

State Performance Audits. In 2005, pursuant to an initiative approved by the State's voters, the State Auditor's Office was given authority to conduct independent performance audits of State and local government entities. In October 2007, as part of this initiative, an audit was performed and completed on the Link Light Rail project. A follow-up performance audit of Sound Transit by the State Auditor's Office is currently underway and is expected to be completed by September 2012.

Investments

Washington law provides that investments of municipalities, including Sound Transit, may be invested in U.S. Treasury bonds, notes, bills or other government obligations of the U.S. Government or agencies of the U.S. Government; Governmental Sponsored Enterprise agency securities; interest bearing demand or time deposits issued by certain banks, trust companies or savings and loan associations; fully-secured repurchase agreements; banker's acceptances having a term of 180 days or less; taxable government money market portfolios restricted to obligations of one year or less issued and guaranteed by the full faith and credit of the U.S. government; and any other investments permitted under the laws of the State, such as obligations of the State and of any political subdivision of the State. In addition, Sound Transit invests in accordance with an investment policy approved by the Board. Permitted investments under the policy include obligations of the United States treasury and agency securities, bankers' acceptances, certificates of deposit, commercial paper, general obligation municipal bonds and repurchase agreements. See Note 3 in Appendix A—"AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010."

As of May 1, 2012 Sound Transit funds were invested as follows:

TABLE 8
SOUND TRANSIT RESTRICTED AND UNRESTRICTED INVESTMENTS
(As of May 1, 2012)

Type	Amount (\$000s)	Percentage
Treasuries	\$ 27,214	2.9%
Agency Bonds		
FNMA	113,879	12.0
FFCB	81,902	8.6
FHLB	61,904	6.5
FHLMC	130,869	13.8
GO bonds	80,634	8.5
Certificates of Deposit	20,117	2.1
Cash & Cash Equivalents	18,065	1.9
Investment Pools ⁽¹⁾	413,044	43.6
Total ⁽²⁾	\$947,628	100.0%

(1) Includes the State’s Local Government Investment Pool (“LGIP”) and the King County Investment Pool (“KCIP”). The State Treasurer’s Office administers the LGIP, an approximately \$8.3 billion fund that invests money on behalf of more than 450 participants, including cities, counties and special taxing districts. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands. The State Treasurer’s Office reports that the LGIP is a highly liquid money market fund comparable to a Rule 2a-7 money market fund. The pool is restricted to investments with maturities of 397 days or less, and the average investment life typically is less than 60 days. Permissible investments include U.S. government and agency securities, bankers’ acceptances, repurchase and reverse repurchase agreements, bank deposits, NOW accounts and certificates of deposit issued by qualified Washington State depositories. The KCIP invests cash reserves for all King County agencies and approximately 100 special purpose districts and other public entities such as fire, school, sewer and water districts, and other public authorities. It is one of the largest investment pools in the State, with a typical recent asset balance in excess of \$4.3 billion. On average, King County agencies comprise 40% of the KCIP.

(2) Totals may not foot due to rounding.

Source: Sound Transit.

Payment Agreements

Sound Transit is authorized by chapter 39.96 RCW and by the 2012 Bond Resolutions to enter into payment agreements, including interest rate swap agreements, agreements for interest rate caps and floors, and certain interest payment option agreements. 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. Sound Transit has designated the federal credit payments in respect of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds as “Receipts” under “Payment Agreements,” although such Payment Agreements are not “payment agreements” as defined in chapter 39.96 RCW.

For agreements that are “payment agreements” under State law, 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 the payments by which 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.

To date, Sound Transit has not entered into any payment agreement of the type authorized by chapter 39.96 RCW. See “SECURITY FOR THE 2012 BONDS—Payment Agreements” for a summary of requirements contained in the 2012 Bond Resolutions 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 five 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, 2011, the present value of Sound Transit’s future payments under the sublease was \$57.6 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. (“AIG Matched Funding”) pursuant to repurchase agreements with such parties. Such payments, however, may be made from Local Option Taxes, if necessary. The pledge of Local Option Taxes under the sublease documents is expressly subordinate to the pledges of Local Option Taxes that secure the Prior Bonds and the Parity Bonds. Sound Transit will be required to make 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. The lease documents established minimum credit levels for AIG Matched Funding, and AIG Matched Funding currently is rated below the minimum levels. As a result, Sound Transit is required to replace AIG Matched Funding or to amend the documents, but if this does not occur the investor has various options, including termination. The termination payment, less the accreted value schedule for the equity payment agreement, was valued at \$16 million at the end of December 2011. See Note 6 in Appendix A—“AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010.”

Debt Service Requirements

The 1999 Prior Bonds were issued in the aggregate principal amount of \$350,000,000 and were Outstanding as of May 1, 2012 in the aggregate principal amount of \$315,875,000. The 2009P-1 Prior Bonds were issued in the aggregate principal amount of \$23,155,000 and all were Outstanding as of May 1, 2012. The 2009P-2T Prior Bonds were issued in the aggregate principal amount of \$76,845,000 and all were Outstanding as of May 1, 2012.

The 2005A Parity Bonds were issued in the aggregate principal amount of \$422,815,000 and were Outstanding as of May 1, 2012 in the aggregate principal amount of \$392,005,000, of which \$350,645,000 will be refunded by the 2012 Bonds. The 2007A Parity Bonds were issued in the amount of \$450,000,000 and were Outstanding as of May 1, 2012 in the aggregate principal amount of \$410,110,000. The 2009S-2T Parity Bonds were issued in the aggregate principal amount of \$300,000,000 and all were Outstanding as of May 1, 2012.

Table 9 sets forth the current annual principal and interest requirements of the 1999 Prior Bonds, the 2009P-1 Prior Bonds, the 2009P-2T Prior Bonds, the 2005A Parity Bonds, the 2007A Parity Bonds and the 2009S-2T Parity Bonds, rounded to the nearest dollar. A portion of 2012 Prior Bond and 2012 Parity Bond proceeds will be used to refund the portion of the outstanding 2005A Parity Bonds. See “SOURCES AND USES OF FUNDS—Plan of Refunding.”

Sound Transit expects to issue additional series of bonds to finance a portion of the System Plan. See “System Plan” under this heading and “SECURITY FOR THE 2012 BONDS.” Table 9 does not include payments due under capital leases. See “Capital Leases” under this heading.

**TABLE 9
ANNUAL DEBT SERVICE REQUIREMENTS FOR THE PRIOR BONDS AND PARITY BONDS**

Year	Outstanding Prior Bonds Debt Service ⁽¹⁾	2012 Prior Bonds		Total Prior Bonds Debt Service ⁽¹⁾	Outstanding Parity Bonds Debt Service ⁽¹⁾⁽²⁾	2012 Parity Bonds		Total Parity Bonds Debt Service ⁽¹⁾⁽²⁾	Aggregate Debt Service ⁽¹⁾⁽³⁾
		Principal	Interest			Principal	Interest		
2012 ⁽⁴⁾	\$ 9,518,002	-	-	\$ 9,518,002	\$30,171,934	-	\$ 921,143	\$31,093,077	\$40,611,079
2013	24,771,790	\$ 13,115,000	\$ 9,474,227	47,361,017	46,747,944	-	4,805,963	51,553,906	98,914,923
2014	24,761,895	14,150,000	9,633,300	48,545,195	45,047,669	-	4,805,962	49,853,631	98,398,826
2015	30,179,673	10,460,000	9,119,300	49,758,973	43,608,606	-	4,805,963	48,414,569	98,173,542
2016	41,755,820	345,000	8,904,925	51,005,745	30,571,150	\$ 5,605,000	4,805,962	40,982,113	91,987,858
2017	23,739,270	20,140,000	8,398,750	52,278,020	30,571,150	5,875,000	4,535,713	40,981,863	93,259,883
2018	23,731,778	22,520,000	7,334,750	53,586,528	34,201,150	2,540,000	4,241,962	40,983,113	94,569,641
2019	37,263,517	11,170,000	6,492,500	54,926,017	30,425,950	6,445,000	4,114,963	40,985,913	95,911,930
2020	44,506,952	5,720,000	6,070,250	56,297,202	30,425,950	6,750,000	3,807,712	40,983,663	97,280,865
2021	44,512,743	7,455,000	5,740,875	57,708,618	30,425,950	7,090,000	3,470,213	40,986,163	98,694,781
2022	44,519,397	9,310,000	5,321,750	59,151,147	30,425,950	7,440,000	3,115,712	40,981,663	100,132,810
2023	44,524,027	11,300,000	4,806,500	60,630,527	30,425,950	7,815,000	2,743,713	40,984,663	101,615,190
2024	44,530,387	13,425,000	4,188,375	62,143,762	30,425,950	8,205,000	2,352,962	40,983,913	103,127,675
2025	44,537,262	15,700,000	3,460,250	63,697,513	30,425,950	8,615,000	1,942,713	40,983,663	104,681,176
2026	44,545,123	18,130,000	2,614,500	65,289,623	30,425,950	9,045,000	1,511,962	40,982,913	106,272,536
2027	44,553,557	20,725,000	1,643,125	66,921,682	30,425,950	9,500,000	1,059,713	40,985,663	107,907,345
2028	44,557,484	22,500,000	562,500	67,619,984	30,425,950	9,975,000	584,712	4,0985,663	108,605,647
2029	-	-	-	-	39,485,950	1,410,000	85,963	40,981,913	40,981,913
2030	-	-	-	-	39,706,774	1,235,000	40,137	40,981,911	40,981,911
2031	-	-	-	-	91,465,102	-	-	91,465,102	91,465,102
2032	-	-	-	-	91,472,327	-	-	91,472,327	91,472,327
2033	-	-	-	-	91,476,020	-	-	91,476,020	91,476,020
2034	-	-	-	-	91,484,004	-	-	91,484,004	91,484,004
2035	-	-	-	-	91,488,421	-	-	91,488,421	91,488,421
2036	-	-	-	-	91,491,343	-	-	91,491,343	91,491,343
2037	-	-	-	-	91,499,341	-	-	91,499,341	91,499,341
2038	-	-	-	-	91,569,967	-	-	91,569,967	91,569,967
2039	-	-	-	-	91,643,162	-	-	91,643,162	91,643,162
Total⁽³⁾	\$616,508,677	\$216,165,000	\$93,765,877	\$926,439,555	\$1,467,961,514	\$97,545,000	\$53,753,143	\$1,619,259,657	\$2,545,699,212

(1) Net of federal credit payments expected to be received by Sound Transit. See "INTRODUCTION—Federal Credit Payments for 2009 'Build America Bonds.'"

(2) Excludes the Refunded Bonds.

(3) Totals may not foot due to rounding.

(4) Partial year debt service; includes August 1 and November 1 payments.

Source: Sound Transit.

Historical Financial Results

Table 10 sets forth a summary of revenues, expenses and changes in net assets, as reported in Sound Transit's audited financial statements for the years 2007 through 2011, which are on an accrual basis.

TABLE 10
HISTORICAL REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(\$000s)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenues					
Passenger fares	\$ 22,029	\$ 26,611	\$ 29,048	\$ 37,589	\$ 46,116
Other operating revenue	5,794	4,078	3,617	2,547	5,814
Total Operating Revenues	<u>27,823</u>	<u>30,689</u>	<u>32,665</u>	<u>40,136</u>	<u>51,930</u>
Operating Expenses					
Vehicle operations ⁽¹⁾	64,642	78,897	97,774	107,092	112,511
Vehicle maintenance ⁽¹⁾	28,681	33,650	45,473	46,757	45,598
Non-vehicle maintenance ⁽¹⁾	9,757	9,842	19,169	24,869	23,997
General and administrative	25,932	25,012	24,601	34,165	29,542
Loss on disposal of assets ⁽¹⁾	309	14	-	-	-
Fare and regional planning ⁽¹⁾	14,461	14,152	5,703	2,891	1,337
Depreciation, amortization and accretion	35,187	38,282	65,808	104,285	110,413
Total Operating Expenses	<u>178,969</u>	<u>199,849</u>	<u>258,528</u>	<u>320,059</u>	<u>323,398</u>
Loss from Operations	(151,146)	(169,160)	(225,863)	(279,923)	(271,468)
Non-Operating Revenues (Expenses)					
Sales Tax	280,263	265,358	440,929	504,101	528,022
Motor Vehicle Tax	72,403	68,621	67,290	65,788	65,893
Rental Car Tax	2,531	2,498	2,869	2,409	1,958
Investment income	24,952	23,630	12,360	14,122	20,875
Other revenues	119	7,946	912	10,678	8,676
Capital contributions to other governments ⁽²⁾	(115,557)	(67,848)	(25,519)	(7,703)	(81,742)
Interest expense	(224)	(16)	(182)	(52,765)	(43,728)
Discontinued and impaired projects ⁽³⁾	(211)	(4,818)	(5,784)	(7,659)	(2,118)
Total Non-Operating Revenues, Net	<u>264,276</u>	<u>295,371</u>	<u>492,875</u>	<u>528,971</u>	<u>497,836</u>
Income Before Capital Contributions	113,130	126,211	267,012	249,048	226,368
Federal capital contributions	111,188	161,634	153,086	151,824	168,671
Other capital contributions	4,670	13,867	23,336	12,003	5,583
Net Capital Contributions	<u>115,858</u>	<u>175,502</u>	<u>176,422</u>	<u>163,827</u>	<u>174,254</u>
Changes in Net Assets	228,988	301,713	443,434	412,875	400,622
Total Net Assets, Beginning of Year	<u>2,647,280</u>	<u>2,876,268</u>	<u>3,177,981</u>	<u>3,621,415</u>	<u>4,034,290</u>
Total Net Assets, End of Year	<u>\$2,876,268</u>	<u>\$3,177,981</u>	<u>\$3,621,415</u>	<u>\$4,034,290</u>	<u>\$4,434,912</u>

(1) Sound Transit's 2007 and 2008 financial statements included the "Operations and maintenance" and "Loss on disposal of assets" line items. Sound Transit's 2009 through 2011 financial statements included the "Vehicle operations," "Vehicle maintenance," "Non-vehicle maintenance" and "Fare and regional planning" line items.

(2) Pursuant to capital funding agreements, Sound Transit provides funding to or constructed assets for various governments or their subsidiaries for transit-related capital improvements.

(3) Includes a discontinued project in 2008 due to high costs, wetland mitigation expenses in 2007 and 2008. 2009 includes expenses for discontinuance of a joint project with WSDOT due to lack of funding dedicated by WSDOT. 2010 and 2011 include expenses related to Beacon Hill Tunnel void mitigation.

Source: Sound Transit.

Historical Debt Service Coverage on Prior Bonds. Table 11 sets forth historical debt service coverage for the 1999 Prior Bonds, the 2009P-1 Prior Bonds and the 2009P-2T Prior Bonds. Sound Transit is issuing the 2012 Prior

Bonds and expects to issue additional bonds to finance a portion of the System Plan. See “System Plan” under this heading. Sound Transit has reserved the right to issue Future Prior Bonds as described in “SECURITY FOR THE 2012 BONDS—Security for the 2012 Prior Bonds—Future Prior Bonds.”

TABLE 11
HISTORICAL DEBT SERVICE COVERAGE ON PRIOR BONDS
(\$000s)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Sales Tax ⁽¹⁾	\$280,263	\$265,358	\$440,929	\$504,101	\$528,022
Rental Car Tax ⁽¹⁾	2,531	2,498	2,869	2,409	1,958
Motor Vehicle Tax ⁽¹⁾	<u>72,403</u>	<u>68,621</u>	<u>67,290</u>	<u>65,788</u>	<u>65,893</u>
Total Local Option Taxes	\$355,197	\$336,477	\$511,088	\$572,298	\$595,873
Prior Bonds debt service	\$21,349	\$21,340	\$21,309	\$24,237	\$24,788
Prior Bonds debt service coverage ⁽²⁾	16.64x	15.77x	23.98x	23.61x	24.04x

(1) On an accrual basis.

(2) Local Option Taxes divided by Prior Bond debt service.

Source: Sound Transit.

Historical Debt Service Coverage on Parity Bonds. Table 12 sets forth historical debt service coverage for the 2005A Parity Bonds, 2007A Parity Bonds and 2009S-2T Parity Bonds (the Outstanding Parity Bonds). Sound Transit is issuing the 2012 Parity Bonds and expects to issue additional bonds to finance a portion of the System Plan. See “SOUND TRANSIT—System Plan.” Sound Transit has reserved the right to issue Future Parity Bonds as described in “SECURITY FOR THE 2012 BONDS—Security for the 2012 Parity Bonds—Future Parity Bonds.”

TABLE 12
HISTORICAL DEBT SERVICE COVERAGE ON PARITY BONDS
(\$000s)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Sales Tax ⁽¹⁾	\$280,263	\$265,358	\$440,929	\$504,101	\$528,022
Rental Car Tax ⁽¹⁾	2,531	2,498	2,869	2,409	1,958
Total Pledged Taxes	282,794	267,856	443,798	506,510	529,980
Less: Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement, after all Motor Vehicle Tax has been applied for that purpose ⁽²⁾	—	—	—	—	—
Pledged Taxes available for debt service on the 2005A Parity Bonds, 2007A Parity Bonds and 2009S-2T Parity Bonds	282,794	267,856	443,798	506,510	529,980
Motor Vehicle Tax ⁽¹⁾	72,403	68,621	67,290	65,788	65,893
Less: debt service on Prior Bonds	(21,349)	(21,340)	(21,309)	(24,237)	(24,788)
Local Option Taxes available for debt service on the 2005A Parity Bonds, 2007A Parity Bonds and 2009S-2T Parity Bonds	\$333,848	\$315,137	\$489,779	\$548,061	\$571,085
Parity Bonds debt service	\$20,581	\$54,601	\$56,872	\$55,288	\$64,361
Parity Bonds debt service coverage:					
by Pledged Taxes ⁽³⁾	13.74x	4.91x	7.80x	9.16x	8.23x
by Local Option Taxes ⁽⁴⁾	16.22x	5.77x	8.61x	9.91x	8.87x

(1) On an accrual basis.

(2) Equal to zero in each year, because the Motor Vehicle Tax revenues in each year exceeded the Prior Bonds Coverage Requirement (1.5 times Maximum Annual Prior Bond Debt Service). The Motor Vehicle Tax is a component of the Local Option Taxes pledged to the payment of the Prior Bonds, but the Motor Vehicle Tax is not a component of the Pledged Taxes pledged to the payment of the Parity Bonds. Under current law, Sound Transit does not have authority to impose the Motor Vehicle Tax after the 1999 Prior Bonds are retired or provision is made for their payment. The last scheduled maturity of the 1999 Prior Bonds is 2028. Sound Transit has covenanted in the Master Prior Bond Resolution to use the proceeds from all Local Option Taxes (including the Motor Vehicle Tax) for the purposes and in the priorities described in "SECURITY FOR THE 2012 BONDS—Flow of Funds," including for payment of debt service on Parity Bonds.

(3) Pledged Taxes available for debt service on the Parity Bonds, divided by Parity Bond debt service.

(4) Local Option Taxes available for debt service on the Parity Bonds, divided by Parity Bond debt service.

Source: Sound Transit.

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 8% (initiatives) and 4% (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 next election to be held in November 2012.

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

In recent years, the State's voters have approved numerous initiatives and referenda to limit taxation and revenue collection by the State and local governments in the State, including the Motor Vehicle Tax. See "SOUND TRANSIT

TAXES—Motor Vehicle Tax.” Some of these initiatives and referenda have been ruled to be unconstitutional by the State Supreme Court. Others have been upheld.

Initiative petitions affecting taxation, revenue collection 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 State Legislature or State courts may take, if any, regarding future initiatives approved by voters.

LITIGATION

In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to personnel, commercial, environmental 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 2012 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 2012 Bonds or in any way contesting the validity of the 2012 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 Local Option Taxes as described in this Official Statement.

TAX MATTERS

Tax Exemption

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 2012 Bonds, interest on the 2012 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 2012 Bonds in order to maintain the exclusion of the interest on the 2012 Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2012 Bond proceeds and the facilities financed or refinanced with 2012 Bond proceeds, limitations on investing gross proceeds of the 2012 Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the 2012 Bonds. Sound Transit has covenanted in the 2012 Bond Resolution to comply with those requirements, but if Sound Transit fails to comply with those requirements, interest on the 2012 Bonds could become taxable retroactive to the date of issuance of the 2012 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 2012 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 2012 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 2012 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 2012 Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the 2012 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 2012 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 2012 Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the 2012 Bonds could adversely affect the market value and liquidity of the 2012 Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

2012 Bonds Not “Qualified Tax-Exempt Obligations” for Financial Institutions. Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as “qualified tax-exempt obligations,” only 20% of any interest expense deduction allocable to those obligations will be disallowed.

Sound Transit is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has **not** designated the 2012 Bonds as “qualified tax-exempt obligations” for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the 2012 Bonds is deductible for federal income tax purposes.

Original Issue Discount. The 2012 Parity Bonds maturing in 2029 and 2030 have been sold at prices reflecting original issue discount (“Discount Bonds”). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period,

will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

Original Issue Premium. The 2012 Prior Bonds and the 2012 Parity Bonds maturing in 2016 through 2028, inclusive, have been sold at prices reflecting original issue premium (“Premium Bonds”). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the 2012 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 2012 Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the 2012 Bonds may have other federal tax consequences as to which prospective purchasers of the 2012 Bonds may wish to consult their own tax advisors.

Potential Future Federal Tax Law Changes. From time to time, there are legislative proposals in Congress which, if enacted, could require changes in the description of federal tax matters relating to the Bonds set forth above or adversely affect the market value of the Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

CONTINUING DISCLOSURE

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission, Sound Transit has undertaken for the benefit of holders of the 2012 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 with the Fiscal Year ending on December 31, 2012 (the “Annual Financial Information”), and to provide notices of the occurrence of certain events. The Annual Financial Information is required to be filed by or on behalf of Sound Transit with the Municipal Securities Rulemaking Board (the “MSRB”). Notices of certain events will be filed by or on behalf of Sound Transit with the MSRB. Sound Transit’s proposed undertakings to provide continuing disclosure are set forth in Appendix C—“FORM OF CONTINUING DISCLOSURE UNDERTAKINGS.”

Sound Transit entered into written undertakings to provide continuing disclosure for the 1999 Prior Bonds, the 2005A Parity Bonds, the 2007A Parity Bonds, the 2009 Prior Bonds and the 2009S-2T Parity Bonds. Sound Transit has complied with such undertakings in all material respects.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2012 Bonds by Sound Transit are subject to the approving legal opinions of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. See “ADVISORS AND CONSULTANTS—Bond Counsel and Disclosure Counsel.” The forms of approving opinions of Bond Counsel are set forth in Appendix E. The opinions of Bond Counsel are given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the 2012 Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinions of Bond Counsel are an expression of its professional judgment on the matters expressly addressed in its opinions and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the 2012 Bonds.

Certain legal matters will be passed upon for Sound Transit by its General Counsel and by Foster Pepper PLLC, which is also serving as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP (“Underwriters’ Counsel”). Any opinion of Underwriters’ Counsel will be rendered solely to the Underwriters, will be limited in scope and cannot be relied upon by investors. From time to time Underwriters’ Counsel represents Sound Transit on matters unrelated to the 2012 Bonds.

LIMITATIONS ON REMEDIES

Any remedies available to the Owners of the 2012 Bonds upon the occurrence of a Default under the Master Prior Bond Resolution or the Parity Bond Resolutions are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If Sound Transit fails to comply with its covenants under the Master Prior Bond Resolution or the Parity Bond Resolutions or to pay principal of or interest on the 2012 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the Owners of the 2012 Bonds.

In addition to the limitations on remedies contained in the 2012 Bond Resolutions, the rights and obligations under the 2012 Bonds and the 2012 Bond Resolutions may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinions to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the 2012 Bonds, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors’ rights. The various other legal opinions to be delivered concurrently with the issuance of the 2012 Bonds will be similarly qualified. The forms of opinions of Bond Counsel are set forth in Appendix E.

RATINGS

Moody's Investors Service, Inc., and Standard & Poor's Ratings Services have assigned their municipal bond ratings of "Aa1" and "AAA," respectively, to the 2012 Prior Bonds and have assigned their municipal bond ratings of "Aa2" and "AAA," respectively, to the 2012 Parity Bonds. No application was made to any other rating agency for the purpose of obtaining an additional rating on the 2012 Bonds. Each rating reflects only the view of the applicable rating agency, 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., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. 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 rating agencies, circumstances so warrant. Any such revision or withdrawal of any such rating may have an adverse effect on the market price of the 2012 Bonds.

UNDERWRITING

The 2012 Bonds are to be purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets, LLC and Siebert Brandford Shank & Co., L.L.C. (collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the 2012 Prior Bonds at a price equal to the principal amount thereof, plus an original issue premium of \$38,649,283, less an underwriting discount of \$272,705; and to purchase the 2012 Parity Bonds at a price equal to the principal amount thereof, plus a net original issue premium of \$20,386,723, less an underwriting discount of \$123,059. The bond purchase contract for the purchase of the 2012 Bonds provides that the Underwriters will purchase all the 2012 Bonds if any 2012 Bonds are purchased. The Underwriters may offer and sell the 2012 Bonds to certain dealers (including dealers depositing 2012 Bonds into investment trusts) and others at prices lower than the initial offering prices or prices corresponding to the yields set forth on the inside cover, and such initial offering prices may be changed, from time to time, by the Underwriters, without prior notice.

ADVISORS AND CONSULTANTS

Bond Registrar. Sound Transit has appointed the fiscal agent of the State as the Bond Registrar for the 2012 Bonds. The State fiscal agency contract is bid out by the State Treasurer on a competitive basis for a four-year term. The current contract expires on January 31, 2015. The Bank of New York Mellon currently serves in this capacity. For so long as the 2012 Bonds are held by DTC in the book-entry system, the beneficial owners of the 2012 Bonds must transfer their ownership interests, and will receive payments on the 2012 Bonds, in the manner described in Appendix F—"DTC AND ITS BOOK-ENTRY SYSTEM."

Bond Counsel and Disclosure Counsel. Foster Pepper PLLC, Seattle, Washington ("Bond Counsel"), was selected to serve as Sound Transit's bond counsel and disclosure counsel pursuant to a request for proposal process. Bond Counsel will be compensated from the proceeds of the 2012 Bonds when and if the 2012 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 2012 Bonds. From time to time Bond Counsel represents certain of the Underwriters on matters unrelated to Sound Transit or to the 2012 Bonds.

Financial Advisor. Public Financial Management, Inc. serves as financial advisor to Sound Transit in conjunction with the issuance of the 2012 Bonds. The financial advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or any other related information available to Sound Transit with respect to the accuracy and completeness of disclosure of such information, and no guaranty, warranty or other representation is made by the financial advisor respecting the accuracy and completeness of this Official Statement or any other matter related to this Official Statement.

Independent Auditor. Sound Transit’s financial statements for the years ended December 31, 2011 and 2010, have been audited by KPMG LLP and are set forth in Appendix A—“AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010.” Sound Transit has not requested that its independent auditor provide consent for inclusion in this Official Statement of its report set forth in Appendix A. Sound Transit’s independent auditor has not been engaged to perform and has not performed, since the date of its report set forth in Appendix A, any procedures on the financial statements addressed in that report, nor has Sound Transit’s independent auditor performed any procedures relating to this Official Statement.

Verification Agent. The Arbitrage Group, Inc. has verified (i) that the Acquired Obligations held by the Refunding Trustee in the Refunding Account and the interest to be earned thereon, together with any money held in the Refunding Account, will be sufficient to make all interest payments to the redemption date of the Refunded Bonds and to pay the principal of the Refunded Bonds on the redemption date and (ii) the correctness of the mathematical computations supporting the conclusion of Bond Counsel that the 2012 Bonds are not “arbitrage bonds” as defined in Section 148 of the Code. The computations of the verification agent are based upon information and assumptions provided to them. The verification agent has restricted its procedures to recalculating the computations provided and has not evaluated or examined the assumptions or information used in the computations.

MISCELLANEOUS

The descriptions herein of the 2012 Bond Resolutions 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.

This Official Statement is not to be construed as a contract or agreement between Sound Transit and the Owners of any of the 2012 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.

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

THE CENTRAL PUGET SOUND REGIONAL TRANSIT
AUTHORITY

By: _____ /s/ Joni Earl
Chief Executive Officer

APPENDIX A

AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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***Central Puget Sound
Regional Transit Authority***

***Financial Statements and Independent
Auditor's Report for the Years Ended
December 31, 2011 and 2010***

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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 judgments, 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 2011 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
Chief Executive Officer



Brian McCartan
Chief Financial Officer



Kelly A. Priestley
Controller

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2011 and 2010

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, 2011 and 2010. 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 and footnotes 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 ("ST Express"). The initial phase of the voter-approved regional mass transit system "Sound Move" is scheduled for completion in 2016. The second phase "ST2," approved by the voters in November 2008, is scheduled for a 2023 completion. As individual transit system elements are completed, service will expand.

Sound Transit's financial statements reflect a growth in operating revenues and capital assets. In 2011, operating revenues increased significantly due to increases in ridership and fares on ST Express and Central Link. Sales and Use tax revenues also increased, mostly due to the Department of Revenue's (DOR) Amnesty Program, but also a growth in sales tax revenues in the latter part of the year. Operating expenses increased by less than 2.0%, as routes and schedules were adjusted to capitalize on efficiencies of higher demand routes and lower maintenance costs were incurred. Major sources of non-operating revenue continue to exceed expenses providing an increase in net assets as Sound Transit continues to build out the voter-approved capital program.

Financial Highlights

- Total operating revenues were \$51.9 million for 2011, an increase of 29.4% from the prior year. Passenger fares increased by \$8.5 million from the prior year primarily as a result of increased ridership and pricing on business passport contracts, as well as an increase in fares on ST Express and Central Link light rail in 2011.
- Loss from operations was \$271.5 million for 2011, a decrease of 3.0% from the prior year.
 - Overall operations and maintenance expenses increased by 1.9% from 2010. Costs increased in vehicle and facility maintenance as the light rail vehicles come out of warranty. Also, there were increases in fuel, fare enforcement and security costs incurred on ST Express and Sounder commuter rail, offset substantially by savings from the restructuring of ST Express service, the preservation of ST Express operating rates at 2010 levels and delays in major mid-life maintenance for Sounder commuter rail.
 - General and administrative expenses decreased by 13.5%, primarily due to a decrease in professional fees incurred in support of construction claim resolution.
- Non-operating revenues, net of expenses were \$497.8 million, a 5.9% decrease from prior year primarily as a result of increases in contributions to other governments. Tax revenues increased by \$23.6 million or 4.1%, largely due to the collection of prior year taxes from 2007 to 2011 under the DOR Amnesty Program. Investment income increased \$6.8 million or 47.8% due to an increase in the market value of investments. Capital contributions to other governments increased \$74.0 million with the completion of Mountlake Terrace Freeway Station, Kirkland Transit Center and Edmonds Station in 2011.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

- Capital contributions from federal, state and local funding arrangements were \$174.3 million, an increase of 6.4% from the prior year mostly due to higher drawdowns on the University Link full funding grant agreement resulting from increased construction spending on that project.
- Total net assets at December 31, 2011 were \$4.4 billion, an increase of \$400.6 million or 9.9% from 2010. The change in net assets in 2011 is less than the change in net assets in 2010 primarily due to the increase in capital contributions to other governments in 2011 consisting mostly of contributions to Washington State Department of Transportation (WSDOT) for the Mountlake Terrace Freeway Station that was completed and donated in 2011.
- Total capital assets, net of accumulated depreciation and amortization, were \$5.0 billion at December 31, 2011, an increase of \$386.3 million or 8.4% from 2010. The increase in total capital assets was mostly attributable to the progress on the University Link and the Sounder D Street – M Street Track & Signal project. In 2011, \$214.2 million in expenditures related to completed projects or land acquisitions were transferred to land, permanent easements, transit facilities, vehicles and equipment.

Overview of the Financial Statements

Sound Transit's financial statements are prepared in conformity with United States Generally Accepted Accounting Principles (GAAP). The 2011 and 2010 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 and amortization 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, 2011, were \$4.4 billion, an increase of \$400.6 million or 9.9% from 2010. Total assets increased \$277.7 million or 4.7% and total liabilities decreased by \$122.9 million or 6.6%. The large increase in total assets reflects capital program spending, most significantly the University Link light rail projects and the Sounder D Street to M Street Track & Signal project, as well as the acquisition of an additional Sounder easement in the South corridor and replacement buses for ST Express. See the following table for a summary of Sound Transit's net asset position.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

Net Asset Position					
<i>(in millions)</i>	December 31			% Change	
	2011	2010	2009	2011-2010	2010-2009
Assets					
Current assets, excluding restricted assets	\$ 988.6	\$ 1,090.6	\$ 918.8	(9.4)%	18.7%
Restricted assets	108.3	109.3	239.7	(0.9)	(54.4)
Capital assets	4,996.8	4,610.5	4,200.7	8.4	9.8
Other non-current assets	87.8	93.4	92.0	(6.0)	1.5
Total assets	6,181.5	5,903.8	5,451.2	4.7	8.3
Liabilities					
Current liabilities, excluding interest payable from restricted assets	134.1	228.4	167.4	(41.3)	36.4
Interest payable from restricted assets	18.0	18.2	19.0	(1.1)	(4.3)
Long-term debt	1,529.0	1,550.5	1,571.3	(1.4)	(1.3)
Other long-term liabilities	65.5	72.4	72.1	(9.6)	0.4
Total liabilities	1,746.6	1,869.5	1,829.8	(6.6)	2.2
Net assets					
Invested in capital assets, net of related debt	3,457.9	3,051.5	2,775.5	13.3	9.9
Restricted net assets	90.3	91.1	78.3	(0.9)	16.4
Unrestricted net assets	886.7	891.7	767.6	(0.6)	16.2
Total net assets	\$ 4,434.9	\$ 4,034.3	\$ 3,621.4	9.9%	11.4%

Current assets, excluding restricted assets, decreased in 2011 by 9.4% from 2010. Cash and investments decreased due to further capital program spending in 2011, as significant Sound Move projects were completed and as ST2 projects progressed. In 2010 current assets, excluding restricted assets, increased by 18.7% from 2009 as cash received from revenues exceeded 2010 capital and operating expenditures for the year, allowing Sound Transit to increase its investment position in that year.

In 2011, restricted assets were similar to prior year levels while in 2010 restricted assets decreased by 54.4% from 2009 as cash that was restricted from the 2009 bond issuance was fully spent down.

Capital assets increased in 2011 by 8.4% from 2010 reflecting construction spending on University Link and Sounder D Street to M Street Track & Signal projects, the acquisition of the second permanent easement from the BNSF Railway Company (BNSF) and the purchase of thirty-five replacement buses. In 2010, capital assets increased 9.8% over 2009 as construction ramped up on the University Link project, the acquisition of a permanent easement from BNSF and the purchase of twenty-seven new buses.

Total capital project spending for 2011 was \$578.1 million (2010 was \$520.6 million). University Link represented the largest capital spending component comprising 54.5% of spending on capital projects. In all, total capital spending for light rail was \$405.7 million or 69.8% of the total capital spending (\$339.2 million or 65.5% in 2010). Capital spending on Sounder and ST Express projects as a percentage of total capital spending was 16.8% and 7.1%, respectively (18.9% and 5.6% in 2010). Transfers out of capital projects in progress were \$297.4 million (\$201.1 million in 2010) as projects were completed and transferred to property, transit facilities, vehicles and equipment or expensed as indicated in the following table:

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

Transfers Out of Capital Projects in Progress

<i>(in millions)</i>	For the Year Ended December 31		
	2011	2010	2009
Transferred to property, vehicles and equipment	\$ 214.2	\$ 191.5	\$ 2,387.9
Expensed to contributions to other governments	81.7	7.7	25.5
Transferred to prepaid expenses, inventory and non-capitalized expenditures	-	0.1	0.5
Link start-up expenditures	-	-	12.8
Write-off of overhead, discontinued and impaired project costs and loss on disposal of assets	1.5	1.8	11.2
Total	\$ 297.4	\$ 201.1	\$ 2,437.9

Costs written off to general and administrative for 2011 were comparable to 2010. In 2010, costs written off to general and administrative expenses decreased as the majority of excess overhead incurred on Sounder projects were written off in 2009 and as no major project impairments were identified.

Current liabilities, in 2011, excluding interest payable from restricted assets, decreased by 41.3% as significant construction claims were settled during the year. Current liabilities, in 2010, excluding interest payable from restricted assets, increased by 36.4% as higher amounts were payable at year-end with the increase in construction activity in 2010. Interest payable and long-term debt decreased in 2011 and 2010 reflecting principal payments made on the 1999, 2005A and 2007A bonds. Other long-term liabilities decreased by 9.6% due to payments made on the capital lease obligation for Sounder rail cars.

The following table presents the net asset components and their relative percentage to total net assets:

Net Assets

<i>(in millions)</i>	December 31			% Total Net Assets		
	2011	2010	2009	2011	2010	2009
Invested in capital assets, net of related debt	\$ 3,457.9	\$ 3,051.5	\$ 2,775.5	78.0%	75.6%	76.6%
Restricted net assets	90.3	91.1	78.3	2.0	2.3	2.2
Unrestricted net assets	886.7	891.7	767.6	20.0	22.1	21.2
Total	\$ 4,434.9	\$ 4,034.3	\$ 3,621.4	100.0%	100.0%	100.0%

Sound Transit's net assets represent the cumulative effect of the excess of revenues over expenses together with the impact of Sound Transit's financing decisions. Invested in capital assets reflects investment in property, net of related debt, construction in progress and depreciable assets used in its operations. Restricted net assets are assets restricted by a third party for use by the agency for a specific purpose and unrestricted net assets are the remainder of net assets not invested in capital nor restricted for a specific purpose. Net asset categories as a percentage of total net assets were comparable for 2011, 2010 and 2009.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

Changes in Net Assets

Changes in net assets reflect the excess of revenue over expenses for a year. In 2011, revenues exceeded expenses by \$400.6 million, while in 2010 it was \$412.9 million. Operating revenues, primarily passenger fares, increased 29.4%, while non-operating revenues, net of expenses decreased 5.9% due to increased capital contributions to other governments primarily consisting of the contribution of the completed Mountlake Terrace Freeway Station project. Sound Transit's Statement of Revenue, Expenses and Changes in Net Assets is summarized in the table below:

Changes in Net Assets <i>(in millions)</i>	For the Year Ended December 31			% Change	
	2011	2010	2009	2011-2010	2010-2009
Operating revenues					
Passenger fares	\$ 46.1	\$ 37.6	\$ 29.0	22.7%	29.4%
Other	5.8	2.5	3.6	128.3	(29.6)
Total operating revenues	51.9	40.1	32.6	29.4	22.9
Operating expenses					
Total operating expenses, before depreciation and loss on disposal of assets	213.0	215.7	192.7	(1.3)	12.0
Depreciation and loss on disposal of assets	110.4	104.3	65.8	5.9	58.5
Total operating expenses	323.4	320.0	258.5	1.0	23.8
Loss from operations	(271.5)	(279.9)	(225.9)	(3.0)	23.9
Non-operating revenues, net of expenses	497.8	529.0	492.9	(5.9)	7.3
Income before capital contributions	226.3	249.1	267.0	(9.1)	(6.7)
Capital contributions	174.3	163.8	176.4	6.4	(7.1)
Change in net assets	400.6	412.9	443.4	(3.0)	(6.9)
Total net assets, beginning	4,034.3	3,621.4	3,178.0	11.4	14.0
Total net assets, ending	\$ 4,434.9	\$ 4,034.3	\$ 3,621.4	9.9%	11.4%

Operating Revenues

Operating revenues are composed of passenger fares and other revenue related to operations, such as advertising, rental of revenue vehicles and transit facilities to other transit agencies, and operating contributions from local and federal sources.

Passenger Fare Revenue

Passenger fares are derived from the sale of Sounder commuter rail and Central Link tickets from ticket vending machines, farebox receipts on ST Express, and use of One Regional Card for All (ORCA) products on all modes. Fares are charged on each service, except Tacoma Link. Sound Transit experienced overall growth in passenger fare revenue of 22.7% and 29.4% in 2011 and 2010, respectively, due to increases in both ridership and fares. ST Express continues to be the largest revenue generating mode due to the nature of its service serving major corridors and transit centers in the Sound Transit

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

District as well as serving as a connector between other Sound Transit modes and local bus services. The effect of each component on passenger fare revenue is discussed in the sections below.

The following table displays passenger fare revenue by mode:

Passenger Fare Revenue					
<i>(in millions)</i>					
	2011	2010	2009	% Change	
				2011-2010	2010-2009
ST Express	\$ 25.7	\$ 20.9	\$ 18.9	23.5%	10.3%
Link	12.0	9.6	2.3	25.3	305.1
Sounder	8.4	7.1	7.8	16.8	(8.3)
Total	\$ 46.1	\$ 37.6	\$ 29.0	22.7%	29.4%

Overall Sound Transit ridership increased 10.7% in 2011 to 26.0 million riders. ST Express ridership increased 11.0% as increases in automobile fuel prices attracted riders and service redeployments that moved resources to serve higher capacity routes. In 2010, while down 5.0% from 2009, ridership on ST Express was preserved due to route enhancements deployed on heavily traveled routes that included increased service hours of 3.1% in 2010.

Link consists of Central Link and Tacoma Link. Ridership on Link increased 11.6% from 2010 due to continued growth in ridership on Central Link, which opened in 2009, and the opening of the Commerce Street station on Tacoma Link in September 2011. In 2010 Central Link ridership increased by 4.5 million riders, as new ridership was derived from the community as well as other Sound Transit service modes and local bus service that services the Central Link corridor. Ridership on Tacoma Link in 2010 was comparable to that of 2009.

Sounder commuter rail ridership increased to 2.6 million or 5.9% from 2.5 million riders in 2010 as a few major businesses relocated to the downtown Seattle area and automobile fuel prices increased. Sounder commuter rail ridership in 2010 was comparable to the prior year, with growth impacted by a slowing regional economy, lower automobile fuel prices and reduced congestion, which combined to reduce the incentives to use rail transit.

A summary of the ridership numbers by year and mode of transportation are as follows:

Ridership					
<i>(in thousands)</i>					
	2011	2010	2009	% Change	
				2011-2010	2010-2009
ST Express	14,534.4	13,092.8	13,784.8	11.0%	(5.0)%
Link	8,831.8	7,914.4	3,421.8	11.6	131.3
Sounder	2,626.7	2,480.1	2,492.4	5.9	(0.5)
Total	25,992.9	23,487.3	19,699.0	10.7%	19.2%

In addition to the effects of the changes in ridership, the overall average fare per boarding (AFB) in 2011 increased \$0.20 or 11.5%, mostly due to changes in pricing methodology for annual business passport contracts that began utilizing actual account ridership data from the ORCA system. Business passport contracts represent the largest source of revenue for each mode. ST Express and Central Link AFB's further increased as a result of a \$0.50 and \$0.25 fare increase for regular fares on ST Express and Central Link, respectively, and a \$0.25 fare increase for youth fares on ST Express. Fares were increased in 2011 on ST Express to align fares with partner transit agencies. The 2011 Sounder commuter rail AFB

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

increased \$0.29 or 10.2% from 2010 due to the new pricing methodology utilized in 2011 for business passport contracts.

The increase in the overall AFB in 2010 from 2009 was 5.0% primarily due to a fare increase on ST Express and an increase in ridership on Central Link. In 2010, the increase in ST Express AFB from \$1.47 to \$1.67 is the result of a \$0.50 regular fare increase to maintain established farebox recovery levels. The Central Link AFB increased in 2010 from \$0.98 to \$1.38 as a result of the line completing its first full year of service. Sounder commuter rail AFB decreased 7.7% from \$3.12 to \$2.88 in 2010 due to varying ridership patterns and greater utilization of the service by business account riders in which revenue is derived from fixed price multi-modal contracts. See the table below for the AFB by mode.

Average Fare per Boarding

					% Change	
	2011	2010	2009	2011-2010	2010-2009	
ST Express	\$ 1.90	\$ 1.67	\$ 1.47	13.5%	13.6%	
Link	1.53	1.38	0.98	11.1	40.2	
Sounder	3.17	2.88	3.12	10.2	(7.7)	
Combined average fare per boarding	1.92	1.72	1.64	11.5	5.0	

Other Operating Revenues

Other operating revenues consist of vehicle advertising, rental of equipment and facilities, operating grants and other miscellaneous revenue. Other operating revenues of \$5.8 million were up \$3.3 million or 128.3% from 2010. In 2011, \$2.4 million in operating grants from WSDOT were obtained for airspace lease rights for Mountlake Terrace Freeway Station and University of Washington Station upon the opening of University Link scheduled for 2016. Furthermore, rental revenue substantially increased in 2011 as buses were leased to Pierce Transit following the compressed natural gas tank explosion at their maintenance facility in February 2011. In 2010, other operating revenues were down \$1.1 million or 29.6% from 2009 as the vehicle lease arrangements with Metrolink were terminated for several Sounder revenue vehicles to meet planned service expansion requirements on the Sounder South Line in 2010.

Operating Expenses

Operating expenses are comprised of operations and maintenance costs, general and administrative, fare and regional planning, and depreciation and amortization.

Operations and Maintenance

Operations and maintenance expenses increased in 2011 by \$3.4 million or 1.9% and by \$16.3 million or 10.0% in 2010 due to increases in the overall operating cost of Central Link as light rail vehicles come out of warranty and as facilities maintenance increases as a result of increased use. The operating cost of ST Express and Sounder commuter rail in 2011 remained comparable to 2010.

These expenses are classified by function using National Transit Database definitions as prescribed by the Federal Transit Administration into vehicle operations, vehicle maintenance and non-vehicle maintenance. Vehicle operations expenses consist of costs to dispatch and operate vehicles while in revenue service including security and fare collection. Vehicle maintenance expenses include costs associated with ensuring the revenue vehicles are operational, fueled, inspected and repaired. Non-vehicle maintenance expenses include costs necessary to ensure buildings, equipment, and transit structures and systems are operational. See the following table for operating and maintenance expenses by function.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

Operations and Maintenance Expenses by Function

<i>(in millions)</i>				% Change	
	2011	2010	2009	2011-2010	2010-2009
Vehicle operations	\$ 112.5	\$ 107.1	\$ 97.8	5.1%	9.5%
Vehicle maintenance	45.6	46.7	45.4	(2.5)	2.8
Non-vehicle maintenance	24.0	24.9	19.2	(3.5)	29.7
Total	\$ 182.1	\$ 178.7	\$ 162.4	1.9%	10.0%

The increase of \$5.4 million or 5.1% in 2011 for vehicle operations expense stems from increases in fuel costs, fare enforcement and security on all modes and increases in Central Link operator rates, offset partially by savings realized from the restructuring of ST Express service. The restructure of ST Express service resulted in more cost effective operations as higher capacity routes and peak service times were served more effectively. The increase in 2010 of \$9.3 million or 9.5% resulted from the operation of a full year of an additional reverse commute for Sounder commuter rail, which started in June 2009, implementation of ST2 service enhancements for ST Express and the operation of a full year of revenue service on Central Link.

Vehicle maintenance expenses decreased \$1.1 million or 2.5% in 2011 (increased \$1.3 million or 2.8% in 2010) reflecting the delay in further mid-life maintenance scheduled for Sounder commuter rail to 2012 as well as the replacement of buses that had reached their full service life in 2011. As the agency replaced ST Express buses and expanded the fleet in 2010 and 2011 bus maintenance costs have declined. In 2011, the delay in planned mid-life maintenance for Sounder commuter rail was accomplished without impact to operations or safety of those vehicles and these savings helped offset increases in light rail vehicle maintenance costs that increased as the vehicles came out of warranty during the year. Vehicle maintenance expense increased in 2010 due to performance of mid-life maintenance on Sounder commuter rail and increased maintenance on the aging ST Express fleet as well as a full year of maintenance performed on Central Link light rail vehicles that went into service in June 2009.

Non-vehicle maintenance expenses decreased \$0.9 million or 3.5% in 2011 (increased \$5.7 million or 29.7% in 2010) due to a decrease in major maintenance related to the Downtown Seattle Transit Tunnel (DSTT) for ST Express and Central Link that was completed in 2010. The decrease in DSTT major maintenance offset increases in facility and track maintenance for Central and Tacoma Link and Sounder commuter rail in 2011. The amount increased in 2010 with the full year impact of the deployment of fare collection equipment for light rail, a full year of increased share of maintenance costs related to the DSTT and transit facilities supporting the Central Link light rail service, opened July 2009, as well as an increase in maintenance performed at existing transit facilities in 2010.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

The following table presents operating and maintenance expenses by mode.

Operations and Maintenance Expenses by Mode					
<i>(in millions)</i>				% Change	
	2011	2010	2009	2011-2010	2010-2009
ST Express	\$ 96.7	\$ 96.6	\$ 85.0	0.1%	13.7%
Link	53.3	49.4	43.1	8.0	14.4
Sounder	32.1	32.7	34.3	(1.8)	(4.7)
Total	\$ 182.1	\$ 178.7	\$ 162.4	1.9%	10.0%

Major modal expense categories consist of services, materials, supplies, utilities, insurance, taxes, and purchased transportation, allocated overhead from staff divisions and operating leases and rentals. Purchased transportation represents amounts paid to Community Transit, King County Department of Transportation (DOT) and Pierce Transit who operate Sound Transit's express bus service and King County DOT Rail Division, which operates the Central Link light rail and to BNSF, which operates Sounder commuter rail. Purchased transportation services accounts for 62.8% of this category in 2011 and 63.1% in 2010. Services are the next largest expenditure category and include the Sounder vehicle maintenance contracted to Amtrak and various contracts for facilities maintenance and security at Sound Transit owned and shared facilities. Services were 19.2% in 2011 and 19.7% in 2010 of total operating and maintenance expenses.

ST Express operating and maintenance costs for 2011 were comparable to 2010 levels whereas 2010 experienced an increase of 13.7% over 2009. Costs were maintained in 2011 as a result of transferring routes 566 and 567 from King County DOT to Pierce Transit, a lower cost operator, and a decrease in bus maintenance costs with the majority of the aging New Flyer fleet being replaced. The 2010 increase was a result of an increase in purchased transportation costs of \$11.4 million as the majority of the ST2 related service enhancements were implemented, operator fees increased, significant maintenance was performed on the aging New Flyer bus fleet and maintenance fees for facilities and the DSTT increased.

Link operating and maintenance expenses include both Tacoma Link and Central Link light rail lines. Total light rail operating and maintenance expenses increased \$3.9 million or 8.0% from 2010 (\$6.3 million or 14.4% from 2009) as a result of increases in Central Link operating rates as additional employees were needed to perform revenue vehicle and transit facility maintenance. Total operating and maintenance expense for Central Link was \$46.0 million in 2010, an increase of 16.3% from 2009, due to the operation of its first full year of revenue service in 2010. Tacoma Link operating and maintenance expenses were comparable for 2011, 2010 and 2009.

Operating and maintenance costs on Sounder commuter rail were slightly down from 2010 as service levels remained substantially unchanged compared to a 4.7% decrease in 2010 from the prior year. The cost savings realized in 2011 were as a result of fuel saving measures implemented at layover facilities throughout 2010 and improved cost structure related to the Amtrak maintenance contract that offset the increase in service operating rates related to BNSF and increase in fuel prices. In 2010, service costs decreased \$2.3 million as security and fare collection services were shared with other modes, resulting in a significant per unit cost decrease for Sounder commuter rail. Purchased transportation costs increased in 2010 with the full year operation of an additional reverse commute trip deployed in June 2009 in the South Corridor.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

General and Administrative

General and administrative expenses comprise Agency staff and administrative costs not allocated to operations and maintenance or to capital projects. Major expense categories include salaries, benefits, services and professional fees, and other expenses. In 2011, general and administrative expenses decreased by \$4.7 million or 13.5%, while in 2010 they increased by \$9.6 million or 38.9% primarily due to the amount incurred in legal defense costs related to construction claim resolution.

General and Administrative Expenses

<i>(in millions)</i>	% Change				
	2011	2010	2009	2011-2010	2010-2009
Salaries	\$ 10.7	\$ 10.1	\$ 10.8	6.0%	(6.3)%
Benefits	5.3	5.6	5.7	(5.5)	(2.4)
Services and professional fees	10.6	14.1	4.7	(24.3)	197.9
Other	<u>2.9</u>	<u>4.4</u>	<u>3.4</u>	<u>(34.1)</u>	<u>31.1</u>
Total	<u>\$ 29.5</u>	<u>\$ 34.2</u>	<u>\$ 24.6</u>	<u>(13.5)%</u>	<u>38.9%</u>

Salaries and benefits increased 1.9% in 2011 due to an increase in staff to support critical organizational functions needed to support the ST2 program as well as agency wide services and initiatives such as asset and records management. Salaries and benefits decreased by 5.0% in 2010 as staff were assigned to support the transition of University Link to construction and the ramp up of Central Link operations.

Services and professional fees decreased \$3.5 million or 24.3% in 2011 (increased \$9.4 million or 197.9% in 2010) reflecting less costs incurred to support construction claim resolution as most outstanding construction claims related to Central Link were settled in 2010. Excluding claims costs, services and professional fees were comparable between years.

Other expenses decreased by \$1.5 million or 34.1% from 2010 as additional costs were charged to capital projects in support of the ST2 capital program. Other expenses increased in 2010 by \$1.0 million or 31.1% due to a full-year lease of additional office space that commenced at the end of 2009.

Fare and Regional Planning

Fare and regional planning expense includes regional fare planning, policy research and development, and planning with regional agencies to develop new markets and policies regarding regional and system-wide projects and issues. In 2011, fare and regional planning expenses decreased by \$1.6 million or 53.8% as more costs were allocated to capital projects as ST2 projects began preliminary design as well as a decrease in ORCA implementation costs from 2010. In 2010, fare and regional planning expenses decreased by \$2.8 million or 49.3% as planning related to East Link was completed in 2009.

Depreciation and Amortization

Depreciation and amortization includes insignificant gain or loss on disposal of assets used in operations. Depreciation and amortization increased in 2011 by \$6.1 million or 5.9% from the prior year (\$38.5 million or 58.5% increase in 2010) due to additional revenue vehicles that went into service for ST Express and Central Link light rail as well as additional costs that were capitalized related to Central Link assets as construction contracts reach full completion. In 2010, the increase in depreciation and amortization from 2009 reflects the Central Link light rail system that went into service in July 2009.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

Non-Operating Revenues (Expenses)

Net non-operating revenues decreased by \$31.2 million or 5.9% in 2011 compared to an increase of \$36.1 million or 7.3% in 2010. In 2011, net non-operating revenues decreased as capital contributions to other governments increased by \$74.0 million that offset increases in tax revenues of \$23.6 million and \$6.8 million in investment income. In 2010 net non-operating revenues increased primarily as a result of the increase in sales and use tax revenue collected at the higher sales and use tax rate of 0.9% for the entire year compared to 9 months in 2009.

Non-operating Revenues and Expenses

				% Change	
	2011	2010	2009	2011-2010	2010-2009
<i>(in millions)</i>					
Non-operating revenues					
Sales and use tax	\$ 528.0	\$ 504.1	\$ 440.9	4.7%	14.3%
Motor vehicle excise tax	65.9	65.8	67.3	0.2	(2.2)
Rental car tax	2.0	2.4	2.9	(18.7)	(16.0)
Investment income	20.9	14.1	12.4	47.8	14.3
Other revenues	8.6	10.8	0.9	(18.7)	1,070.0
Total	625.4	597.2	524.4	4.7	13.9
Non-operating expenses					
Interest expense	76.0	76.4	62.5	(0.6)	22.3
Interest expense, capitalized	(32.2)	(23.6)	(62.3)	36.5	(62.1)
Interest expense, net	43.8	52.8	0.2	(17.1)	28,875.0
Capital contributions to other governments	81.7	7.7	25.5	961.2	(69.8)
Discontinued/impaired projects	2.1	7.7	5.8	(72.3)	32.4
Total	127.6	68.2	31.5	87.3	116.4
Non-operating revenues	\$ 497.8	\$ 529.0	\$ 492.9	(5.9)%	7.3%

Sales and Use tax revenues increased by \$23.9 million or 4.7% in 2011 due to taxes received from the DOR Amnesty Program that provided incentives to businesses to satisfy their tax obligations for years 2007 through 2011 by waiving non-compliance penalties and interest, as well as an increase in tax revenues due to faster economic growth. Sales and Use tax revenues increased in 2010 by \$63.2 million or 14.3% due to a full year collection of tax at the ST2 voter approved rate of 0.9% that became effective April 2009 versus the prior rate of 0.4%. Motor Vehicle Excise and Rental Car Sales tax revenues were comparable for 2009, 2010 and 2011.

Investment earnings increased by \$6.8 million in 2011 due to increases in the fair market value of investments. In 2010, the investment income increased as a result of higher cash and investment balances on hand during the year from the issuance of bonds in September 2009. Other revenue decreased by \$2.2 million from 2010 as no insurance recoveries were received in 2011 as there had been in 2010.

Interest expense, net decreased \$9.0 million from 2010 as more interest was capitalized due to higher construction spending from the prior year. In 2010 interest expense, net increased \$52.6 million as additional interest was incurred on the bonds issued in September 2009 and less interest was capitalized

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

with the decreased capital program spending as Initial Segment construction reached substantial completion and construction on University Link project had not yet fully ramped up.

Capital contributions to other governments are pursuant to capital improvement or funding agreements and are dependent upon the timing and scope of project activities that results in significant fluctuations year over year. In 2011, capital contributions increased \$74.0 million from 2010 reflecting the completion of Mountlake Terrace Freeway Station, Kirkland Transit Center and Edmonds Station projects now owned by WSDOT, City of Kirkland and Community Transit, respectively. In 2010 capital contributions decreased \$17.8 million from 2009 as Newcastle Transit Center was the only project completed in which Sound Transit didn't retain an ownership interest.

Impairments result from permanent loss in utility of an asset or one of its components. As such, assets and capital projects are reviewed annually for reductions in functionality resulting from obsolescence, scope changes and loss due to casualty that cause impairment, thereby resulting in a write-off of the associated cost. In 2011, impairments decreased by \$5.6 million (and increased in 2010 from 2009 by \$1.9 million) as costs incurred to mitigate the Beacon Hill Tunnel voids created during the construction of the Initial Segment project were primarily incurred in 2010.

Capital Contributions

Capital contributions include federal grant funding and state and local contributions to Sound Transit. Capital contributions increased in 2011 by \$10.5 million or 6.4% due to increased spending on eligible federally funded capital projects. The following table summarizes capital contributions by major category:

Capital Contributions <i>(in millions)</i>	% Change				
	2011	2010	2009	2011-2010	2010-2009
Federal	\$ 168.7	\$ 151.8	\$ 153.1	11.1%	(0.8)%
State and local governments	5.6	12.0	23.3	(53.5)	(48.6)
Total	\$ 174.3	\$ 163.8	\$ 176.4	6.4%	(7.1)%

Federal contributions increased by \$16.9 million in 2011 reflecting the increased spending on the University Link project that provided for increased grant drawdowns of the University Link full funding grant agreement provided by the Federal Transportation Authority. State and local government contributions decreased in 2011 by \$6.4 million over 2010 as the state regional mobility grants related to Mountlake Terrace Freeway Station and the purchase of expansion buses were fully expended in 2010. In 2010, state and local contributions decreased \$11.3 million from 2009 due to the receipt of a land bank contribution in 2009 from WSDOT for the right to cross under I-5 for the construction and operating of University Link. The Sounder D Street to M Street Track & Signal project also received \$3.1 million and \$3.2 million in state regional mobility grants in 2011 and 2010, respectively.

Capital Assets

As of December 31, 2011, Sound Transit had invested \$5.0 billion in capital assets, net of accumulated depreciation and amortization, which included \$3.2 billion of depreciable assets in service. This represents a \$386.3 million or an 8.4% increase over 2010. The increase reflects capital project spending for University Link, Sounder South Line corridor and Regional Express fleet replacement. Capital Projects in Progress (CIP) increased \$280.7 million or 39.5% while non-depreciable and depreciable assets increased \$50.9 million or 7.1% and \$54.7 million or 1.7%, respectively.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

Capital Assets (Net of Depreciation)					
<i>(in millions)</i>					
	2011	December 31 2010	2009	% Change	
				2011-2010	2010-2009
Land	\$ 392.7	\$ 388.1	\$ 379.0	1.2%	2.4%
Permanent easements	374.1	327.8	285.6	14.1	14.8
Capital projects in progress					
Sound Transit	968.1	661.0	368.1	46.5	79.6
Other governments	23.4	49.8	23.2	(52.9)	114.4
Total capital projects in progress	991.5	710.8	391.3	39.5	81.6
Total non-depreciable assets	1,758.3	1,426.7	1,055.9	23.2	35.1
Buildings, transit facilities & rail	2,346.6	2,370.2	2,329.1	(1.0)	1.8
Access rights	400.6	421.6	445.3	(5.0)	(5.3)
Revenue vehicles	487.1	386.0	362.1	26.2	6.6
Equipment, vehicles & other	4.2	6.0	8.3	(30.2)	(28.6)
Total depreciable assets	3,238.5	3,183.8	3,144.8	1.7	1.2
Total net capital assets	\$ 4,996.8	\$ 4,610.5	\$ 4,200.7	8.4%	9.8%

Land increased by \$4.6 million in 2011, reflecting acquisitions for the North Link project and the Tacoma to Lakewood corridor project and by \$9.1 million in 2010, also for the North Link project as well as the reclassification of land from inventory for land Sound Transit will use in the South Link project.

Permanent easements increased in 2011 by \$46.3 million with the acquisition of the second of four permanent easements from BNSF to operate an additional round trip in the Sounder Seattle to Tacoma corridor and by \$42.2 million in 2010 for the acquisition of the first of four permanent easements.

CIP had a net increase of \$280.7 million in 2011 (\$319.5 million in 2010). In 2011, total capital spending was \$578.1 million, up 11.0% from 2010, as the tunnel and light rail vehicle portion of the University Link project were completed ahead of schedule while transfers out of CIP increased \$96.3 million as new light rail vehicles and buses and Mountlake Terrace Freeway Station were placed into service. Total capital spending in 2010 increased 30.1% from 2009 as University Link project entered construction. Transfers out of CIP decreased by \$2.2 billion in 2010 due to the Initial Segment project starting revenue service in 2009. Capital projects that incurred major spending activity in 2011 and 2010 are summarized in the following table.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

Major Capital Project Activities from 2011 and 2010			
	Sounder	Link	ST Express
2011	<ul style="list-style-type: none"> D Street to M Street Track & Signal Sounder South Expanded Service 	<ul style="list-style-type: none"> First Hill Link Street Car East Link (Downtown to Bellevue) Northlink (UW Station to Northgate) University Link (PSST to UW Station) University Link (University Tunnel) University Link (UW Station and Capital Hill Station) South Link (176th to 200th) 	<ul style="list-style-type: none"> Burien Transit Center Parking Expansion Fleet Replacement I-90 2-Way Transit & HOV Stage 2
2010	<ul style="list-style-type: none"> D Street to M Street Track & Signal Sounder South Expanded Service Tacoma to Lakewood Track & Signal 	<ul style="list-style-type: none"> Central Link (Beacon Hill Tunnel) East Link (Downtown to Bellevue) Northlink (UW Station to Northgate) University Link (PSST to UW Station) University Maintenance Base Expansion South Link (176th to 200th) 	<ul style="list-style-type: none"> Fleet Expansion & Replacement Mountlake Terrace Freeway Station

Building, transit facilities, and rail, net of depreciation and amortization, decreased in 2011 by \$23.6 million due to depreciation exceeding current year asset additions. In 2010, this category increased by \$41.1 million, primarily related to the capitalization of Tacoma to Lakewood Track & Signal project and additional capitalized costs to close out the Initial Segment light rail projects.

Access rights, net of depreciation and amortization, decreased by \$21.0 million in 2011 and decreased by \$23.7 million in 2010. Access rights decreased due to depreciation and amortization exceeding current year additions. Access rights reflect the cost of acquiring rights from the Cities of Seattle, Tukwila and Sea Tac for the purposes of running the light rail in city right of way, rights acquired from BNSF to operate Sounder train service, as well as a right to use Washington State Fairgrounds for Sounder commuter rail parking.

Revenue vehicles, net of depreciation and amortization, increased in 2011 by \$101.1 million with the delivery of thirty-five buses (the balance of the ST2 replacement and service expansion bus program) and delivery of twenty-seven light rail vehicles for University Link that were deployed in revenue service in 2011. In 2010, revenue vehicles, net of depreciation and amortization, increased \$23.9 million with the purchase of additional buses for bus replacement and service expansion.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion and Analysis, continued

More detailed information about Sound Transit's capital assets is presented in note 5 to the Financial Statements.

Long-Term Debt

Sound Transit issued no debt in 2011 and 2010. 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 1.5% of the value of taxable property within the service area, without securing voter approval for bonds. With the approval of 60.0% of the region's voters, Sound Transit may incur aggregate indebtedness of up to 5.0% of the value of taxable property within the service area. Based on the 2010 assessed valuations for collection of 2011 taxes, Sound Transit's nonvoter approved remaining debt capacity is \$4.7 billion and its voter approved remaining debt capacity is \$19.4 billion.

Economic Conditions

Recovery from the economic recession continues to impact Sound Transit's tax collections with slower recovery in retail and motor vehicle sales that have translated into lower tax revenues than planned, but also the agency has experienced lower construction bid costs on the ST2 capital program. Tax revenues increased in 2011 due to the collection of past due taxes from 2007 through 2011 under DOR's Amnesty Program and a slight easing of the recession and in 2010 due to the impact of a 0.5% Sales and Use Tax increase effective April 1, 2009, implemented to fund the ST2 program approved by voters in November 2008. Without the increased collections received from the Amnesty Program and the rate increase, tax revenues would be comparable to 2009 levels.

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KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

The Board of Directors
Central Puget Sound Regional Transit Authority:

We have audited the accompanying balance sheets of Central Puget Sound Regional Transit Authority (a public corporation acting under the service name Sound Transit) as of December 31, 2011 and 2010, and the related statements of revenue, expenses, and changes in net assets and cash flows (herein referred to as the financial statements) for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sound Transit's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sound Transit as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 1 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

May 25, 2012

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CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

BALANCE SHEETS

(in thousands)

	December 31	
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	\$ 85,949	\$ 124,746
Restricted assets (note 3)	2,230	2,812
Investments (note 3)	752,108	815,089
Taxes and other receivables (note 4)	130,696	132,709
Inventory	14,190	12,334
Prepaid expenses	5,645	5,727
Total current assets	990,818	1,093,417
Non-current assets		
Capital assets, net of accumulated depreciation (note 5)	4,996,822	4,610,501
Restricted assets (note 3)	106,087	106,512
Investment held to pay capital lease obligation (note 6)	57,578	63,308
Unamortized bond issuance costs	9,302	9,890
Prepaid expense and deposits	20,859	20,149
Total non-current assets	5,190,648	4,810,360
Total assets	\$ 6,181,466	\$ 5,903,777
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	\$ 109,573	\$ 131,784
Deferred receipts	3,050	2,058
Interest payable from restricted assets	18,017	18,225
Current portion, long-term debt (note 8)	19,195	18,465
Other claims and short-term obligations	2,232	76,075
Total current liabilities	152,067	246,607
Non-current liabilities		
Long-term debt (note 8)	1,529,002	1,550,473
Capital lease obligations (note 6)	57,578	63,308
Other long-term obligations (note 9)	7,907	9,099
Total non-current liabilities	1,594,487	1,622,880
Total liabilities	1,746,554	1,869,487
Commitments and contingencies (notes 6, 9, 11, and 12)		
Net assets		
Invested in capital assets, net of related debt	3,457,927	3,051,453
Restricted for debt service and other (note 10)	90,299	91,099
Unrestricted	886,686	891,738
Total net assets	4,434,912	4,034,290
Total liabilities and net assets	\$ 6,181,466	\$ 5,903,777

See accompanying notes to financial statements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

<i>(in thousands)</i>	December 31	
	2011	2010
Operating revenues		
Passenger fares	\$ 46,116	\$ 37,589
Other operating revenue	5,814	2,547
Total operating revenues	<u>51,930</u>	<u>40,136</u>
Operating expenses		
Vehicle operations	112,511	107,092
Vehicle maintenance	45,598	46,757
Non-vehicle maintenance	23,997	24,869
General and administrative	29,542	34,165
Fare and regional planning	1,337	2,891
Depreciation, amortization and accretion	110,413	104,285
Total operating expenses	<u>323,398</u>	<u>320,059</u>
Loss from operations	(271,468)	(279,923)
Non-operating revenues (expenses)		
Sales tax	528,022	504,101
Motor vehicle excise tax	65,893	65,788
Rental car tax	1,958	2,409
Investment income	20,875	14,122
Other revenues	8,676	10,678
Contributions to other governments	(81,742)	(7,703)
Interest expense	(43,728)	(52,765)
Discontinued and impaired projects	(2,118)	(7,659)
Total non-operating revenues, net	<u>497,836</u>	<u>528,971</u>
Income before capital contributions	226,368	249,048
Federal capital contributions	168,671	151,824
State and local capital contributions	5,583	12,003
Total capital contributions	<u>174,254</u>	<u>163,827</u>
Change in net assets	400,622	412,875
Total net assets, beginning of year	<u>4,034,290</u>	<u>3,621,415</u>
Total net assets, end of year	<u>\$ 4,434,912</u>	<u>\$ 4,034,290</u>

See accompanying notes to financial statements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS

<i>(in thousands)</i>	December 31	
	2011	2010
Cash flows from operating activities		
Cash receipts from fares	\$ 45,642	\$ 39,907
Cash receipts from other operating revenue	2,928	2,856
Payments to suppliers	(67,526)	(64,485)
Payments to transportation service providers	(112,655)	(100,929)
Payments to employees for wages and benefits	(36,002)	(35,584)
	(167,613)	(158,235)
Cash flows from non-capital financing activities		
Taxes received	593,350	569,565
	593,350	569,565
Cash flows from capital and related financing activities		
Capital contributions from grants	182,142	187,300
Proceeds for betterments and recoverable costs	457	774
Purchase of property, vehicles and equipment	(1,428)	(358)
Payments in respect of capital projects in progress	(624,961)	(446,746)
Payments to employees capitalized to capital projects in progress	(17,898)	(14,925)
Payments for bond principal	(18,465)	(8,065)
Recovery (payments) for owner controlled insurance premiums	339	(3,942)
Cash paid for interest	(70,684)	(71,463)
Other	-	(32)
	(550,498)	(357,457)
Cash flows from investing activities		
Purchases of investments	(517,481)	(809,448)
Proceeds from sales or maturities of investments	590,481	302,709
Investment income	12,973	10,256
	85,973	(496,483)
Net decrease in cash and cash equivalents	(38,788)	(442,610)
Cash and cash equivalents		
Beginning of year	173,973	616,583
End of year	\$ 135,185	\$ 173,973
Cash and cash equivalents (note 3)		
Unrestricted	\$ 85,949	\$ 124,746
Current restricted	1,024	1,018
Non-current restricted	48,212	48,209
	\$ 135,185	\$ 173,973

See accompanying notes to financial statements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS, *continued*

<i>(in thousands)</i>	December 31	
	2011	2010
Loss from operations	\$ (271,468)	\$ (279,923)
Adjustments to reconcile loss from operations to net cash used by operating activities		
Depreciation, amortization and accretion	110,413	104,285
Land bank operating contribution	(2,359)	-
Airspace lease amortization	514	232
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	(551)	323
(Increase) decrease in due from other governments	(2,405)	2,686
(Increase) in grants receivable	(14)	(4)
(Increase) in materials, parts and supplies	(63)	(575)
(Increase) decrease in prepaid expenses	(1,028)	279
Increase in accounts payable, accrued and other liabilities	4,911	4,445
Increase in salaries, wages and benefits payable	585	409
Increase in deferred pass fare receipts	1,002	442
(Decrease) increase in due to other governments	(5,201)	10,114
(Decrease) in other current liabilities	(1,949)	(948)
Net cash used by operating activities	<u>\$ (167,613)</u>	<u>\$ (158,235)</u>

<i>(in thousands)</i>	December 31	
	2011	2010
Supplemental disclosures of non-cash operating, investing and financing activities		
Capital contributions to other governments	\$ (81,742)	\$ (7,703)
Capital contributions from Land Bank	35	173
Construction in progress in current liabilities	58,699	153,951
Interest income from investments held to pay capital leases, net	26	844
Interest expense on capital leases	(26)	(844)
Increase (decrease) in fair value of investments	10,095	(982)

See accompanying notes to financial statements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010

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 (ST Express).

Reporting Entity—Sound Transit is a special purpose government supported primarily through sales tax, motor vehicle excise tax and rental car tax in Sound Transit’s operating jurisdiction. In addition, Sound Transit receives capital funding from federal, state and local 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 includes 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. 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) codification have been applied, except for FASB codification that contradicts GASB pronouncements.

Tax revenues include taxes on retail sales of goods and services, rental car revenue and a motor vehicle excise tax. These taxes are levied within the district at a rate of 0.9% for sales and use, 0.8% on rental car revenue and 0.3% for motor vehicle excise. For collections April 1, 2009 and thereafter, the sales and use tax rate increased from 0.4% to 0.9%. 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.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Operating revenues consist primarily of passenger fares, which are recognized in the period in which services are provided and 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. Depreciation and amortization of capital assets and amortization of deferred revenue, bond issuance costs, asset retirement obligation and deferred rent is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

Capital Assets—Capital assets are stated at cost, except for capital assets contributed to Sound Transit, which are stated at the fair value on the date of contribution. Expenditures and contributions 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. Depreciation and amortization 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 agreement as follows:

	Estimated useful life
Access rights	5 – 100 years
Buildings	8 – 30 years
Fixed guideways	30 – 150 years
Furniture and equipment, administrative vehicles	3 – 10 years
Operations maintenance facilities	30 – 75 years
Park-and-ride lots and shelters	10 – 20 years
Pedestrian bridges	30 – 100 years
Revenue vehicles – buses	12 – 15 years
Revenue vehicles – cab cars and coach cars	40 years
Revenue vehicles – light rail	25 – 30 years
Revenue vehicles – locomotives	29 years
Transit facilities, rail, equipment and leasehold improvements	6 – 70 years

On an annual basis, Sound Transit evaluates whether events or circumstances have occurred affecting capital assets that are other than temporary in nature and which could result in an impairment of those assets. Impairment is considered to have occurred if there is a decline in the service utility that is large in magnitude and the event or circumstance is outside the normal life cycle of the asset. Impairment losses on assets that will no longer be used are measured based on the lower of carrying value or fair value of the affected asset. Impairment losses on assets that will continue to be used are measured using the best method that reflects the diminished service utility of the related asset.

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.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Access rights include costs incurred or rights acquired that allow Sound Transit to operate its commuter rail and light rail service in the right of way of other entities. Access rights are amortized over the life of the underlying asset constructed or the term of the contractual agreement granting the related right. See note 12, Commitments and Contingencies, for additional access right details.

Interest costs on funds borrowed through tax-exempt and taxable 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

Capital Contributions to Other Governments—Pursuant to capital improvement agreements, Sound Transit has provided funding to or constructed assets for various governments or their wholly owned subsidiaries 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 accepted, at which time it is charged to contributions to other governments.

Cash and Cash Equivalents—Cash and cash equivalents are carried at cost, which approximates fair value.

Compensated Absences—Vacation leave that has been earned but not paid is accrued. 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% of accrued hours upon resignation, retirement or death for employees hired before January 1, 2004 and is limited up to 120 days, and 25% for employees hired after that date, and is limited to 240 days for termination other than for retirement or death.

Environmental Remediation Obligations—Environmental remediation activities are reviewed routinely to determine if whether an obligating event, as defined by GASB Statement No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations has occurred, when the liability should be accrued and whether the cost should be expensed or capitalized. Generally such costs are incurred with respect to properties that Sound Transit is preparing for its own use or are required in the construction of its projects and subsequently resold. As such, these costs are recorded as incurred and capitalized to the project. Costs in excess of the property's fair market value, or that do not meet capitalization criteria under generally accepted accounting principles, are accrued and expensed as soon as a reasonable estimate can be obtained.

Inventory—Inventory includes land held for sale, parts, materials and supplies, and is recorded 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.

Investment Valuation—Investments are stated at fair value.

New Accounting Pronouncement—In June 2010, the GASB issued Statement No. 59 Financial Instruments Omnibus (GASB No. 59), effective for years beginning after June 15, 2010. GASB No. 59 statement amends existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. As of January 1, 2011, Sound Transit adopted GASB No. 59 and found there was no material impact on the reporting of applicable financial instruments and external investment pools.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Reclassifications— Certain reclassifications have been made to the 2010 Financial Statements to conform to the current year's presentation.

Restricted Net Assets— Restricted net assets consist of net assets that contain externally imposed legal and contractual obligations. Restricted net 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.

Reserves— Sound Transit has internally designated an operating reserve, consisting of two months of average annual operating expenses for the years ended December 31, 2011 and 2010. In addition, Sound Transit has established an investment fund for capital replacement, as established by resolution of its board in 2007. As these cash and investment reserves are derived from internal restrictions, they are included in unrestricted net assets.

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, depreciation and amortization, services, claims, purchased transportation and other expenses related to the delivery of passenger transportation within the Central Puget Sound region. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Undivided Interests— Sound Transit participates in a joint operation (or undivided interest), jointly governed with seven other agencies for the provision of regional smart card fare collection services (ORCA). Sound Transit reports its undivided interest in assets, liabilities, expenses, and revenues of ORCA within its financial statements, as they are specifically identifiable to Sound Transit in accordance with GASB Statement No. 14 – *The Financial Reporting Entity*.

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.

3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less when purchased. Investments in the Local Government Investment Pool (LGIP) are managed by the Washington State Treasurer's Office, and investments in the King County Investment Pool (KCIP) are managed by the King County Finance Division. Investments in the LGIP are considered a 2a7-like fund as defined by the amended Investment Company Act of 1940 (the Act). All LGIP investments are managed in accordance with the Act to ensure a stable value and average investment maturity remains within 60 days and has a unit value of \$1.

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). All deposits not covered by the FDIC are covered by the PDPC. Cash held in the LGIP and the KCIP is managed by the Washington State Treasurer's Office and the King County Finance Division, respectively. These pools represent an interest in a group of securities and have no specific security subject to custodial risk.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

All surplus cash is invested in accordance with Washington state statute, and an investment policy approved by Sound Transit's Board and certified by the Association of Public Treasuries of the United States and Canada. Qualifying investments under this policy include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit, commercial paper, general obligation municipal bonds and repurchase agreements. Sound Transit's investment policy and monitoring program addresses common deposit and investment risks as described below, with detailed information by investment type presented in the tables that follow. Modified duration is presented in years.

In 2010, Sound Transit entered into a new agreement governing the investment of its funds in the KCIP. While available for withdrawal within established timeframes in the agreement, the underlying commitment under the new agreement is to hold the funds as long-term.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. For its internally managed and capital replacement funds, Sound Transit matches its investments to cash flow requirements and manages its exposure to fair value losses using the modified duration method, whereby the modified duration of fixed income securities held in its investment portfolios is compared to established benchmarks. Modified duration estimates the sensitivity of a bond's price to interest rate changes. Modified duration benchmarks for the internally managed fund was 0.65 and for the capital replacement fund was 2.99. For the Prior and Parity Bond Debt Service funds and the University Link Owner-Controlled Insurance Program (OCIP) fund, interest rate risk is managed by using the specific identification method.

Concentration of Credit Risk—Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. The investment policy sets forth maximum concentration guidelines whereby no single Agency exceeds 50% of the overall portfolio, or 25% for repurchase agreements, general obligation bonds, PDPC financial institution sponsored investment accounts or 20% for deposit bank notes or 10% for certificates of deposit, bankers' acceptances, reverse repurchase agreements and A1/P1 commercial paper. Treasury securities and investments in the LGIP may comprise up to 100% of the portfolio. Agency securities (combined) may comprise up to 75% of the portfolio. Participation in the KCIP is limited to 50% of the portfolio.

Credit Risk—Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. As of December 31, 2011, all treasury and agency securities are rated with one of the three highest credit ratings of a nationally recognized statistical rating organization and all but one of the general obligation bonds are rated with one of the three highest credit ratings of a nationally recognized statistical rating organization. After a bond has been purchased, if it is downgraded below one of the three highest ratings, a case by case review is conducted to determine the reason for the downgrade and to evaluate whether or not to continue to hold the bond. The certificate of deposit is covered by the PDPC and all short-term investments are rated A1/P1 as of December 31, 2011. The KCIP's rating of AA Af has not been restored as King County is re-evaluating the pursuit of a rating while it establishes a credit review process and completes the implementation of new reporting software. The LGIP is a 2a7-like pool and is unrated.

Custodial Credit Risk—Custodial credit risk is the risk that, in the event of the failure of the counterparty, Sound Transit would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments purchased by Sound Transit are held and registered in Sound Transit's name in the trust or safekeeping department of a financial institution as established by a written third-party safekeeping agreement between Sound Transit and the financial institution.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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

<i>(in thousands)</i>	2011			2010		
	Fair value	Maturity	Call date	Fair value	Maturity	Call date
Investments - Debt Service Reserve						
Municipal bonds:						
Pennsylvania State GO Unlimited BAB	\$ 11,702	2/15/2030	**	\$ 10,080	2/15/2030	**
Georgia State GO Unlimited	8,647	4/1/2026	4/1/2017*	7,319	4/1/2026	4/1/2017*
Florida State Public Education BAB	5,341	6/1/2030	6/1/2019*	4,885	6/1/2030	6/1/2019*
Hawaii State GO Unlimited BAB	4,540	2/1/2024	—	4,065	2/1/2024	—
Georgia State GO Unlimited BAB	4,786	11/1/2027	—	4,052	11/1/2027	—
U.S. Agency securities:						
Federal Home Loan Mortgage Corp.	12,922	9/15/2029	—	11,105	9/15/2029	—
Federal Home Loan Mortgage Corp.	8,059	2/7/2028	2/7/2013*	8,068	2/7/2028	2/7/2013*
	<u>55,997</u>			<u>49,574</u>		
University Link OCIP						
U.S. Agency securities:						
Federal National Mortgage Association	1,148			—		
	<u>57,145</u>			<u>49,574</u>		
Cash and cash equivalents						
Washington State Local Government Investment Pool	—			187		
	<u>\$ 57,145</u>			<u>\$ 49,761</u>		

* Continuously callable from this date forward

** Sinking fund begins in 2027, ends in 2030

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

<i>(in thousands)</i>	2011			2010		
	Fair value	Modified duration	Percentage of portfolio	Fair value	Modified duration	Percentage of portfolio
Investments – Internally Managed						
King County Investment Pool	\$ 301,056	0.720	49.70%	\$ 300,569	0.710	41.68%
U.S. Agency securities:						
Federal Farm Credit Bank	24,992	1.741	4.13	68,880	2.437	9.52
Federal Home Loan Bank	40,261	1.144	6.65	73,719	0.898	10.19
Federal Home Loan						
Mortgage Corporation	83,495	1.673	13.78	39,885	2.826	5.51
Federal National						
Mortgage Association	100,872	1.383	16.65	140,392	1.501	19.40
U.S. Treasury securities	20,033	0.498	3.31	75,914	0.469	10.49
Municipal bonds	14,965	1.258	2.47	15,256	2.159	2.11
Certificate of deposit	20,078	1.470	3.31	8,000	0.170	1.10
	<u>\$ 605,752</u>	<u>1.063</u>	<u>100.00%</u>	<u>\$ 722,615</u>	<u>1.163</u>	<u>100.00%</u>
Investments – Capital Replacement						
U.S. Agency securities:						
Federal Farm Credit Bank	\$ 28,611	4.870	19.55%	\$ 6,662	7.812	6.63%
Federal Home Loan Bank	21,897	1.120	14.96	18,638	1.787	18.55
Federal Home Loan						
Mortgage Corporation	31,185	3.234	21.31	24,471	3.764	24.36
Federal National						
Mortgage Association	26,947	4.180	18.41	14,674	1.972	14.60
Municipal bonds	37,716	4.289	25.77	27,515	4.413	27.39
U.S. Treasury securities	—	—	—	8,514	0.247	8.47
	<u>\$ 146,356</u>	<u>3.684</u>	<u>100.00%</u>	<u>\$ 100,474</u>	<u>3.284</u>	<u>100.00%</u>

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

<i>(in thousands)</i>	December 31	
	2011	2010
Cash and cash equivalents		
Investment pools		
King County	\$ 1,024	\$ 1,018
Washington State Local Government *	116,444	157,538
FDIC or PDPC insured bank deposits	6,965	11,226
Cash on hand	2,736	2,062
Escrow funds	8,016	2,129
	135,185	173,973
Investments and debt service reserve		
Debt service and OCIP reserves	57,145	49,574
Investments – internally managed	605,752	722,615
Investments – capital replacement	146,356	100,474
	809,253	872,663
Other restricted assets		
Deductible liability protection policy	1,206	1,794
Interest receivable on restricted investments	730	729
	1,936	2,523
Total cash and cash equivalents, investments and other restricted assets	\$ 946,374	\$ 1,049,159

* Portion segregated for the Prior Debt Reserve. See also table on Page 28.

<i>(in thousands)</i>	December 31	
	2011	2010
Balance sheet classifications		
Current assets		
Cash and cash equivalents	\$ 85,949	\$ 124,746
Current restricted assets:		
Cash equivalents	1,024	1,018
Deductible liability protection policy	1,206	1,794
Total current restricted assets	2,230	2,812
Investments	752,108	815,089
Non-current restricted assets		
Cash equivalents	48,212	48,209
Investments	57,145	57,574
Interest receivable	730	729
Total non-current restricted assets	106,087	106,512
Total cash and cash equivalents, investments and restricted assets	\$ 946,374	\$ 1,049,159

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

4. RECEIVABLES

Receivables consist of the following:

<i>(in thousands)</i>	December 31	
	2011	2010
Taxes receivable	\$ 101,842	\$ 99,577
Grants receivable	17,911	25,799
Accounts receivable, net	607	56
Due from other governments	8,543	5,337
Interest receivable	1,793	1,940
	<u>\$ 130,696</u>	<u>\$ 132,709</u>

Amounts due from other governments include amounts due under the ORCA program, amounts reimbursable under interlocal agreements for operating expenses 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.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

5. CAPITAL ASSETS

Capital assets are summarized as follows:

<i>(in thousands)</i>	December 31		Disposals		December 31
	2010	Additions	Retirements	Transfers	2011
Non-depreciable assets					
Land	\$ 388,086	\$ —	\$ —	\$ 4,644	\$ 392,730
Permanent easements	327,757	—	—	46,350	374,107
Capital projects in progress:					
Sound Transit	661,048	528,570	(8,357)	(213,150)	968,111
Other governments	49,820	49,511	(74,868)	(1,018)	23,445
Total non-depreciable assets	1,426,711	578,081	(83,225)	(163,174)	1,758,393
Depreciable assets					
Transit facilities, rail and heavy equipment	2,509,702	—	(186)	28,896	2,538,412
Access rights	499,644	322	—	5,847	505,813
Buildings and leasehold improvements	26,469	1,815	—	234	28,518
Revenue vehicles	498,382	—	(20,992)	126,087	603,477
Furniture, equipment and vehicles	22,456	—	(385)	2,110	24,181
Total depreciable assets	3,556,653	2,137	(21,563)	163,174	3,700,401
Accumulated depreciation					
Transit facilities, rail and heavy equipment	(156,045)	(53,194)	186	—	(209,053)
Access rights	(78,060)	(27,190)	—	—	(105,250)
Buildings and leasehold improvements	(9,868)	(1,366)	—	—	(11,234)
Revenue vehicles	(112,393)	(25,012)	20,991	—	(116,414)
Furniture, equipment and vehicles	(16,497)	(3,656)	132	—	(20,021)
Total accumulated depreciation	(372,863)	(110,418)	21,309	—	(461,972)
	3,183,790	(108,281)	(254)	163,174	3,238,429
Total capital assets, net	\$ 4,610,501	\$ 469,800	\$ (83,479)	\$ —	\$ 4,996,822

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

<i>(in thousands)</i>	December 31	Disposals			December 31
	2009	Additions	Retirements	Transfers	2010
Non-depreciable assets					
Land	\$ 378,965	\$ 2,416	\$ —	\$ 6,705	\$ 388,086
Permanent easements	285,573	—	—	42,184	327,757
Capital projects in progress:					
Sound Transit	368,130	487,059	(2,658)	(191,483)	661,048
Other governments	23,238	33,576	(6,994)	—	49,820
Total non-depreciable assets	1,055,906	523,051	(9,652)	(142,594)	1,426,711
Depreciable assets					
Transit facilities, rail and heavy equipment	2,416,424	237	—	93,041	2,509,702
Access rights	496,503	—	—	3,141	499,644
Buildings and leasehold improvements	25,093	238	—	1,138	26,469
Revenue vehicles	454,193	—	—	44,189	498,382
Furniture, equipment and vehicles	21,245	126	—	1,085	22,456
Equipment under capital lease	230	—	(230)	—	—
Total depreciable assets	3,413,688	601	(230)	142,594	3,556,653
Accumulated depreciation					
Transit facilities, rail and heavy equipment	(103,449)	(52,596)	—	—	(156,045)
Access rights	(51,250)	(26,810)	—	—	(78,060)
Buildings and leasehold improvements	(8,920)	(948)	—	—	(9,868)
Revenue vehicles	(92,145)	(20,248)	—	—	(112,393)
Furniture, equipment and vehicles	(12,945)	(3,552)	—	—	(16,497)
Equipment under capital lease	(201)	(29)	230	—	—
Total accumulated depreciation	(268,910)	(104,183)	230	—	(372,863)
	3,144,778	(103,582)	—	142,594	3,183,790
Total capital assets, net	\$ 4,200,684	\$ 419,469	\$ (9,652)	\$ —	\$ 4,610,501

During 2011, Sound Transit capitalized \$32.2 million of interest costs (\$23.6 million in 2010), representing interest cost incurred in respect of Sound Transit's capital program for the year, net of premium, discounts and bond issue costs, on its outstanding bonds (see note 8).

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

6. CAPITAL AND OPERATING LEASES

Capital lease obligation at December 31, 2011 and 2010 is \$57.6 million and \$63.3 million, respectively.

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 \$4.9 million (net of closing costs of \$363 thousand) was retained by Sound Transit and recorded as non-operating revenues during the year ended December 31, 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.

The lease documentation established minimum credit levels by AIG for the equity and debt defeasance accounts. At the time these transactions closed, AIG was rated "AAA" by S&P and "Aaa" by Moody's. However, starting in March 2005, AIG suffered a series of credit rating downgrades to reach a level of "A-" by S&P and "A3" by Moody's by end of year 2009. As a result of these rating downgrades under the lease transaction Sound Transit is required to replace AIG for its undertaking agreements and credit enhancements provision in the transaction and AIG is required to post collateral for the debt defeasance accounts. As of year-end 2011 and 2010, the defeasance accounts were unrated as they were no longer invested in marketable securities.

Sound Transit has negotiated the terms of an agreement with the transaction participants on the requirements to replace the debt defeasance, letter of credits and payment undertaker as required under the transaction. The draft terms provide for Sound Transit to potentially provide additional collateral in a securities custodial account for the benefit of the equity investor to satisfy Sound Transit's obligation under the Participation Agreement related to AIG equity defeasance accounts and credit enhancement. The transaction participants and Sound Transit have agreed to postpone the date for replacement of the debt defeasance, letter of credits and payment undertaker as required under the transaction in order to explore alternative arrangements and possible legislative solutions. Sound Transit has received confirmation from transaction participants that no default conditions exist under the agreements as of year-end 2011. Under its agreements with the transaction participants, Sound Transit may request successive three-month extensions of the date for replacement of the debt defeasance, letter of credits and payment undertaker. If the investor does not consent to such an extension, or if an event of default occurs in the upcoming year, the investor could demand a termination payment from Sound Transit of approximately \$16.0 million.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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

	2011	2010
Net sublease, January 1	\$ 63,308	\$ 62,464
Accrued interest	26	4,675
Less payment	(5,756)	(3,831)
Net sublease, December 31	\$ 57,578	\$ 63,308

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 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; Sound Transit and Amtrak have agreed by a Memorandum of Understanding to use funds that would otherwise be payable for these taxes 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.

Operating Rentals— Sound Transit has entered into leases of ground, office space, parking, land, storage at various locations, as well as equipment leases under non-cancelable operating leases in excess of one year with lease terms expiring between 2012 and 2016, with some leases containing options to renew for one year beyond the original lease term. Significant lease arrangements include office space and parking adjacent to Union Station. In 2009, Sound Transit entered into two new 10-year lease agreements for space adjacent to Union Station and extended the existing adjacent office space lease for an additional 5 years. Minimum lease payments through 2016 are as follows (in thousands):

2012	\$ 3,640
2013	3,749
2014	3,775
2015	3,688
2016	3,764
	<u>\$ 18,616</u>

Total rental expenses for 2011, which include non-cancelable leases as well as other month-to-month rentals, were \$3.9 million, of which \$158.0 thousand was for capital projects in progress. Total rental expenses for 2010, which include non-cancelable leases as well as other month-to-month rentals, were \$3.7 million, of which \$391.0 thousand was for capital projects in progress.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

<i>(in thousands)</i>	2011	2010
Accounts payable	\$ 3,941	\$ 37,187
Accrued liabilities	61,947	41,424
Due to other governments	39,564	46,778
Accrued salaries, wages and benefits	3,808	3,175
Retainage payable	313	3,220
	<u>\$ 109,573</u>	<u>\$ 131,784</u>

8. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(in thousands)</i>	2011 Beginning balance	Additions	Reductions	2011 Ending balance	Amounts due within one year
Bonds payable					
Series 1999 Bonds, at par	\$ 326,790	\$ —	\$ (5,320)	\$ 321,470	\$ 5,595
Series 2005A Bonds, at par	397,815	—	(5,810)	392,005	6,015
Series 2007A Bonds, at par	417,445	—	(7,335)	410,110	7,585
Series 2009P-1 Bonds, at par	23,155	—	—	23,155	—
Series 2009P-2T Bonds, at par	76,845	—	—	76,845	—
Series 2009S-2T Bonds, at par	300,000	—	—	300,000	—
	1,542,050	—	(18,465)	1,523,585	19,195
Plus unamortized premium	32,104	—	(2,652)	29,452	—
Less unamortized discount	(5,216)	—	376	(4,840)	—
Total bonds payable	<u>1,568,938</u>	<u>—</u>	<u>(20,741)</u>	<u>1,548,197</u>	<u>19,195</u>
Total long-term debt	<u>\$ 1,568,938</u>	<u>\$ —</u>	<u>\$ (20,741)</u>	<u>\$ 1,548,197</u>	<u>\$ 19,195</u>

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

(in thousands)	2010				Amounts due	
	Beginning balance	Additions	Reductions	2010 Ending balance	within one year	
Bonds payable						
Series 1999 Bonds, at par	\$ 331,855	\$ —	\$ (5,065)	\$ 326,790	\$ 5,320	
Series 2005A Bonds, at par	397,815	—	—	397,815	5,810	
Series 2007A Bonds, at par	420,445	—	(3,000)	417,445	7,335	
Series 2009P-1 Bonds, at par	23,155	—	—	23,155	—	
Series 2009P-2T Bonds, at par	76,845	—	—	76,845	—	
Series 2009S-2T Bonds, at par	300,000	—	—	300,000	—	
	<u>1,550,115</u>	<u>—</u>	<u>(8,065)</u>	<u>1,542,050</u>	<u>18,465</u>	
Plus unamortized premium	34,792	—	(2,688)	32,104	—	
Less unamortized discount	(5,594)	—	378	(5,216)	—	
Total bonds payable	<u>1,579,313</u>	<u>—</u>	<u>(10,375)</u>	<u>1,568,938</u>	<u>18,465</u>	
Total long-term debt	<u>\$ 1,579,313</u>	<u>\$ —</u>	<u>\$ (10,375)</u>	<u>\$ 1,568,938</u>	<u>\$ 18,465</u>	

In the ordinary course of financing its activities, Sound Transit issues debt as shown in the tables below. There are currently two categories of debt: Prior Bonds and Parity Bonds. Prior Bonds have first claim upon the local option taxes. Parity Bonds are subordinate to the Prior Bonds, but they have the same priority of claim upon the Sales and Use and Rental Car Taxes among each Parity Bond issue. The following tables set forward average and effective coupon rates, rating agency information, principal payment commencement, fair value, amounts currently restricted for debt service and debt requirements to maturity.

Prior Bonds— The Prior Bonds comprise the 1999, 2009P-1 and 2009P-2T issues. These bonds are payable in February and August of each year and are secured by Sales and Use, Motor Vehicle Excise and Rental Car taxes.

(in millions)	Issue date	Average rate		Ratings		Principal Payment begins	Fair value*		Principal and interest restricted	
		Coupon	Effective	Moody's	S&P		2011	2010	2011	2010
Series 1999	Dec 1, 1998	4.88	5.03	Aa1	AAA	Feb 1, 2006	\$ 344.60	\$ 343.60	\$ 12.20	\$ 12.00
Series 2009P-1	Sept 29, 2009	4.31	2.52	Aa1	AAA	Feb 1, 2015	26.00	25.70	0.40	0.40
Series 2009P-2T	Sept 29, 2009	5.01	3.31**	Aa1	AAA	Feb 1, 2020	86.90	76.90	1.60	1.60

* Estimated using quoted market prices

**Effective rate reduced due to 35% subsidy provided by U.S. Government for Build America Bonds

Parity Bonds— The Parity Bonds comprise the 2005A, 2007A and 2009S-2T issues. These bonds are payable in May and November each year and are secured by Sales and Use and Rental Car taxes.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

(in millions)	Issue date	Average Rate		Ratings		Principal Payment begins	Fair value*		Principal and interest restricted	
		Coupon	Effective	Moody's	S&P		2011	2010	2011	2010
Series 2005A	Mar 31, 2005	4.95	4.60	Aa2	AAA	Nov 1, 2011	\$ 428.90	\$ 414.10	\$ 9.30	\$ 9.10
Series 2007A	Dec 18, 2007	4.99	4.76	Aa2	AAA	Nov 1, 2008	437.70	416.40	11.00	10.80
Series 2009S-2T	Sept 29, 2009	5.49	3.62**	Aa2	AAA	Nov 1, 2029	359.60	299.70	2.70	2.70

* Estimated using quoted market prices

** Effective rate reduced due to 35% subsidy provided by U.S. Government for Build America Bonds

Sound Transit is required to maintain certain minimum deposits as defined in the respective bond resolution for each bond issue to meet debt service requirements. In addition, Sound Transit is required to maintain a common debt service reserve account for all Prior Bonds and series specific debt service reserve accounts for the Parity Bonds. As of December 31, 2011, the common debt service reserve account for Prior bonds comprise a surety policy in the amount of \$31.7 million purchased in 1999 and a \$7.9 million cash reserve funded at the time the 2009P bonds were issued. For the Parity Bonds, a cash reserve was established in 2005 for the 2005A bonds. The required balance for the Parity debt service reserve account was \$41.1 million at the end of 2011.

Under the bond covenants, Sound Transit is required to value at market the investments held in debt service reserve accounts annually and to make up any deficiency within six months after the date of the valuation. No reserve account was required to be established for the 2007A and 2009S-2T series bonds. Reserve account proceeds are primarily invested in AAA rated Agency and General Obligation bonds.

Sound Transit's long-term debt requirements are displayed in the table below.

Year ending December 31, 2011	(in thousands)		
	Principal	Interest	Total
2012	\$ 19,195	\$ 76,948	\$ 96,143
2013	20,135	76,006	96,141
2014	19,395	75,036	94,431
2015	24,475	73,935	98,410
2016	24,480	72,468	96,948
2017 – 2021	199,670	340,531	540,201
2022 – 2026	289,615	277,684	567,299
2027 – 2031	312,805	204,425	517,230
2032 – 2036	357,610	126,123	483,733
2037 – 2039	256,205	28,473	284,678
	<u>\$ 1,523,585</u>	<u>\$ 1,351,629</u>	<u>\$ 2,875,214</u>

Proceeds from all bond issues except for the 2009P-1 are used for funding Agency capital construction projects. The 2009P-1 issue was for the purpose of refunding a portion of the 2005A bonds. The partial defeasance of the 2005A Series bonds decreased aggregate debt service payments by \$3.6 million resulting in a net present value savings to the Agency in the amount of \$2.5 million.

The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) program, which authorizes state and local governments to issue BABs as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt municipal bonds. The issuers

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

receive a direct federal subsidy payment for a portion of their borrowing costs on BABs equal to 35 percent of the total coupon interest paid to investors. The direct federal subsidy once earned, will be considered a non-exchange transaction separate from the interest payments made by the Agency and will be recorded in other non-operating revenue when Sound Transit makes its interest payment. The 2009P-2T bonds and the 2009S-2T bonds are Build America Bonds.

9. OTHER LONG-TERM OBLIGATIONS

Other long-term obligations include provisions for asset retirement obligations, uninsured losses related to the agency's risk management program and employee compensated absences as follows:

<i>(in thousands)</i>	2011			2011		Amounts due
	Beginning	Additions and		Ending	Amounts due	within
	balance	accretion	Reductions	balance	within	one year
Asset retirement obligations						
Sounder station platforms	\$ 1,051	\$ 52	\$ —	\$ 1,103	\$ —	\$ —
Tacoma link surface rail	1,521	77	—	1,598	—	—
Total asset retirement obligations	2,572	129	—	2,701	—	—
Uninsured losses						
Owner controlled insurance program	3,833	(232)	(1,118)	2,483	—	720
Transit operations	981	(501)	—	480	—	140
Total uninsured losses	4,814	(733)	(1,118)	2,963	—	860
Compensated absences	4,493	4,225	(3,789)	4,929	—	1,826
Total other long-term obligations	\$ 11,879	\$ 3,621	\$ (4,907)	\$ 10,593	\$ —	\$ 2,686

<i>(in thousands)</i>	2010			2010		Amounts due
	Beginning	Additions and		Ending	Amounts due	within
	balance	accretion	Reductions	balance	within	one year
Asset retirement obligations						
Sounder station platforms	\$ 1,001	\$ 50	\$ —	\$ 1,051	\$ —	\$ —
Tacoma link surface rail	1,449	72	—	1,521	—	—
Total asset retirement obligations	2,450	122	—	2,572	—	—
Uninsured losses						
Owner controlled insurance program	4,627	(222)	(572)	3,833	—	869
Transit operations	1,208	(227)	—	981	—	285
Total uninsured losses	5,835	(449)	(572)	4,814	—	1,154
Compensated absences	4,106	4,295	(3,908)	4,493	—	1,626
Total other long-term obligations	\$ 12,391	\$ 3,968	\$ (4,480)	\$ 11,879	\$ —	\$ 2,780

Asset Retirement Obligations— In the course of entering into agreements with other governments and rail providers to construct Sound Transit's capital assets used in providing transportation services, certain of those agreements contain clauses that impose a legal burden on Sound Transit to remove all or a portion of those constructed assets at the termination of those agreements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Risk Management— In the ordinary course of planning, building, and operating its regional transit systems and services to improve mobility for the Central Puget Sound, which includes construction projects and agency and rail operations, Sound Transit is exposed to various types of risks and exposures 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 and insurance program. For its agency and railroad operation, a commercial insurance program has been put in place that provides coverage for all property, primary and excess liability, commercial auto liability, premises pollution liability, public officials & employment practices liability, crime & fidelity, and fiduciary liability to provide Sound Transit with the appropriate protections for these various types of risks and exposures.

For ST Express bus operations, under Sound Transit's interagency agreements, insurance coverage is provided by its bus partner agencies, which is included in the pro-rata transit operations cost rate that is established by Sound Transit and its bus partner agencies. However, under its interagency agreement for ST Express Bus Service Operations and Maintenance in Pierce County, Sound Transit reimburses Pierce Transit for the costs of all individual claims paid up to \$1 million per occurrence for all liability claims generated from ST Regional Express Bus service through December 31, 2009. In 2010, Sound Transit entered into a new operations and maintenance agreement with Pierce Transit that transfers this risk and general liability claim responsibility back to Pierce Transit, and establishes a pro-rata transit operations cost rate structure similar to Sound Transit's operations and maintenance agreements with King County DOT and Community Transit.

Sound Transit has utilized two OCIP programs for its larger capital development projects to address general liability claims due to third-party injuries and/or property damage related to project construction activities carried out by Sound Transit's third-party contractors. Its first OCIP program was secured in 2001, primarily for construction of the Central Link light rail segment and subsequently amended to include the Airport Link light rail segment and provided coverage from January 1, 2001 through December 31, 2009, with three years of completed operations coverage. The only remaining insurance policy that has not expired is the professional liability and contractor's pollution policy, which provides coverage through December 31, 2016 with an additional three-year reporting period extending to December 31, 2019. This insurance policy was extended in order to provide insurance coverage for the final design of the University Link light rail project.

A second OCIP program was procured in October 2008 for the University Link Light rail segment. The funding of the premium for this OCIP was structured with initial premium payments of \$6.8 million in 2008 and the final premium payments in 2010 of \$3.9 million, with a coverage period provided from October 20, 2008 through September 30, 2016. The University Link OCIP insurance coverage includes: primary commercial general liability, excess commercial general liability, builders risk, and contractors pollution liability policies.

On each of its commercial insurance policies, Sound Transit is responsible for either a specific deductible or a self-insured retention. Most of these insurance policies are written either on a per occurrence basis or on a claims-made basis. For its Initial Segment Light Rail OCIP general liability policy, Sound Transit procured a deductible liability protection policy as collateral to supplement the deductible responsibility with the comprehensive general liability (CGL) insurer for the probable maximum claims exposure. This collateral account was established at the inception of the policy and estimated at \$6.5 million, which Sound Transit deposited with the CGL insurer in an interest-bearing loss fund account.

Annually, Sound Transit engages an actuary to prepare an actuarial report in order to estimate its total claim exposure under all of these risk management and insurance programs. The claim amounts estimated to be paid within the next year are included as an accrual in other current liabilities of the financial statements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Compensated Balances—Amounts estimated to be paid within the next year are included in accrued salaries, wages and benefits.

10. RESTRICTED NET ASSETS

Restricted net assets consist of the following:

	2011	2010
Debt service	\$ 68,864	\$ 70,557
Contractual arrangements	20,229	18,748
Deductible liability protection policy	1,206	1,794
	<u>\$ 90,299</u>	<u>\$ 91,099</u>

11. 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 to either 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 were eligible to continue their membership in PERS for the duration of their continuous employment with Sound Transit. At December 31, 2011, 2010 and 2009, there was one remaining employee participating in PERS.

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

401(a) Plan— In 2010 the ICMA Retirement Corporation administered the Central Puget Sound Regional Transit Authority Pension Plan and served as the plan's trustee. In June 2011, the Agency entered into an agreement with Great West Retirement Services to be the plan's administrator and trustee. This plan is a fixed employer system, and membership in the system includes all full time Sound Transit employees and members of the Sound Transit Board eligible for compensation. 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 payrolls. The amount of covered payroll during 2011 and 2010 was \$41.2 million and \$37.4 million, respectively, and total payroll was \$41.9 million and \$38.0 million, respectively. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2011, 2010, and 2009 are as follows:

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

	Contribution rate			Contributions (in thousands)		
	2011	2010	2009	2011	2010	2009
Employer	12%	12%	12%	\$ 4,944	\$ 4,490	\$ 3,972
Employee	10	10	10	4,120	3,742	3,310
Total	22%	22%	22%	\$ 9,064	\$ 8,232	\$ 7,282

12. COMMITMENTS AND CONTINGENCIES

Operations and Maintenance Agreements— In May, 2000, Sound Transit entered into a 40 year agreement with BNSF for the operation of commuter trains by BNSF between Seattle and Tacoma and for the compensation paid to BNSF for train crews, maintenance of way, and other expenses incurred in the operation of the Sounder service. The compensation is based on the actual costs of crew, dispatch and management, as well as costs for maintenance of way plus performance incentives.

Between June 2000 and February 2006, the cities of Seattle, Tukwila and SeaTac granted Sound Transit perpetual light rail access rights to operate its light rail service in their municipalities in return for Sound Transit constructing public right of way improvements in each of these cities light rail transit ways. Costs included in the public right of way improvements necessary to operate light rail service include the costs to acquire real property and relocate existing residents and businesses.

In September 2000, Sound Transit entered into an agreement with Amtrak for the operations and maintenance of its Sounder commuter rail rolling stock, expiring December 31, 2009. A memorandum of agreement was entered into for the continuance of operations from January 2010 to February 2010 under the original contract terms. A new five-year agreement was entered into effective March 1, 2010 with one two year option for renewal at Sound Transit's consent and three one year renewal options at the mutual consent of both parties. Under the agreement, Sound Transit pays a flat monthly fixed price dependent upon the number of one way trips and train sets in operation for a baseline set of operating assumptions. Sound Transit pays a negotiated rate for additional service above this baseline operating plan. See related agreements described in note 6.

In June 2002, Sound Transit entered into an agreement with King County DOT to share DSTT maintenance and operation costs in exchange for the right to use the DSTT for light rail operations. Sound Transit's ongoing obligations include reimbursement of costs and payment of a share of King County DOT debt service owed for the original tunnel construction. Sound Transit is also committed under this agreement to share costs for future capital repairs or replacements as they arise. Compensation is calculated as reimbursement of certain King County DOT costs based on fixed percentages related to Sound Transit's share of usage of the DSTT. The DSTT agreement is in effect for five years after the opening of light rail operations in 2009 at which point Sound Transit will either be required to purchase the DSTT or Sound Transit and King County DOT will enter into another operating agreement for joint use.

In June 2003, Sound Transit entered into a Central Link Light Rail system operation and maintenance agreement with King County DOT. Compensation for this service is based on reimbursement for King County DOT expenses based on a fixed amount for a baseline level of service, with additional costs billed for service changes directed by Sound Transit. This agreement was revised effective December 21, 2009 for a term of five years.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

In December 2003, Sound Transit entered into an agreement with BNSF for the operation of the commuter trains by BNSF between Seattle and Everett and the compensation paid to BNSF for train crews, maintenance of way and other expenses incurred in the operation of the Sounder service. The compensation is structured as an hourly rate per train mile operated for a baseline service plan, with inflation adjustments plus performance incentives. The term of the agreement is for 12 years with an option of five 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, provided Sound Transit eventually operates in the corridor.

On April 17, 2006, Sound Transit entered into a Construction Services Agreement with the Port of Seattle. The agreement provides construction and operating terms for Airport Link. The agreement will not expire as long as Sound Transit operates rail transit systems on the segment.

On January 1, 2010, Sound Transit entered into new service agreements with King County DOT and Pierce Transit for the operation of its ST Express bus service. The agreements expire December 31, 2012 and contain two 1 year renewal options at the mutual consent of both parties. The Community Transit 2004 bus service agreement was extended to March 31, 2010, following which a new service agreement was entered into effective April 1, 2010 and expiring March 31, 2012, with two 1 year renewal options at the mutual consent of both parties. Service is compensated based upon a fixed fee agreed to annually, with certain items subject to variable pricing, such as fuel and special services.

In October 2010, Sound Transit entered into a 20-year agreement with the Washington State Fair Association to use one of its parking lots for commuter rail passengers accessing Puyallup Station. The amount paid to acquire the right was equal to costs incurred to improve the existing parking lot to be able to accommodate commuter rail passengers.

Agreements with BNSF for Sounder Commuter Rail Service Easements in the Everett-to-Seattle and Lakewood-to-Tacoma Corridors— In May 2000, Sound Transit entered into a construction agreement with BNSF in which track and signal improvements necessary to operate its service in the Seattle to Tacoma corridor would be constructed in exchange for the right to operate commuter rail service for 40 years. In the Everett to Seattle corridor operating rights were acquired through direct acquisition of easements and include Sound Transit's direct and indirect costs related to planning and design, environmental management and permitting for that corridor.

In December 2003, Sound Transit entered into a number of agreements with BNSF for, among other things, the purchase of four perpetual easements between 2003 and 2007, each in exchange for a payment of \$50 million for commuter rail service between Everett and Seattle, the purchase of railroad right of way between Nisqually and Tacoma for service and station improvements, terms for joint use of the railroad right of way and the purchase of operation services in each corridor. Each easement allows the addition by Sound Transit of one round trip commuter train service.

The Joint Use Agreement for the Everett to Seattle corridor provides the mechanism for determining the cost to Sound Transit for the maintenance of way and rehabilitation activities on the corridor.

The Joint Use Agreement for the Lakewood to Tacoma corridor sets forth the cost to BNSF for the maintenance of way and rehabilitation activities on the corridor and Sound Transit and BNSF's responsibilities during the interim period before Sound Transit starts operating on each portion of the corridor. However, as Sound Transit incrementally commences construction of the line, Sound Transit will be responsible for maintenance activities on those sections.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

In July 2010, Sound Transit entered into an agreement with BNSF to acquire four perpetual easements on its Seattle to Tacoma corridor. The easements will be acquired between 2010 and 2013 for total compensation of \$185.0 million. As of December 31, 2011, two easements totaling \$85.0 million have

been acquired. Each easement allows the operation of one round trip commuter train service no earlier than the later of either the agreed upon effective operational date of each easement or 24 months after Sound Transit has obtained required approvals and permits to allow BNSF to construct related improvements necessary for the operation of each easement. The cost of each remaining easement is listed in the table below.

<u>Closing date</u>	<u>Amount</u>
	<i>(in millions)</i>
July 2012	\$ 52.0
July 2013	48.0
	<u>\$ 100.0</u>

Amended and Restated Agreement for Regional Fare Coordination System— In April 2009, Sound Transit entered into an amended agreement establishing the design, implementation, operation and maintenance of the Regional Fare Coordination System (RFCS) among seven participating agencies that simplifies and establishes a common, non-cash fare system through their service areas. The amended agreement defines and establishes a framework for the Operating Phase of the RFCS, which launched on April 1, 2009. The participating agencies have committed to utilizing the RFCS for a minimum of 10 years and funding a proportionate share of regionally shared costs.

The following table represents the amounts included in these financial statements of Sound Transit's participation:

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 4,834,779	\$ 3,492,218
Accounts receivable	4,998,869	6,431,590
Total assets	<u>\$ 9,833,648</u>	<u>\$ 9,923,808</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,572,156	\$ 7,877,942
Deferred receipts	6,261,492	2,045,866
Total liabilities	<u>\$ 9,833,648</u>	<u>\$ 9,923,808</u>
Total operating revenues	\$ 33,744,323	\$ 24,407,982
Total expenses	\$ 865,498	\$ 466,925

Governmental Agreements— In its ordinary course of planning design and construction of its projects, Sound Transit enters into agreements with other governments. These agreements establish the working

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

relationships with the other governmental entities and may obligate Sound Transit to pay for services over the lifecycle of a construction project, and often include provisions to transfer property or property rights upon completion of construction. Significant governmental agreements include:

University of Washington Master Implementation Agreement: Entered into on July 2, 2007, this agreement allows Sound Transit entry to the University's Seattle Campus to construct Link light rail; establishes compensation amounts for certain staffing costs, parking mitigation in the amount of \$15.2 million, which was paid in 2007, and consideration for easements granted by the University in the amount of \$20.0 million, which was paid in May 2008. Both parties anticipate additional agreements providing terms for the operation of Link light rail on University property.

WSDOT Funding and Cooperative Agreement: Entered into on November 2008, this agreement establishes the project scope, management and construction of certain improvements within the Lakewood track improvements and Point Defiance Bypass project. WSDOT will reimburse Sound Transit for actual costs incurred up to a maximum amount of \$9.5 million.

WSDOT Construction Administration Agreement: Entered into on March 16, 2009, this agreement establishes the terms of construction, construction engineering, contract administration, support and payments for WSDOT to construct the I-5, Mountlake Terrace Freeway Station. Sound Transit's estimated expense for this project is \$22.6 million. The station went into service March 2011, however Sound Transit is required to pay for environmental monitoring for 2 years after construction under the agreement.

City of Seattle Construction Services Agreement: Entered into on August 12, 2009, this agreement covers areas including quality assurance, inspections, emergency services, traffic signal design, and utility work by city crews during Sound Transit's development of the University Link Project up to \$6.0 million. The agreement also commits Sound Transit to accomplish certain improvements as requested by the City, at the City's expense.

City of Seattle Funding and Cooperative Agreement for the implementation of the First Hill Streetcar Connector Project: Entered into on November 11, 2009, this agreement establishes the minimum scope of work for the project and funding obligations for Sound Transit. In October 2010, Sound Transit agreed to fully fund \$132.8 million of the costs necessary to design, construct and operate the First Hill Streetcar that were established in the November 2009 funding and cooperative agreement. The City will own the First Hill Streetcar facilities and vehicles, while Sound Transit will assume operation of the Streetcar service if the City and King County DOT fail to reach an initial operating agreement or after the initial five years of operation by King County DOT.

WSDOT Umbrella Agreement for R8A Project and East Link Light Rail: On August 26, 2010, Sound Transit was authorized to enter into an umbrella agreement with WSDOT to implement the remainder of the R8A project that consists of the I-90 Two-Way Transit and HOV Operations Project Stages 2 and 3 and the use of the I-90 center lanes for construction and operation of East Link. Sound Transit has agreed to fund Stages 2 and 3 of the I-90 Two Way Transit and HOV projects for \$153.2 million in exchange for a temporary construction airspace lease for the construction of light rail along the I-90 center lanes as well as a 40 year airspace lease with an option to renew for 35 years for the operation of light rail in the center lanes of I-90.

City of Bellevue Binding Umbrella Memorandum of Understanding and Transitway Agreement for East Link Project: On November 17, 2011, Sound Transit and the City of Bellevue (the City) entered into an agreement in which the City will contribute up to \$100 million for the construction

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

of a tunnel through downtown Bellevue and \$60 million as a contingent contribution. The City also agreed to establish a collaborative partnership with Sound Transit in which project risks and benefits would be shared and both parties would work together during final design, permitting and construction to manage the project. Furthermore, a transitway agreement was executed in which the City granted Sound Transit non-exclusive use of City right-of-way to construct, operate and maintain the project.

Land Bank Agreement— Sound Transit entered into an agreement called the Land Bank Agreement with WSDOT in July 2000 and as restated in December 2003, the purpose of which is to establish a framework within which WSDOT can from time to time convey portions of WSDOT property to Sound Transit and to make other portions of other WSDOT property available for non-highway use by Sound Transit in consideration for Sound Transit’s funding of highway purpose improvements. In August 2010, as part of the Umbrella Agreement with WSDOT to complete the R8A Project, WSDOT has agreed to grant Sound Transit land bank credits for all of its funding on the R8A projects as well as to extend the land bank agreement to 2080 in which Sound Transit can continue to earn land bank credits for projects involving highway improvements and use credits on projects that are located within the public highway right-of-way.

Sound Transit has light rail guideways located on WSDOT property governed under multiple forty-year airspace leases issued under the land bank agreement. Should Sound Transit and WSDOT not enter into a new agreement at the end of the leases, property ownership transfers to WSDOT. At December 31, 2011, the value of the unused land bank credits that have not been conveyed by WSDOT to Sound Transit was \$131.3 million. This value is not recorded in the financial statements. The following table provides information on additions to and uses of credits accruing to the benefit of Sound Transit in 2011 and 2010.

<i>(in millions)</i>	2011	2010
Balance in Land Bank, beginning of year	\$ 133.6	\$ 133.8
Credits (Draws):		
Mountlake Terrace Freeway Station	(2.3)	—
University Link I-5 Twin Bore Tunnel Crossing	—	1.8
East Link	—	(0.1)
D Street to M Street Track & Signal	—	(1.9)
Balance in Land Bank, end of year	\$ 131.3	\$ 133.6

Purchases— At December 31, 2011 and 2010, Sound Transit had outstanding construction commitments of approximately \$585.7 million and \$844.2 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 collectability of any related receivable at December 31, 2011 and 2010 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to noncompliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Claims— In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to contractual matters. Although the ultimate outcome, if any, of these matters is presently unknown, management has evaluated all claims and potential claims and, where that exposure is probable, has reflected in the accounts of Sound Transit its best estimate of the exposure.

Subsequent Event— Management has evaluated events and transactions that have occurred after December 31, 2011, through May 25, 2012, the date these financial statements were issued.

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APPENDIX B

FORMS OF MASTER PRIOR BOND RESOLUTION AND 2012 PARITY BOND RESOLUTION

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MASTER PRIOR BOND RESOLUTION

SOUND TRANSIT

RESOLUTION NO. R2012-14

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY AMENDING AND RESTATING MASTER RESOLUTION NO. R2009-15, WHICH AMENDED AND RESTATED RESOLUTION NO. R98-47, AND AUTHORIZING SALES TAX AND MOTOR VEHICLE EXCISE TAX BONDS OF THE AUTHORITY TO BE ISSUED IN ONE OR MORE SERIES TO FINANCE A PORTION OF THE AUTHORITY'S REGIONAL TRANSIT SYSTEM PLAN.

ADOPTED: June 28, 2012

This document prepared by:
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* This table of contents is not a part of this resolution as adopted but is provided for convenience of reference only.

SOUND TRANSIT
RESOLUTION NO. R2012-14

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY AMENDING AND RESTATING MASTER RESOLUTION NO. R2009-15, WHICH AMENDED AND RESTATED RESOLUTION NO. R98-47, AND AUTHORIZING SALES TAX AND MOTOR VEHICLE EXCISE TAX BONDS OF THE AUTHORITY TO BE ISSUED IN ONE OR MORE SERIES TO FINANCE A PORTION OF THE AUTHORITY'S REGIONAL TRANSIT SYSTEM PLAN.

WHEREAS, the Board of Directors (the "Board") 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 (as defined herein, the "Sound Move Plan"); and

WHEREAS, on November 5, 1996, at an election held within the boundaries of the Authority, the requisite number of voters approved the imposition, up to three-tenths of one percent, of the special motor vehicle excise tax authorized by RCW 81.104.160 and the imposition, up to four-tenths of one percent, of the sales and use tax authorized by RCW 81.104.170 to implement the Sound Move Plan; and

WHEREAS, by Resolution No. 82, the Board authorized the imposition of the foregoing taxes and the rental car sales and use tax authorized by RCW 81.104.160 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 and Resolution No. R98-47, as amended by Resolution No. R99-4 (together, the "Original Master Resolution") and Resolution No. R98-48, the Authority on January 6, 1999, issued its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (the "1999 Prior Bonds"), secured by a pledge of the

Local Option Taxes (defined herein), to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180 and Resolutions Nos. R2005-02 and R2005-07, the Authority on March 31, 2005, issued its Sales Tax Bonds, Series 2005A (the "2005A Parity Bonds"), secured by a pledge of the Pledged Taxes (defined herein) subordinate to the pledge securing the 1999 Prior Bonds, to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180 and Resolutions Nos. R2007-22 and R2007-27, the Authority on December 18, 2007, issued its Sales Tax Bonds, Series 2007A (the "2007A Parity Bonds"), secured by a pledge of the Pledged Taxes subordinate to the pledge of Local Option Taxes securing the 1999 Prior Bonds and on a parity with the pledge of Pledged Taxes securing the 2005A Parity Bonds, to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, the Board, by Resolution No. R2008-10, authorized and adopted Sound Transit 2, A Mass Transit Guide, The Regional Transit System Plan for Central Puget Sound (the "Sound Transit 2 Plan") as a regional transit system plan to provide additional high capacity transportation services in the central Puget Sound region; and

WHEREAS, on November 4, 2008, at an election held within the boundaries of the Authority, the requisite number of voters approved additional sales and use taxes of up to five-tenths of one percent as authorized by RCW 81.104.170, to fund the Plan (defined herein); and

WHEREAS, by Resolution No. R2008-15, the Board levied, fixed and imposed an additional sales and use tax of five-tenths of one percent effective January 1, 2009, confirmed that all then-existing Local Option Taxes remain in full force and effect and authorized a contract with the State of Washington Department of Revenue and Department of Licensing to collect and transfer all such taxes to the Authority; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180 and Resolution No. R2009-15 (the "Amended Master Resolution") and Resolution No. R2009-17, the Authority

on September 29, 2009, issued its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-1 and Series 2009P-2T (Taxable Build America Bonds – Direct Payment) (together, the “2009 Prior Bonds”), secured by a pledge of the Local Option Taxes on a parity with the 1999 Prior Bonds, to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180 and Resolutions Nos. R2009-16 and R2007-18, the Authority on September 29, 2009, issued its Sales Tax Bonds, Series 2009S-2T (Taxable Build America Bonds – Direct Payment) (the “2009S-2T Parity Bonds”), secured by a pledge of the Pledged Taxes subordinate to the pledge of Local Option Taxes securing the 1999 Prior Bonds and the 2009 Prior Bonds and on a parity with the pledge of Pledged Taxes securing the 2005A Parity Bonds and the 2007A Parity Bonds to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, the Authority desires to issue additional obligations to finance or refinance improvements for the purpose of providing high capacity transportation service consistent with the resolutions authorizing the issuance of the 1999 Prior Bonds and the 2009 Prior Bonds, such obligations to be secured by a pledge of the Local Option Taxes on a parity with the pledge securing the 1999 Prior Bonds and the 2009 Prior Bonds; and

WHEREAS, the Authority desires to amend and restate the Amended Master Resolution consistent with the resolutions authorizing the issuance of the 1999 Prior Bonds and the 2009 Prior Bonds;

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

Section 1. Definitions. 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:

Accreted Value means with respect to any Capital Appreciation Prior 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 Prior 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 Prior Bonds.

Act means Chapter 81.112 RCW and Chapter 81.104 RCW, as they may be amended from time to time.

Additional Taxes has the meaning assigned that term in Resolution No. R2009-16.

Adopted Prior Rate Adjustment means any reduction or increase in the rate of the levy of Local Option Taxes if the Authority has taken all actions and received all approvals required to reduce or increase such Local Option Taxes.

Amended Master Resolution means Resolution No. R2009-15.

Annual Prior Bond Debt Service means the amount required in any Fiscal Year to pay for the principal of and interest on all Prior Bonds Outstanding, excluding interest and principal to be paid from the proceeds of the sale of Prior Bonds. For the purpose of calculating Annual Prior Bond Debt Service for purposes of the Future Prior Bonds tests outlined in Section 4 and the Prior Reserve Account Requirement:

(i) in the case of Variable Rate Prior Bonds, the interest rate thereon shall be calculated on the assumption that such Prior Bonds will bear interest during such period at a rate equal to the maximum rate permitted by the Series Resolution authorizing such Prior Bonds; provided, that if a Payment Agreement is executed in connection with a Series of Prior Bonds that has the effect of converting the Variable Rate thereon to a synthetic fixed rate of interest or limiting the range of possible Variable Rates, then for purposes of calculating Annual Prior Bond Debt Service, the assumed interest rate for such Prior Bonds shall be the synthetic fixed rate interest or maximum Variable Rate, as applicable, payable by the Authority under the Payment Agreement for the term of the Payment Agreement;

(ii) if a Payment Agreement is executed in connection with a Series of Prior Bonds that has the effect of converting the fixed rate of interest thereon to a synthetic Variable Rate

and the Authority receives written confirmation that such execution in and of itself will not cause any rating then maintained by any Rating Agency on any Outstanding Prior Bonds to be downgraded, suspended or withdrawn, then for purposes of calculating Annual Prior Bond Debt Service, the assumed interest rate for such Prior Bonds shall be the maximum synthetic Variable Rate payable by the Authority under the Payment Agreement for the term of the Payment Agreement, but if the Authority does not receive such written confirmation, then the assumed interest rate for the Series of Prior Bonds shall be the higher of the fixed rate or the maximum Variable Rate provided for in the Payment Agreement;

(iii) the principal of Variable Rate Prior Bonds subject to a put shall be calculated as if it were due in its entirety on the first date on which the Variable Rate Prior Bonds are subject to a put or, if the put for the Variable Rate Prior Bonds are credit enhanced, then in accordance with the longest amortization permitted under the contract for credit enhancement;

(iv) if a Prior Payment Agreement is executed in connection with a Series of Prior Bonds, the Annual Prior Bond Debt Service shall be adjusted as provided in Section 9;

(v) in the case of Balloon Maturity Prior Bonds, it shall be assumed that the principal of such Balloon Maturity Prior Bonds, together with interest thereon at the rate applicable to such Balloon Maturity Prior Bonds, shall be amortized in equal annual installments over a term set forth in the Series Resolution and that is the lesser of (a) 25 years or (b) the average weighted useful life (expressed in years and rounded to the next highest integer) of the properties and assets constituting the Projects (if any) financed out of the proceeds of such Balloon Maturity Prior Bonds;

(vi) the interest on Balloon Maturity Prior Bonds or Variable Rate Prior Bonds shall be determined at the maximum rate applicable to such Balloon Maturity Prior Bonds or Variable Rate Prior Bonds, but if there is no applicable maximum rate, then at 12% per annum;

(vii) in the case of Capital Appreciation Prior 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 accrued and unpaid and accruing interest on principal in such manner as is specified in the Series Resolution authorizing such Prior Bonds;

(viii) if the Prior Bonds are Paired Prior Obligations, the interest rate on such Prior Bonds shall be the resulting combined fixed interest rate to be paid by the Authority with respect to such Paired Prior Obligations; and

(ix) if the reimbursement obligation with respect to a liquidity facility for a Variable Rate Prior Bond or Balloon Maturity Prior Bond is secured by a pledge of Local Option Taxes subordinate to the pledge securing the Prior Bonds, then no calculation of principal and interest amortization with respect to the reimbursement obligation need be considered.

Authority means The Central Puget Sound Regional Transit Authority, a regional transit authority duly organized and existing under and by virtue of the Constitution and the Act.

Authority Prior Bond Certificate means a certificate dated no earlier than 30 days before the delivery of any series of Future Prior Bonds, executed by a Designated Authority Representative and stating that Local Option Taxes received during the Base Prior Period (as shown in the audited or unaudited financial statements of the Authority) were not less than three times Maximum Annual Prior Bond Debt Service on all Prior Bonds that will be Outstanding upon the issuance of such series of Future Prior Bonds; provided, that in preparing such certificate, the Designated Authority Representative shall take into account any Adopted Prior Rate Adjustment as if such new rate had been in effect during the entire Base Prior Period.

Average Annual Prior Bond Debt Service means the aggregate Annual Prior Bond Debt Service with respect to all Prior Bonds Outstanding through the scheduled maturities thereof (stated maturity dates or mandatory redemption dates with respect to Term Prior Bonds), divided by the number of years remaining during which interest on Prior Bonds is due and/or Prior Bonds are scheduled to mature or be subject to mandatory redemption (commencing with the year following the year of calculation).

Balloon Maturity Prior Bonds means any Prior Bonds which are so designated in the Series Resolution pursuant to which such Prior 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 Prior Bonds.

Base Prior Period means any consecutive 12-month period selected by the Authority out of the 18-month period next preceding the date of issuance of a Series of Prior Bonds.

Board means the Board of Directors of the Authority.

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

Bond Insurance has the meaning assigned that term in Resolution No. R2009-16.

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

Bond Registrar means any person or entity designated and appointed from time to time by resolution of the Board or by a Series Resolution to act as registrar for one or more Series of Prior Bonds.

Build America Prior Bonds means the Prior Bonds of any Series to which the Authority irrevocably elects to have Section 54AA of the Code apply.

Capital Appreciation Prior Bonds means Prior 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 Prior Bonds; provided, that if so provided in the Series Resolution authorizing their issuance, Prior Bonds may be deemed to be Capital Appreciation Prior Bonds for only a portion of their term. On the date on which Prior Bonds no longer are Capital Appreciation Prior Bonds, they shall be deemed Outstanding in a principal amount equal to their Accreted 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.

Credit Facility means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, Qualified Prior Insurance, Qualified Prior Letter of Credit, standby purchase agreement or other financial instrument which obligates a party, other than the Authority, to make payments relating to the Prior Bonds, including but not limited to the payment of the principal of, interest on or purchase price of Prior Bonds or meeting all or a portion of the Prior Reserve Account Requirement.

Default means any of the events specified in Section 14.

Designated Authority Representative means the Chair of the Board, the Chief Executive Officer or the Chief Financial Officer of the Authority 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 2012 Parity Bonds pursuant to a Series Resolution (as defined in Resolution No. R2009-16), 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 Parity Bond Account to pay and secure the payment of the principal of and interest on the 2005A Parity Bonds, the 2007A Parity Bonds, the 2009S-2T Parity Bonds and if and when issued, the 2012 Parity Bonds.

Future Prior Bonds means any bonds, notes or other obligations of the Authority issued after the issuance of the 2012 Prior Bonds pursuant to a Series Resolution secured by a pledge of Local Option Taxes on a parity with the pledge securing the 1999 Prior Bonds, the 2009 Prior Bonds and if and when issued, the 2012 Prior 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.

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.

Local Option Taxes means the special motor vehicle excise tax and rental car sales and use tax authorized by RCW 81.104.160 and the sales and use tax authorized by RCW 81.104.170, initially approved at an election held on November 5, 1996, together with the additional sales and use tax approved at an election held on November 4, 2008, as such taxes may be levied from time to time by the Authority.

Maximum Annual Prior Bond Debt Service means at the time of calculation, the highest Annual Prior Bond Debt Service with respect to all Prior Bonds that will mature or come due in the current or any future Fiscal Year.

Motor Vehicle Tax means the motor vehicle excise tax authorized by RCW 81.104.160.

MSRB means the Municipal Securities Rulemaking Board.

1999 Prior Bonds means the Authority's Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999, authorized by Resolution No. 98-47, as amended by Resolution No. R99-4, and by Resolution No. 98-48.

Original Master Resolution means Resolution No. R98-47, as amended by Resolution No. R99-4.

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

Owner means the registered owner of any Prior Bond.

Paired Prior Obligations means any two Series of Prior Bonds (or portions thereof) designated as Paired Prior 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 Prior Bonds for the term of such Prior Bonds.

Parity Bond Account means the Subordinate Reserve Account created pursuant to Section 19(a) of Resolution No. R2005-02 and renamed the "Parity Bond Account" in Section 19(a) of Resolution No. R2009-16.

Parity Bonds means the 2005A Parity Bonds, the 2007A Parity Bonds, the 2009S-2T Parity Bonds, the 2012 Parity Bonds and any Future Parity Bonds.

Parity Payment Agreement has the meaning assigned that term in Resolution No. R2009-16.

Parity Reserve Account means the Subordinate Reserve Account created pursuant to Section 19(b) of Resolution No. R2005-02 and renamed the "Parity Reserve Account" in Section 19(b) of Resolution No. R2009-16.

Parity Reserve Account Requirement has the meaning assigned that term in Resolution No. R2012-16.

Paying Agent means any person or entity as designated and appointed from time to time by a Series Resolution to act as paying agent for one or more Series of Prior 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 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 (the "Sound Move Plan"), together with Sound Transit 2, A Mass Transit Guide, The Regional Transit System Plan for Central Puget Sound (the "Sound Transit 2 Plan") adopted July 24, 2008, to provide high-capacity transportation services in the central Puget Sound region, as the Sound Move Plan and Sound Transit 2 Plan have been and may hereafter be updated, amended or supplemented.

Pledged Taxes means the rental car sales and use tax authorized by RCW 81.104.160 and the sales and use tax authorized by RCW 81.104.170, initially approved at an election held on November 5, 1996, together with the additional sales and use tax approved at an election held on November 4, 2008, as such taxes may be levied from time to time by the Authority, together with Additional Taxes and/or the Motor Vehicle Tax if pledged to the Parity Bonds pursuant to a resolution authorizing the issuance of Parity Bonds.

Prior Bond Account means the special account of the Authority created by Section 7(a) of the Original Master Resolution for the purpose of paying the principal, sinking fund installments, redemption price, if any, and interest on Prior Bonds.

Prior Bonds means the 1999 Prior Bonds, the 2009 Prior Bonds, the 2012 Prior Bonds and any Future Prior Bonds.

Prior Payment Agreement means a Payment Agreement between the Authority and a Qualified Counterparty under which the Authority's payment obligations are expressly stated to be secured by a pledge of Local Option Taxes on an equal and ratable basis with the Local Option Taxes required to be paid into the Prior Bond Account to pay and secure the payment of the principal of and interest on Prior Bonds.

Prior Reserve Account means the special account created pursuant to Section 7(b) of the Original Master Resolution.

Prior Reserve Account Requirement means the lesser of (i) 125% of Average Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds or (ii) the sum of (A) 100% of the Annual Prior Bond Debt Service with respect to the Outstanding 1999 Prior Bonds and (B) 50% of the Annual Prior Bond Debt Service with respect to all other Outstanding Prior Bonds, in each case in the Fiscal Year in which Maximum Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds occurs; provided, that at the time of issuance of any Series of Prior Bonds, the Prior Reserve Account Requirement allocable to a Series of Prior Bonds shall not exceed 10% of the initial principal amount of that Series of Prior Bonds. Notwithstanding the foregoing, so long as the municipal bond insurance policy or the municipal bond debt service reserve fund policy for the 1999 Prior Bonds is in effect, if in any Fiscal Year the Local Option Taxes received are less than 2.5 times Maximum Annual Prior Bond Debt Service, the foregoing clause (ii) above shall be adjusted to read "100% of Maximum Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds," and any additional amount required to be on deposit in the Prior Reserve Account shall be provided within one year by 12 approximately equal monthly installments; and provided further, that the foregoing clause (ii) shall be so adjusted until after two consecutive Fiscal Years in which Local Option Taxes received are not less than 2.5 times Maximum Annual Prior Bond Debt Service.

Project or Projects means any 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 obligations are unconditionally guaranteed by a party that has at least "A" ratings by Moody's Investors Service and Standard & Poor's Ratings Services, or their successors and assigns, and who is otherwise

qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

Qualified Prior Insurance means any non-cancellable municipal bond insurance policy or surety bond with an initial term no shorter than the lesser of five years or the final maturity of the Prior Bonds, issued to satisfy all or any portion of the Prior Reserve Account Requirement, issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies), which insurance company or companies, as of the time of issuance of such policy or surety bond, are rated in one of the two highest Rating Categories for unsecured debt or insurance underwriting or claims paying ability by the Rating Agencies.

Qualified Prior Letter of Credit means any irrevocable letter of credit with a minimum term of the lesser of five years or the final maturity date of the Prior Bonds, issued to satisfy all or any portion of the Prior Reserve Account Requirement, issued by a financial institution, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is rated in one of the two highest Rating Categories by the Rating Agencies.

Rating Agencies means Moody's Investors Service or its successors and assigns, Standard & Poor's Ratings Services or its successors and assigns, and/or such other securities rating agency selected by the Authority to provide a rating with respect to a Series of Prior Bonds, or any portion thereof, which Rating Agency, as of the applicable date, shall have assigned a rating to any Series of Prior 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 (designated as such by a Series Resolution) to be made to, or for the benefit of, the Authority under a Payment Agreement by the Payor.

Record Date means, unless otherwise specified in the Series Resolution, the 15th day of the month preceding an interest payment date for the Prior Bonds.

Refunding Prior Bonds means Future Prior Bonds the proceeds of which will be used to refund other Prior Bonds as provided in Section 5.

Resolution means this Resolution No. R2012-14.

Rule means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended.

Sales Tax means the sales and use tax authorized by RCW 81.104.170.

SEC means the United States Securities and Exchange Commission.

Series means any series of Prior Bonds.

Series Resolution means a resolution or resolutions authorizing the issuance of one or more Series of Prior Bonds, as such resolution may be amended or supplemented in accordance with the provisions of such resolution and this Resolution.

State means the State of Washington.

Subordinate Obligations means the Parity Bonds, the Junior Obligations and any other bonds, notes or other obligations identified as "Subordinate Obligations" or "Subordinate Lien Obligations" in the resolution authorizing such obligations and secured by a pledge of Local Option Taxes subordinate to the pledge securing the Prior Bonds.

Sufficiency Test means that the ratio of Local Option Taxes collected to Annual Prior Bond Debt Service in each Fiscal Year is not less than three to one. For purposes of calculating the Sufficiency Test, there shall be added to Local Option Taxes collected in any Fiscal Year any amount withdrawn from the Tax Stabilization Subaccount in such year and deposited into the Local Option Tax Accounts, and there shall be subtracted from Local Option Taxes collected in any Fiscal Year any amount withdrawn from the Local Option Tax Accounts and deposited into the Tax Stabilization Subaccount; provided, that for purposes of the Sufficiency Test the amount withdrawn from the Tax Stabilization Subaccount in any Fiscal Year shall not exceed 0.50 times the Annual Prior Bond Debt Service in such Fiscal Year.

Supplemental Resolution means a resolution adopted by the Authority pursuant to Section 13.

Tax-Exempt Prior Bonds means Prior Bonds on which the interest is intended on the date of issuance to be excluded from gross income for federal income tax purposes.

Tax Stabilization Subaccount means the subaccount of that name authorized to be created in the Local Option Tax Accounts pursuant to Section 2.

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

2005A Parity Bonds means the Authority's Sales Tax Bonds, Series 2005A, authorized by Resolution Nos. R2005-02 and R2005-07.

2007A Parity Bonds means the Authority's Sales Tax Bonds, Series 2007A, authorized by Resolution Nos. R2007-22 and R2007-27.

2009 Prior Bonds means the Authority's Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-1 and Series 2009P-2T (Taxable Build America Bonds – Direct Payment), authorized by Resolution Nos. R2009-15 and R2009-17.

2009S-2T Parity Bonds means the Authority's Sales Tax Bonds, Series 2009S-2T, authorized by Resolution Nos. R2009-16 and R2009-18.

2012 Parity Bonds has the meaning assigned that term in Resolution No. R2012-16.

2012 Prior Bonds has the meaning assigned that term in Resolution No. R2012-15.

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

Variable Rate Prior Bonds means Prior Bonds that bear interest at a Variable Rate; provided, that Prior Bonds the interest rate on which shall have been fixed for the remainder of their term to maturity shall no longer be Variable Rate Prior Bonds.

Section 2. Pledge of Local Option Taxes: Flow of Funds.

a. Local Option Tax Accounts. The Authority maintains Local Option Tax Accounts into which it shall deposit, promptly upon the receipt thereof, all Local Option Taxes. The Local Option Tax Accounts shall be held separate from all other accounts of the Authority. The Authority may create a Tax Stabilization Subaccount in the Local Option Tax Accounts and deposit Local Option Taxes collected in such Fiscal Year into that subaccount or withdraw Local Option Taxes on deposit 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 2(b), including for the purposes set forth in Section 8(a).

b. Flow of Funds. Local Option 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 Prior Bond Account in the following order:

- (1) to pay the interest when due on the Prior Bonds (including regularly scheduled Payments under Prior Payment Agreements); 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 Prior Reserve Account by Section 7(b) 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 Prior Letter of Credit or Qualified Prior Insurance with respect to the Prior 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;

Third, to make all payments required to be made into the Parity 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 Parity 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 Parity Reserve Account required under any resolution authorizing the issuance of Parity Bonds to meet the Parity 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 Parity 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; provided, that the Authority may determine that items in this "Seventh" category shall be paid in a specified order of priority.

Amounts in the Local Option Tax Accounts shall be invested by the Authority in any legal investment for funds of regional transit authorities of the State; provided, that so long as the Prior Bonds are rated by the Rating Agencies, the Authority will invest amounts in the Prior Bond Account and the Prior Reserve Account in accordance with the Amended and Restated Insurance Agreement between the Authority and National Public Finance Guaranty Corporation, or if such agreement is not in effect, in (i) cash or (ii) securities that carry a rating by the Rating Agencies not lower than the respective underlying ratings on the Prior Bonds given by the Rating Agencies.

c. *Pledge of Local Option Taxes and Certain Accounts.* So long as any Prior Bonds remain Outstanding, the Authority hereby irrevocably obligates and binds itself to deposit all Local Option Taxes into the Local Option Tax Accounts. All Prior 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, that any Series of Prior Bonds also may be payable from and secured by a Credit Facility pledged specifically to or provided for that Series of Prior Bonds. The Authority hereby designates the additional sales and use tax approved at an election held on November 4, 2008, and imposed by Resolution No. R2008-15, as an Adopted Prior Rate Adjustment and a component of Local Option Taxes pledged to the payment of the Prior Bonds.

All Prior Bonds are special limited obligations of the Authority payable from and secured solely by Local Option Taxes and amounts, if any, in the Prior Bond Account, the Prior Reserve Account and any project account created for the deposit of Prior Bond proceeds.

There is hereby pledged for the payment of the Prior Bonds the Local Option Taxes and amounts in the Local Option Tax Accounts, the Prior Bond Account, the Prior Reserve Account, and any project account created for the deposit of Prior Bond proceeds, and such pledge is

hereby declared to be a prior charge upon the Local Option Taxes and such accounts superior to all other charges of any kind or nature.

Section 3. Authorization and Description of Prior Bonds. Sales tax and motor vehicle excise tax bonds of the Authority, to be known as "The Central Puget Sound Regional Transit Authority Sales Tax and Motor Vehicle Excise Tax Bonds," are hereby authorized to be issued in Series by means of a Series Resolution, and each such Series may be issued in such amounts, at such times, and upon such terms and conditions as the Board may deem to be necessary or advisable for any purposes of the Authority now or hereafter permitted by law.

Each Series of Prior Bonds shall be authorized by a Series Resolution which shall, among other provisions, specify or delegate to a Board committee or Authority personnel to provide for:

- a. the principal amount, dated date, maturity schedule, interest rates or rate (or formula), denominations and designation for such Prior Bonds;
- b. the general purpose or purposes for which such Series of Prior Bonds is being issued, and the deposit and application of the proceeds of the sale of the Prior Bonds;
- c. the currency or currencies in which the Prior Bonds of such Series are payable if other than U.S. dollars;
- d. the Bond Registrar, Paying Agent, remarketing agent and tender agent, if any, for the Prior Bonds and the duties and obligations thereof;
- e. the place or places of payment of such Prior Bonds;
- f. the form of the Prior Bonds of such Series and the methods for the registration, transfer and exchange of the Prior Bonds of such Series;
- g. the terms and conditions, if any, for the redemption of the Prior Bonds of such Series prior to maturity;
- h. the terms and conditions, if any, for the purchase of the Prior Bonds of such Series upon any optional or mandatory tender for purchase prior to maturity;

i. the manner of sale of the Prior Bonds of such Series, with or without a premium or a discount;

j. the authorization of and any terms and conditions with respect to any Credit Facility for the Prior Bonds;

k. the authorization to designate one or more Series of Prior Bonds as Build America Prior Bonds, and to further designate whether the applicable federal credit payments in respect of such Build America Prior Bonds are to be tax credits or direct payments; and

l. any other provisions which the Authority deems necessary or desirable in connection with the Prior Bonds of such Series.

The Designated Authority Representative may provide for the sale of a Series of Prior Bonds by competitive sale or by a negotiated sale with purchasers, as identified in the Series Resolution, that have been chosen through a competitive selection process by a Designated Authority Representative after the evaluation of responses to the requests for proposals. The Designated Authority Representative is authorized to specify a date and time of sale of a Series of Prior Bonds, to prepare and deem final a preliminary official statement for a Series of Prior Bonds, to publish a notice of sale or to negotiate the terms of a proposed purchase contract with the purchasers of a Series of Prior Bonds, and to specify other matters in his or her determination necessary, appropriate, or desirable to carry out the sale of a Series of Prior Bonds. The terms of that sale shall be consistent with this Resolution and the Series Resolution. A Series of Prior Bonds shall be delivered to the purchasers as provided in the Series 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.

If a Series of Prior Bonds is to be sold and issued as Build America Prior Bonds, the Designated Authority Representative is hereby authorized and directed on behalf of the Authority to take such actions and to enter into such agreements as are necessary or appropriate for the Authority to cause to be received from the United States Treasury the applicable federal credit payments in respect of such Build America Prior Bonds.

Section 4. Future Prior Bonds. The Authority may issue Prior Bonds only upon compliance with the following conditions as certified by a Designated Authority Representative:

- a. there is no deficiency in the Prior Bond Account and an amount equal to the Prior Reserve Account Requirement (including for the Future Prior Bonds to be issued) shall be on deposit in the Prior Reserve Account;
- b. no Default (as defined in Section 14) has occurred and is continuing; and
- c. an Authority Prior Bond Certificate is delivered on or prior to the date of issuance of such Future Prior Bonds.

Section 5. Refunding Prior Bonds. The Authority, by means of a Series Resolution adopted in compliance with the provisions of Section 3, may issue Refunding Prior Bonds as follows:

- a. Refunding Prior Bonds may be issued at any time upon delivery of an Authority Prior Bond Certificate for the purpose of refunding (including by purchase) Prior Bonds, including amounts to pay principal thereof and redemption premium, if any, and interest thereon to the date of redemption (or purchase), making future Prior Reserve Account deposits, paying for a Credit Facility, making any settlement payment in connection with the termination of a hedging instrument relating to the Refunding Prior Bonds, paying the expenses of issuing the Refunding Prior Bonds and of effecting such refunding. Refunding Prior Bonds also may be issued without regard to the requirements of clauses (a), (b) and (c) of Section 4; provided, that the issuance of such Refunding Prior Bonds shall require the delivery of an Authority Prior Bond Certificate if the Annual Prior Bond Debt Service on such Refunding Prior Bonds in any Fiscal Year shall exceed the Annual Prior Bond Debt Service by more than \$5,000 on the Prior Bonds to be refunded were such refunding not to occur.

- b. Refunding Prior Bonds may be issued without the requirement of an Authority Prior Bond Certificate for the purpose of refunding (including by purchase) any Prior Bonds for the payment of which sufficient Local Option Taxes are not available.

Section 6. Subordinate Obligations: Obligations Payable From Revenues. The Authority may issue Subordinate Obligations for any purpose of the Authority. The resolution authorizing a series of Subordinate Obligations shall provide that the maturity date of Subordinate 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 Subordinate Obligations) and shall further provide that following the occurrence of a Default, Local Option Taxes may not be used to pay the principal of or interest on Subordinate Obligations unless all payments required to be made with respect to principal of and interest on Prior Bonds required to be paid into the Prior Bond Account have been fully paid. In addition, the Authority reserves the right to issue obligations payable from revenues of the Authority other than Local Option Taxes.

Section 7. Prior Bond Account and Prior Reserve Account.

- a. *Prior Bond Account.* The special account of the Authority created by the Original Master Resolution for the purpose of paying and securing the payment of the Prior Bonds and designated the "Sales Tax and Motor Vehicle Excise Tax Bond Account" (the "Prior Bond Account") is hereby confirmed. The Prior Bond Account is pledged to the payment of Prior Bonds and shall be held separate and apart from all other accounts of the Authority and shall be a trust account for the Owners of the Prior Bonds.

The Authority hereby irrevocably obligates and binds itself for so long as any Prior Bonds remain Outstanding to set aside or cause to be set aside and pay or cause to be paid into the Prior Bond Account from Local Option Taxes:

- (1) approximately equal monthly deposits such that the amounts projected to be on deposit on the next interest payment date will be sufficient to pay the interest scheduled to become due and redemption premium, if any, on Outstanding Prior Bonds; and

(2) approximately equal monthly deposits such that the amounts projected to be on deposit on the next principal payment date will be sufficient to pay maturing principal (including sinking fund redemptions) for Prior Bonds; and

(3) regularly scheduled Payments under a Prior Payment Agreement.

b. *Prior Reserve Account.* The special account of the Authority created by the Original Master Resolution for the purpose of paying and securing the payment of the Prior Bonds and designated the "Sales Tax and Motor Vehicle Excise Tax Reserve Account" (the "Prior Reserve Account") is hereby confirmed. The Prior Reserve Account is pledged to the payment of Prior Bonds, shall be held separate and apart from all other accounts of the Authority and shall be a trust account for the Owners of the Prior Bonds. The Authority hereby covenants that on the date of issuance of each Series of Prior Bonds, the Authority will assure that the amount on hand in the Prior Reserve Account shall be sufficient to meet the Prior Reserve Account Requirement.

The Prior Reserve Account Requirement shall be maintained by deposits of cash, investments, a Qualified Prior Letter of Credit, or Qualified Prior Insurance, or a combination of the foregoing. So long as the municipal bond insurance policy or the municipal bond debt service reserve fund policy for the 1999 Prior Bonds is in effect and the Prior Reserve Account Requirement for the 1999 Prior Bonds and the 2009 Prior Bonds is not fully maintained by deposits of cash and investments, any Qualified Prior Letter of Credit or Qualified Prior Insurance obtained by the Authority to provide for the Prior Reserve Account Requirement must be approved by the provider of the municipal bond insurance policy and the municipal bond debt service reserve fund policy for the 1999 Prior Bonds, or its successor. To the extent that the Authority obtains a Qualified Prior Letter of Credit or Qualified Prior Insurance in substitution for amounts in the Prior Reserve Account, all or a portion of the money on hand in the Prior Reserve Account shall be transferred to the Prior Bond Account or another account as permitted by the Code. In computing the amount on hand in the Prior Reserve Account, Qualified Prior Insurance and/or a Qualified Prior Letter of Credit 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 Prior Reserve Account shall be determined and any deficiency in the Prior 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.

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

If a deficiency in the Prior Bond Account shall occur prior to a principal or interest payment date on the Prior Bonds, such deficiency shall be made up from the Prior Reserve Account by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the Prior Reserve Account in such amounts as will provide amounts in the Prior Bond Account sufficient to pay when due the principal and interest of the Prior 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 Qualified Prior Letter of Credit or Qualified Prior Insurance for the Prior 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

Qualified Prior Letter of Credit or such Qualified Prior Insurance shall provide. If the Authority fails to make any payment required to be made under a reimbursement agreement with the issuer of a Qualified Prior Letter of Credit or Qualified Prior Insurance, the issuer thereof shall be entitled to exercise all remedies available at law or under this Resolution; provided, that no acceleration of the Prior Bonds shall be permitted, and no remedies which adversely affect Owners of the Prior Bonds shall be permitted. Any deficiency created in the Prior Reserve Account by reason of any such withdrawal shall be made up from the next available Local Option Taxes, but in no event later than within one year from Qualified Prior Insurance or a Qualified Prior Letter of Credit or out of Local Option Taxes after making necessary provision for the payments required to be made into the Prior Bond Account within such year.

In making the payments and credits to the Prior Reserve Account required by this Section 7(b), to the extent that the Authority has obtained Qualified Prior Insurance or a Qualified Prior Letter of Credit for specific amounts required pursuant to this section to be paid out of the Prior Reserve Account such amounts so covered by Qualified Prior Insurance or a Qualified Prior Letter of Credit shall be credited against the amounts required to be maintained in the Prior Reserve Account by this Section 7(b). In the event of termination of a Qualified Prior Letter of Credit or if the issuer of the Qualified Prior Insurance or the Qualified Prior Letter of Credit shall no longer meet the requirements for the provider of a Qualified Prior Letter of Credit or Qualified Prior Insurance or be insolvent or no longer in existence, the Prior Reserve Account Requirement shall be satisfied with other Qualified Prior Insurance or another Qualified Prior Letter of Credit, or in equal monthly payments, within twelve months after the insolvency of the issuer of a Qualified Prior Letter of Credit or Qualified Prior Insurance or termination of a Qualified Prior Letter of Credit, out of Local Option 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 into the Prior Bond Account.

c. *Credit Facilities.* To the extent that the Authority shall have obtained a Credit Facility, the Series Resolution may provide additional covenants and prescribe additional procedures with respect to such Credit Facility not inconsistent with this Resolution.

d. *Deposits into Accounts.* For purposes of this Resolution, the Authority shall be considered to have deposited or withdrawn amounts in the Prior Bond Account or Prior Reserve Account or any other account when it credits or debits from within the Authority's Enterprise Fund amounts to such account.

Section 8. Covenants. The Authority hereby makes the following covenants with the Owners of the Prior Bonds for as long as any of the same remain Outstanding:

a. *Tax Levy Covenant.* So long as any Prior Bonds remain Outstanding, the Authority shall levy the Motor Vehicle Tax at a rate of not less than three-tenths of one percent and the Sales Tax at a rate of not less than nine-tenths of one percent; provided, that the Authority may levy the Sales Tax at a rate of not less than eight-tenths of one percent so long as the Sufficiency Test is met. To the extent permitted by law and approved by the voters (if a vote is required), the Authority may, in a Series Resolution or a Supplemental Resolution, pledge to the payment of the Prior Bonds the Motor Vehicle Tax in excess of three-tenths of one percent and the Sales Tax in excess of nine-tenths of one percent.

If the Authority is levying the Sales Tax at a rate less than nine-tenths of one percent and the Sufficiency Test is not met for a Fiscal Year, within 90 days after the end of that Fiscal Year the Authority shall take all action required on its part to increase the rate of the Sales Tax levied, but not to exceed nine-tenths of one percent, for the purpose of meeting the Sufficiency Test.

The Authority shall take all reasonable actions necessary to levy and provide for the continued collection of the Local Option Taxes and the application of those taxes for payment of the Prior Bonds in accordance with this Resolution.

b. *Maintenance of its Facilities.* 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.

c. *Property and Liability Insurance.* 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.

d. *Books and Records.* 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 9. Prior Payment Agreements. A Payment made under a Payment Agreement may be secured by a pledge of Local Option Taxes on a parity with the pledge securing the Prior Bonds if the Payment Agreement satisfies the requirements for Future Prior Bonds described in Section 4, 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 Prior Bonds:

(1) The Authority shall obtain an opinion of Bond Counsel with respect to the due authorization, validity and enforceability of such Payment Agreement, 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 either the exemption from federal income taxation of the interest on any Outstanding Tax-Exempt Prior Bonds or the entitlement to receive from the United States Treasury the applicable federal credit payments in respect of any Outstanding Build America Prior Bonds.

(2) Prior to entering into a Payment Agreement, the Authority shall adopt a Series Resolution which shall:

A. set forth the manner in which the Payments and Receipts are to be calculated and a schedule of Payment Dates;

B. establish general provisions for the rights of parties to Payment Agreements; and

C. set forth such other matters as the Authority deems necessary or desirable in connection with the management of Payment Agreements as are not clearly 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 Prior Payment Agreement, Payments shall be made from the Prior Bond Account and Annual Prior Bond Debt Service shall include any regularly scheduled Payments adjusted by any regularly scheduled Receipts during a Fiscal Year or Base Year, as applicable. Receipts shall be paid directly into the Prior Bond Account. Obligations to make unscheduled payments, such as termination payments, may not be entered into on a parity with the Prior Bonds.

Nothing in this section shall preclude the Authority from entering into Payment Agreements with a claim on Local Option Taxes junior to that of the Prior Bonds. Furthermore, nothing in this section shall preclude the Authority from entering into obligations on a parity with the Prior 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.

The Series Resolution may provide for the designation of the federal credit payments in respect of any Build America Prior Bonds as Receipts under a Payment Agreement.

Section 10. Defeasance.

a. *Defeased Bonds.* If the Authority deposits irrevocably with an escrow agent money and/or noncallable Government Obligations which, together with the earnings thereon and without any reinvestment thereof, are sufficient to pay the principal of and premium, if any, on any particular Prior Bonds or portions thereof (the "Defeased Bonds") as the same shall become due, together with all interest accruing thereon to the maturity date or redemption date, and, in the case of Defeased Bonds to be redeemed prior to maturity, irrevocably calls the Defeased Bonds for redemption on the redemption date, and pays or makes provision for payment of all fees, costs and expenses of that escrow agent due or to become due with respect to the Defeased Bonds, then:

(i) with respect to Defeased Bonds that are Tax-Exempt Prior Bonds, all liability of the Authority with respect to the Defeased Bonds shall cease, the Defeased Bonds shall be deemed not to be Outstanding and the Owners of the Defeased Bonds shall be restricted exclusively to the money or Government Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to the Defeased Bonds;

(ii) with respect to Defeased Bonds that are not Tax-Exempt Prior Bonds for which the escrow agent receives an opinion described in clause (c)(ii) below, all liability of the Authority with respect to the Defeased Bonds shall cease, the Defeased Bonds shall be deemed not to be Outstanding and the Owners of the Defeased Bonds shall be restricted exclusively to the money or Government Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to the Defeased Bonds; and

(iii) with respect to Defeased Bonds that are not Tax-Exempt Prior Bonds for which the escrow agent receives an opinion described in clause (c)(iii) below, the Authority at any time may terminate its obligations under any of its covenants under this Resolution, other than its covenant to maintain its existence and to make payments when due on the Prior Bonds.

b. *Escrow Agent.* The escrow agent shall hold the money, Government Obligations and earnings described in subsection (a) above in trust exclusively for the Owners of the Defeased Bonds, and that money, Government Obligations and earnings shall not secure any other Prior Bonds. In determining the sufficiency of the money and Government Obligations deposited pursuant to this Section, that escrow agent shall receive, at the expense of the Authority, and may rely upon, a verification report of a firm of nationally recognized independent certified public accountants or other qualified firm acceptable to the Authority and that escrow agent.

c. *Opinions.* In connection with any defeasance under this Section, the escrow agent shall receive, at the expense of the Authority, and may rely upon, an opinion of Bond Counsel to the effect that the defeasance is permitted under the laws of the State and this Resolution and:

(i) with respect to a defeasance described in clause (a)(i) above, an opinion of nationally recognized tax counsel (which may be Bond Counsel) that such defeasance will not, in and of itself, adversely affect the exclusion of interest on the Defeased Bonds from gross income for federal income tax purposes;

(ii) with respect to a defeasance described in clause (a)(ii) above, an opinion of nationally recognized tax counsel (which may be Bond Counsel) confirming that (A) the Authority has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date the Defeased Bonds were issued there has been a change in applicable federal income tax law, in either case to the effect that, and based thereon such opinion will confirm that, the Owners of the Defeased Bonds will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred; and

(iii) with respect to a defeasance described in clause (a)(iii) above, an opinion of nationally recognized tax counsel (which may be Bond Counsel) confirming that the Owners

of the Defeased Bonds will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred.

d. *Administrative Provisions.* Notwithstanding the foregoing provisions of this Section to the contrary, the provisions of this Resolution relating to the execution, authentication, registration, exchange, transfer and cancellation of the Prior Bonds shall apply to the Defeased Bonds.

e. *Additional Means of Defeasance.* The Authority may provide in the Series Resolution for additional means of defeasing a Series of Prior Bonds.

f. *Notice of Defeasance.* Within 30 days after any defeasance of Prior Bonds, the Authority shall provide notice of the defeasance to the Owners of the Prior Bonds so provided for and, if applicable, any notice required under a continuing disclosure undertaking entered into under Section 16.

Section 11. Lost, Stolen, Mutilated or Destroyed Prior Bonds. In case any Prior Bond or Prior Bonds shall be lost, stolen, mutilated or destroyed, the Bond Registrar may execute and deliver a new Prior Bond or Prior Bonds 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 Prior Bond was actually lost, stolen or destroyed (including the presentation of a mutilated Prior Bond) and of ownership thereof, and upon furnishing the Authority with indemnity satisfactory to the Authority.

Section 12. Execution of Prior Bonds. Except as may be provided in a Series Resolution, Prior Bonds shall be executed on behalf of the Authority with the manual or facsimile signatures of the Chair of its Board and its Chief Executive Officer, and shall have the seal of the Authority impressed or a facsimile thereof imprinted thereon.

Only such Prior Bonds as shall bear a certificate of authentication manually executed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Resolution. Such certificate of authentication shall be conclusive evidence that the Prior Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Resolution.

In case either of the officers of the Authority who shall have executed the Prior Bonds shall cease to be such officer or officers of the Authority before the Prior Bonds so signed shall have been authenticated or delivered by the Bond Registrar, or issued by the Authority, such Prior Bonds may nevertheless be authenticated, delivered and issued and upon such authentication, delivery and issuance, shall be as binding upon the Authority as though those who signed the same had continued to be such officers of the Authority. Any Prior Bond may also be signed and attested on behalf of the Authority by such persons as at the actual date of execution of such Prior Bond shall be the proper officers of the Authority although at the original date of such Prior Bond any such person shall not have been such officer.

Section 13. Adoption of Supplemental Resolutions.

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

- (i) To provide for the issuance of a Series of Prior Bonds pursuant to Sections 4 or 5 or to authorize a Prior Payment Agreement pursuant to Section 9;
- (ii) To add covenants and agreements of the Authority for the purpose of further securing the payment of the Prior 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 or any Series Resolution;

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

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

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

(vi) To specify the order of priority in which payments are to be made for purposes in the "Fifth" or "Seventh" category of Section 2(b);

(vii) 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 Prior Bonds;

(viii) 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 Prior Bonds;

(ix) To obtain or maintain a rating with respect to any Series of Prior Bonds;

(x) To modify the provisions of this Resolution to obtain from any Rating Agency a rating on any Series of Prior Bonds or any portion thereof which is higher than the rating which would be assigned without such modification; or

(xi) 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 Prior Bond and will not cause any Rating Agency to lower a rating on any Prior 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 Prior Bonds then Outstanding. Without the specific consent of the Owner of each Prior Bond, no Supplemental Resolution shall (1) permit the creation of a lien or charge on Local Option Taxes superior to the payment of the Prior Bonds; (2) reduce the percentage of Owners which are required to consent to any Supplemental Resolution; or (3) give to any Prior Bond or Prior Bonds any preference over any other Prior Bond or Prior Bonds. No Supplemental Resolution shall change the date of payment of the principal of any Prior Bond, reduce the principal amount or Accreted Value of any Prior 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 Prior Bond may first be called for redemption prior to its fixed maturity date (except as provided in the Series Resolution authorizing the issuance of such Prior Bond) without the specific consent of the Owner of that Prior Bond; and no such amendment shall change or modify any of the rights or obligations of any Paying Agent or Bond Registrar or other agent or provider of a Credit Facility for a Series of Prior Bonds without its written consent.

c. *Special Amendments.* The Owners from time to time of the Outstanding Prior Bonds, other than the Owners from time to time of Outstanding 1999 Prior Bonds (whose consent shall be required consistent with Section 13(b)), by taking and holding the same, shall be deemed to have consented to the adoption by the Authority of any Supplemental Resolution or Resolutions amendatory or supplemental to this Resolution for any one or more of the following purposes:

(i) After the 1999 Prior Bonds are no longer Outstanding, to delete the Motor Vehicle Tax from the definition of "Local Option Taxes";

(ii) After the 1999 Prior Bonds are no longer Outstanding, to levy the Motor Vehicle Tax at a rate of less than three-tenths of one percent (which rate may be zero);

(iii) To delete Section 14(a) of this Resolution;

(iv) To establish for any one or more Series of Future Prior Bonds a separate reserve account requirement for such Series (which may be zero) and, if applicable, a separate

reserve account or accounts to secure such Series, which Series shall not be secured by the Prior Reserve Account, and which separate reserve account or accounts shall not secure the Prior Bonds secured by the Prior Reserve Account, and in satisfying the conditions to the issuance of Future Prior Bonds that will not be secured by the Prior Reserve Account, to disregard the requirement that an amount equal to the Prior Reserve Account Requirement (including for the Future Prior Bonds to be issued) be on deposit or otherwise provided for in the Prior Reserve Account on or prior to the date of issuance of such Future Prior Bonds;

(v) To permit federal credit payments received in respect of Outstanding Build America Prior Bonds (other than federal credit payments received under a Payment Agreement) to be deposited into the Prior Bond Account and credited against the Local Option Taxes otherwise required to be deposited into the Prior Bond Account; or

(vi) To permit federal credit payments scheduled to be received in any Fiscal Year in respect of Outstanding Build America Prior Bonds (other than federal credit payments received under a Payment Agreement) to be credited against the amount required in that Fiscal Year to pay for the principal of and interest on all Prior Bonds Outstanding in calculating Annual Prior Bond Debt Service for that Fiscal Year.

Section 14. Defaults. Any one or more of the following events shall constitute a "Default" under this Resolution and each Series Resolution:

a. If the Authority shall default in the performance of any obligation with respect to payments into the Prior Bond Account or Prior Reserve Account and such default is not remedied;

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

c. If default shall be made in the due and punctual payment of any installment of interest on any Prior Bond;

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

e. If the Authority shall 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 Series Resolution and such default or defaults 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 15. 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.

a. *Prior Bondowners' Trustee.* So long as a Default shall not have been remedied, a Prior Bondowners' Trustee may be appointed by the owners of at least 20% in aggregate principal amount of the Prior 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 Prior Bondowners' Trustee and the Authority. Any Prior 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 Prior Bondowners' Trustee may be removed at any time, and a successor Prior Bondowners' Trustee may be appointed, by the Owners of a majority in aggregate principal amount of the Prior Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners or by their attorneys-in-fact duly authorized.

The Prior 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 Prior Bonds and

is empowered to exercise all the rights and powers herein conferred on the Prior Bondowners' Trustee.

b. *Suits at Law or in Equity.* The Prior 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 Prior 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 Prior Bonds shall not be subject to acceleration.

Any action, suit or other proceedings instituted by the Prior 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 Prior Bonds or the provisions of this Resolution may be enforced by the Prior Bondowners' Trustee without the possession of any Prior 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 Prior Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Prior Bondowners' Trustee the true and lawful trustee of the Owners of the Prior 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 Prior 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 Prior Bondowners' Trustee to consent to accept or adopt, on behalf of any Owner of any Prior Bond, any plan or reorganization or adjustment affecting the Prior Bonds or any right of any Owner, or to authorize or empower the Prior 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 Prior 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 Local Option Taxes and other accounts pledged under this Resolution or any Series Resolution.

d. *Payment of Funds to Prior Bondowners' Trustee.* The Authority covenants that if a Default shall happen and shall not have been remedied, the Authority, upon demand of the Prior Bondowners' Trustee, shall pay over to the Prior Bondowners' Trustee (i) forthwith, all amounts in the Local Option Tax Accounts, Prior Bond Account, Prior Reserve Account, and any project account created for the deposit of Prior Bond proceeds, and (ii) as promptly as practicable after receipt thereof, all Local Option Taxes subsequently levied and received by the Authority and pledged under this Resolution or any Series Resolution.

e. *Application of Funds by Prior Bondowners' Trustee.* During the continuance of a Default, the Local Option Taxes and other funds received by the Prior Bondowners' Trustee pursuant to the provisions of the preceding paragraph shall be applied by the Prior Bondowners' Trustee first, to the payment of the reasonable and proper charges, expenses and liabilities paid or incurred by the Prior Bondowners' Trustee and second, in accordance with the provisions of Section 2(b) of this Resolution.

In the event that at any time the funds held by the Prior Bondowners' Trustee and the Bond Registrar or Paying Agent for the Prior Bonds shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the Prior Bonds, such funds (other than funds held for the payment or redemption of particular Prior Bonds which have theretofore become due at maturity or by call for redemption) and all Local Option Taxes received or collected for the benefit or for the account of Owners of the Prior Bonds by the Prior 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 Prior 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 Prior 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 Prior Bonds, together with the reasonable and proper charges, expenses and liabilities of the Prior Bondowners' Trustee and the Owners of Prior 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 Prior Bonds which shall then be payable, shall either be paid by or for the account of the Authority, or provision satisfactory to the Prior Bondowners' Trustee shall be made for such payment, and all Defaults under this Resolution or the Prior Bonds shall be made good or secured to the satisfaction of the Prior Bondowners' Trustee or provision deemed by the Prior Bondowners' Trustee to be adequate shall be made therefor, the Prior Bondowners' Trustee shall pay over to the Authority all money and securities then remaining unexpended and held by the Prior 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 Prior Bondowners' Trustee or resumption of the application of Local Option 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 Owners.* 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 Prior Bondowners' Trustee has been appointed as herein provided, but any remedy herein authorized to be exercised by the Prior 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 Prior Bondowners' Trustee has been appointed, or with the consent of the Prior Bondowners' Trustee if such Prior Bondowners' Trustee has been appointed; provided, that nothing in this Resolution or in the Prior Bonds shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Prior 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 Prior Bondowners' Trustee or the Owners of the Prior 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 16. Continuing Disclosure. The Authority may provide for a continuing disclosure undertaking in a Series Resolution, and the Authority hereby agrees to comply with any such undertaking. The right of any Owner or beneficial owner of Prior Bonds to enforce any such undertaking shall be limited to a right to obtain specific enforcement of the Authority's obligations under such undertaking, and any failure by the Authority to comply with the provisions of any such undertaking shall not be a Default.

Section 17. Resolution a Contract. This Resolution shall constitute a contract with the Owners of the Prior Bonds.

Section 18. 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 Prior Bonds issued pursuant to the terms hereof.

Section 19. Reaffirmation. This Master Prior Bond Resolution No. R2012-14 amends, restates, replaces and supersedes Resolution No. R2009-15, which amended, restated, replaced and superseded Resolution No. R98-47. All rights of owners of any Outstanding 1999 Prior Bonds and 2009 Prior Bonds are hereby reaffirmed.

ADOPTED by the Board of Directors of The Central Puget Sound Regional Transit Authority at a regular meeting thereof held on the 28th day of June, 2012.

ATTEST:

Pat McCarthy
Board Chair

Marcia Walker
Board Administrator

B-22

**SOUND TRANSIT
RESOLUTION NO. R2012-16**

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY AUTHORIZING THE ISSUANCE OF SALES TAX REFUNDING BONDS, SERIES 2012S-1 TO REFUND A PORTION OF THE AUTHORITY'S OUTSTANDING SALES TAX BONDS, SERIES 2005A; APPROVING PARAMETERS FOR THE TERMS OF THE BONDS; AND DELEGATING AUTHORITY TO THE DESIGNATED AUTHORITY REPRESENTATIVE TO APPROVE THE FINAL TERMS OF AND BOND PURCHASE CONTRACT FOR THE BONDS.

ADOPTED: June 28, 2012

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**SOUND TRANSIT
RESOLUTION NO. R2012-16**

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY AUTHORIZING THE ISSUANCE OF SALES TAX REFUNDING BONDS, SERIES 2012S-1 TO REFUND A PORTION OF THE AUTHORITY'S OUTSTANDING SALES TAX BONDS, SERIES 2005A; APPROVING PARAMETERS FOR THE TERMS OF THE BONDS; AND DELEGATING AUTHORITY TO THE DESIGNATED AUTHORITY REPRESENTATIVE TO APPROVE THE FINAL TERMS OF AND BOND PURCHASE CONTRACT FOR THE BONDS.

WHEREAS, the Board of Directors (the "Board") 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 (as defined herein, the "Sound Move Plan"); and

WHEREAS, on November 5, 1996, at an election held within the boundaries of the Authority, the requisite number of voters approved the imposition, up to three-tenths of one percent, of the special motor vehicle excise tax authorized by RCW 81.104.160 and the imposition, up to four-tenths of one percent, of the sales and use tax authorized by RCW 81.104.170 to implement the Sound Move Plan; and

WHEREAS, by Resolution No. 82, the Board authorized the imposition of the foregoing taxes and the rental car sales and use tax authorized by RCW 81.104.160 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 and Resolution Nos. 98-47 and 98-48, the Authority on January 6, 1999, issued its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (the "1999 Prior Bonds"), secured by a pledge of the Local Option Taxes (defined herein), to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180 and Resolution Nos. R2005-02 and R2005-07, the Authority on March 31, 2005, issued its Sales Tax Bonds, Series 2005A (the "2005A Parity Bonds"), secured by a pledge of the Pledged Taxes (defined herein) subordinate to the pledge of Local Option Taxes securing the 1999 Prior Bonds and the 2009 Prior Bonds, to finance improvements for the purpose of providing high capacity transportation service, and by that resolution reserved the right to redeem the Outstanding 2005A Bonds maturing on and after November 1, 2015 (the "Refunding Candidates") prior to their maturity at any time on or after May 1, 2015, at a price of par plus accrued interest to the date fixed for redemption; and

WHEREAS, the Refunding Candidates are currently outstanding in the aggregate principal amount of \$363,115,000; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180 and Resolution Nos. R2007-22 and R2007-27, the Authority on December 18, 2007, issued its Sales Tax Bonds, Series 2007A (the "2007A Parity Bonds"), secured by a pledge of the Pledged Taxes subordinate to the pledge of Local Option Taxes securing the 1999 Prior Bonds and on a parity with the pledge of Pledged Taxes securing the 2005A Parity Bonds, to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, the Board, by Resolution No. R2008-10, authorized and adopted Sound Transit 2, A Mass Transit Guide, The Regional Transit System Plan for Central Puget Sound (the "Sound Transit 2 Plan") as regional transit system plan to provide additional high capacity transportation services in the central Puget Sound region; and

WHEREAS, on November 4, 2008, at an election held within the boundaries of the Authority, the requisite number of voters approved additional sales and use taxes of up to five-tenths of one percent as authorized by RCW 81.104.170, to fund the Plan (defined herein); and

WHEREAS, by Resolution No. R2008-15, the Board levied, fixed and imposed an additional sales and use tax of five-tenths of one percent effective January 1, 2009, confirmed that all then-existing Local Option Taxes remain in full force and effect and authorized a contract

with the State of Washington Department of Revenue and Department of Licensing to collect and transfer all such taxes to the Authority; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180 and Resolution Nos. R2009-15 and R2009-17, the Authority on September 29, 2009, issued its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-1 and 2009P-2T (Taxable Build America Bonds – Direct Payment) (together, the “2009 Prior Bonds”), secured by a pledge of the Local Option Taxes (defined herein), on a parity with the 1999 Prior Bonds, to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180 and Resolution Nos. R2009-16 and R2009-18, the Authority on September 29, 2009, issued its Sales Tax Bonds, Series 2009S-2T (Taxable Build America Bonds – Direct Payment) (the “2009 Parity Bonds”), secured by a pledge of the Pledged Taxes subordinate to the pledge of Local Option Taxes securing the 1999 Prior Bonds and the 2009 Prior Bonds and on a parity with the pledge of Pledged Taxes securing the 2005A Parity Bonds and the 2007A Parity Bonds to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, after due consideration, it appears to the Board of Directors of the Authority that all or a portion of the Refunding Candidates (the “Refunded Bonds”) may be refunded by the issuance and sale of the 2012 Parity Bonds (as defined and authorized below) so that debt service savings will be achieved by the difference between the principal and interest cost over the life of the refunding 2012 Parity Bonds and the principal and interest cost over the life of the Refunded Bonds but for such refunding; and

WHEREAS, simultaneously with the adoption of this Resolution, the Board is adopting a resolution authorizing the issuance of a series of Sales Tax and Motor Vehicle Excise Tax Refunding Bonds (the “2012 Prior Bonds”) to refund all or a portion of the Refunding Candidates not refunded by the 2012 Parity Bonds; and

WHEREAS, the issuance of the 2012 Parity Bonds will be consistent with the resolutions authorizing the issuance of the 1999 Prior Bonds, the 2009 Prior Bonds, the 2005A Parity

Bonds, the 2007A Parity Bonds and the 2009 Parity Bonds, and the 2012 Parity Bonds may be secured by a pledge of the Pledged Taxes subordinate to the pledge of Local Option Taxes securing the 1999 Prior Bonds and the 2009 Prior Bonds and on a parity with the pledge of Pledged Taxes securing the 2005A Parity Bonds, the 2007A Parity Bonds and the 2009 Parity Bonds;

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

Section 1. Definitions. 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:

“Accreted Value” means with respect to any Capital Appreciation Parity 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 Parity 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 Parity Bonds.

“Acquired Obligations” means those Government Obligations purchased to accomplish the refunding of the Refunded Bonds as authorized by this Resolution.

“Additional Taxes” means any taxes other than Local Option Taxes that are included as Pledged Taxes and pledged to the payment of Parity Bonds.

“Additional Taxes Accounts” mean separate accounts of the Authority, including any separate tax stabilization accounts, into which the Authority deposits Additional Taxes.

“Adopted Parity Rate Adjustment” 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.

"Annual Parity Bond Debt Service" 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 Parity Bond Debt Service:

(1) in the case of Variable Rate Parity Bonds, the interest rate thereon shall be calculated on the assumption that such Variable Rate Parity 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 Parity Bond Debt Service the assumed interest rate for such Variable Rate Parity Bonds shall be the synthetic fixed rate of interest payable by the Authority under the Payment Agreement for the term of the Payment Agreement;

(2) 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 Parity Bond 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;

(3) if a Parity Payment Agreement is executed in connection with a Series of Parity Bonds, the Annual Parity Bond Debt Service shall be adjusted as provided in Section 25;

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

(5) in the case of Capital Appreciation Parity 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 Parity Bond Debt Service; and

(6) if the Parity Bonds are Paired Parity 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 Parity Obligations.

"Assumed Variable Rate" 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.

"Authority" 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.

"Authority Parity Bond Certificate" means a certificate executed by a Designated Authority Representative in connection with the issuance of Future Parity Bonds or Future Prior Bonds under Section 20.

"Authority Pledged Taxes Sufficiency Certificate" means a certificate executed by a Designated Authority Representative in connection with the reduction of the Sales Tax under Section 24(a).

"Average Annual Parity Bond Debt Service" means the aggregate Annual Parity Bond Debt Service with respect to all Parity Bonds Outstanding (including Parity Bonds being issued at the time of calculation of Average Annual Parity Bond Debt Service) through the scheduled maturities thereof (stated maturity dates, or mandatory sinking fund redemption dates with respect to Term Parity 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).

"Balloon Maturity Parity Bonds" 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 Parity Bonds.

"Base Parity Period" 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 20(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 24(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 Register" means the registration books on which are maintained the names and addresses of the Owners of the 2012 Parity Bonds.

"Bond Registrar" means 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 2012 Parity Bonds, maintenance of the Bond Register, effecting transfer of ownership of the 2012 Parity Bonds, and paying the principal of, premium, if any, and interest on the 2012 Parity Bonds.

"Build America Parity Bonds" means the Parity Bonds of any Series to which the Authority irrevocably elects to have Section 54AA of the Code apply.

"Capital Appreciation Parity 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 Parity Bonds for only a portion of their term. On the date on which Parity Bonds no longer are Capital Appreciation Parity 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 Parity Bonds shall refer to the Accreted Value of Capital Appreciation Parity Bonds, and references to the interest rate on Capital Appreciation

Parity Bonds shall refer to the rate at which those Capital Appreciation Parity 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 29.

"Designated Authority Representative" means the Chief Financial Officer, or in his absence, the Chief Executive 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 2012 Parity 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 Parity Bond Account to pay and secure the payment of the principal of and interest on the 2005A Parity Bonds, the 2007A Parity Bonds, the 2009 Parity Bonds and the 2012 Parity Bonds.

"Future Prior Bonds" means any bonds, notes or other obligations of the Authority secured by a pledge of Local Option Taxes on a parity with the pledge securing the 1999 Prior Bonds, the 2009 Prior Bonds and the 2012 Prior 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 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.

"Local Option Taxes" means the special motor vehicle excise tax and rental car sales and use tax authorized by RCW 81.104.160 and the sales and use tax authorized by RCW 81.104.170, initially approved at an election held on November 5, 1996, together with the additional sales and use tax approved at an election held on November 4, 2008, as such taxes may be levied from time to time by the Authority.

"Maximum Annual Parity Bond Debt Service" means the highest Annual Parity Bond 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.

"Maximum Annual Prior Bond Debt Service" has the meaning assigned that term in the Prior Bond Resolution.

"Motor Vehicle Tax" means the special motor vehicle excise tax authorized by RCW 81.104.160.

"MSRB" means the Municipal Securities Rulemaking Board.

"1999 Prior Bonds" means the Authority's Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999, authorized by Resolution Nos. 98-47 and 98-48.

"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 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 Parity Obligations" means any two Series of Parity Bonds (or portions thereof) designated as Paired Parity 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 Parity Bonds for the term of such Parity Bonds.

"Parity Bond Account" means the Subordinate Bond Account created pursuant to Section 19(a) of Resolution No. R2005-02 and renamed the "Parity Bond Account" in Section 19(a) of Resolution No. R2009-16.

"Parity Bonds" means the 2005A Parity Bonds, the 2007A Parity Bonds, the 2009 Parity Bonds, the 2012 Parity 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 25, 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 Parity Bond Account to pay and secure the payment of the principal of and interest on Parity Bonds.

"Parity Reserve Account" means the Subordinate Reserve Account created pursuant to Section 19(b) of Resolution No. R2005-02 and renamed the "Parity Reserve Account" in Section 23(b) of this Resolution.

"Parity Reserve Account Requirement" means, for the 2007A Parity Bonds and the 2009 Parity Bonds, zero, for the 2012 Parity Bonds also shall mean zero, or such amount as determined by the Designated Authority Representative as provided in Section 11, and for Parity Bonds other than the 2007A Parity Bonds, the 2009 Parity Bonds and the 2012 Parity Bonds (and except as otherwise permitted under Section 19(b) of Resolution No. R2005-02), the lesser of: (1) Maximum Annual Parity Bond Debt Service or (2) 125% of Average Annual

Parity Bond Debt Service; provided, that upon the issuance of any Series of Parity Bonds, the Parity 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 Parity Reserve Account Requirement, the initial issue price of Capital Appreciation Parity Bonds shall be deemed to be the sale proceeds of such Capital Appreciation 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.

"Payer" 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 (the "Sound Move Plan"), together with Sound Transit 2, A Mass Transit Guide, The Regional Transit System Plan for Central Puget Sound (the "Sound Transit 2 Plan") adopted July 24, 2008, to provide high-capacity transportation services in the central Puget Sound region, as the Sound Move Plan and Sound Transit 2 Plan have been and may hereafter be updated, amended or supplemented.

"Pledged Taxes" means the rental car sales and use tax authorized by RCW 81.104.160 and the sales and use tax authorized by RCW 81.104.170, initially approved at an election held on November 5, 1996, together with the additional sales and use tax approved at an election

held on November 4, 2008, as such taxes may be levied from time to time by the Authority, together with Additional Taxes and/or the Motor Vehicle Tax if pledged to the Parity Bonds pursuant to Section 19.

"Prior Bond Account" has the meaning assigned that term in the Prior Bond Resolution.

"Prior Bond Resolution" means Resolution No. R98-47 adopted November 12, 1998, as amended, supplemented or restated from time to time, including as amended and restated by Resolution No. R2009-15 adopted on September 10, 2009 and by Resolution No. R2012-14 adopted on June 28, 2012.

"Prior Bonds" means the 1999 Prior Bonds, the 2009 Prior Bonds, the 2012 Prior Bonds and any Future Prior Bonds.

"Prior Bonds Coverage Requirement," with respect to an Authority Parity Bond Certificate, has the meaning assigned that term in Section 20, and with respect to an Authority Pledged Taxes Sufficiency Certificate, has the meaning assigned that term in Section 24(a).

"Prior Payment Agreement" has the meaning assigned that term in the Prior Bond Resolution.

"Prior Reserve Account" has the meaning assigned that term in the Prior Bond Resolution.

"Prior Reserve Account Requirement" has the meaning assigned that term in the Prior Bond Resolution.

"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.

"Qualified Prior Letter of Credit" has the meaning assigned that term in the Prior Bond Resolution.

"Qualified Prior Insurance" has the meaning assigned that term in the Prior Bond Resolution.

"Rating Agencies" means Moody's Investors Service, or its successors and assigns, Standard & Poor's Ratings Services, 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 15th day of the month preceding an interest payment date for the 2012 Parity Bonds.

"Refunded Bonds" means all or a portion of the Refunding Candidates designated by the Designated Authority Representative to be refunded with the 2012 Parity Bonds.

"Refunding Candidates" means the \$363,115,000 aggregate principal amount of the Authority's Outstanding Sales Tax Bonds, Series 2005A maturing on or after November 1, 2015.

"Refunding Parity Bonds" means Future Parity Bonds the proceeds of which will be used to refund Authority obligations as provided in Section 21.

"Refunding Plan" means:

- (1) The issuance of the 2012 Parity Bonds and the deposit with the Refunding Trustee of proceeds of the 2012 Parity Bonds, together with other money of the Authority, allocated to the Refunding Plan, which may be used to acquire the Acquired Obligations; and

- (2) The application of such money, or Acquired Obligations, to the payment of the principal of and interest on the Refunded Bonds when due up to and including May 1, 2015, and the call, payment, and redemption on May 1, 2015, of all of the then-outstanding Refunded Bonds at a price of par plus unpaid interest accrued to that date.

"Refunding Trust Agreement" means a Refunding Trust Agreement between the Authority and the Refunding Trustee.

"Refunding Trustee" means the trustee or escrow agent or any successor trustee or escrow agent serving as refunding trustee to carry out the Refunding Plan.

"Resolution" means this Resolution.

"Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended.

"Sales Tax" means the sales and use tax 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 2012 Parity Bonds, issued pursuant to a Series Resolution.

"Series Resolution" means this 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 in accordance with the provisions of such resolution and this Resolution.

"State" means the State of Washington.

"Subordinate Obligations" means the Parity Bonds, the Junior Obligations and any other bonds, notes or other obligations identified as "Subordinate Obligations" or "Subordinate Lien Obligations" in the resolution authorizing such obligations and secured by a pledge of Local Option Taxes subordinate to the pledge securing the Prior Bonds.

"Supplemental Resolution" means a resolution adopted by the Authority pursuant to Section 28.

"Tax-Exempt Parity Bonds" means Parity Bonds on which the interest is intended on the date of issuance to be excluded from gross income for federal income tax purposes.

"Tax Stabilization Subaccount" means the subaccount of that name authorized to be created pursuant to Section 2 of the Prior Bond Resolution, Section 14 of Resolution No. R2005-02, Section 14 of Resolution No. R2007-22, and Section 18 of this Resolution.

"Term Parity Bonds" means any Series of Parity Bonds identified as "Term Bonds" or "Term Parity 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.

"2005A Parity Bonds" means the Authority's Sales Tax Bonds, Series 2005A, authorized by Resolution Nos. R2005-02 and R2005-07.

"2007A Parity Bonds" means the Authority's Sales Tax Bonds, Series 2007A, authorized by Resolution Nos. R2007-22 and R2007-27.

"2009 Parity Bonds" means the Authority's Sales Tax Bonds, Series 2009S-2T (Taxable Build America Bonds – Direct Payment), authorized by Resolution Nos. R2009-16 and R2009-18.

"2009 Prior Bonds" means the Authority's Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-1 and 2009P-2T (Taxable Build America Bonds – Direct Payment), authorized by Resolution Nos. R2009-15 and R2009-17.

"2012 Prior Bonds" means the Authority's Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2012P-1, authorized by Resolutions Nos. R2009-15, R2012-14 and R2012-15.

"2012 Parity Bonds" means the Authority's Sales Tax Refunding Bonds, Series 2012S-1, authorized by this Resolution.

"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 Parity 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 Parity Bonds.

Section 2. Compliance with Refunding Parity Bonds Conditions. As required by Sections 17 of Resolution No. R2005-02, Resolution No. R2007-22 and Resolution No. R2009-16, the Authority finds as follows:

(a) The 2012 Parity Bonds will be issued for the purpose of refunding outstanding Parity Bonds of the Authority resulting in debt service savings.

(b) At the time of issuance of the 2012 Parity Bonds there will be no deficiency in the Parity Bond Account, and the Authority will deposit an amount equal to the Parity Reserve Account Requirement in the Parity Reserve Account, if necessary.

(c) No Default has occurred or is continuing.

(d) The Designated Authority Representative will certify that the Annual Parity Bond Debt Service on the 2012 Parity Bonds in any Fiscal Year will not exceed the Annual Parity Bond Debt Service by more than \$5,000 on the 2005A Parity Bonds to be refunded, or if the Designated Authority Representative cannot certify to such information, an Authority Parity Bond Certificate will be delivered on or prior to the date of issuance of the 2012 Parity Bonds.

Section 3. Authorization and Description of 2012 Parity Bonds. For the purposes of refunding a portion of the 2005A Parity Bonds, the Authority is authorized to borrow money on the credit of the Authority and issue the 2012 Parity Bonds in the aggregate principal amount of not to exceed \$200,000,000. The 2012 Parity Bonds shall be Tax-Exempt Parity Bonds and shall be in the denomination of \$5,000 or any integral multiple thereof within a single Series and maturity, shall be dated the date of their initial delivery to the Underwriters and shall bear interest from their date until the 2012 Parity Bonds bearing such interest have been paid or their payment has been duly provided for, payable semiannually on each May 1 and November 1, or

such other dates as the Designated Authority Representative shall determine. The 2012 Parity Bonds shall mature on November 1 in the years and amounts and bear interest at the rates per annum as shall be determined pursuant to Section 11 hereof.

Any amount received as original issue premium on the 2012 Parity Bonds shall not reduce the principal amount of 2012 Parity Bonds authorized under this Resolution. The principal amount of the 2012 Parity Bonds, together with the outstanding 1999 Prior Bonds, the outstanding 2009 Prior Bonds, the Outstanding 2005A Parity Bonds, the Outstanding 2007A Parity Bonds, the Outstanding 2009 Parity Bonds and any other outstanding indebtedness of the Authority not authorized by the voters, shall not exceed 1.5% of the value of the taxable property within the boundaries of the Authority.

Section 4. Registration and Transfer or Exchange of the 2012 Parity Bonds. The 2012 Parity 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 2012 Parity Bond and the principal amount and number of each of the 2012 Parity Bonds held by each Owner.

The 2012 Parity Bonds surrendered to the Bond Registrar may be exchanged for 2012 Parity Bonds in any authorized denomination of an equal aggregate principal amount and of the same Series, interest rate and maturity. The 2012 Parity 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 2012 Parity Bond during the period beginning on the date the Bond Registrar receives direction to send notice of redemption of that 2012 Parity Bond and ending on the date the Bond Registrar sends such notice.

The 2012 Parity Bonds initially shall be registered in the name of Cede & Co., as the nominee of DTC. The 2012 Parity 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 2012 Parity Bonds regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of principal or premium, if any, or interest on the 2012 Parity 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 or its nominee).

For as long as any 2012 Parity Bonds are held in fully immobilized form, DTC, its nominee or any 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, its nominee or successor depository and shall not mean the owners of any beneficial interests in the 2012 Parity Bonds. Registered ownership of such 2012 Parity 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 2012 Parity 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 2012 Parity Bonds are to be in certificated form, the ownership of 2012 Parity Bonds may be transferred to any person as provided herein and the 2012 Parity Bonds no longer shall be held in fully immobilized form.

Section 5. Payment of 2012 Parity Bonds. Principal of and premium, if any, and interest on the 2012 Parity Bonds shall be payable in lawful money of the United States of America. Interest on the 2012 Parity Bonds shall be paid by checks or drafts 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 2012 Parity Bonds, by wire, mailed or transferred on the interest payment date to Owners of the 2012 Parity Bonds as those Owners and their addresses and accounts appear on the Bond Register on the Record Date. Principal of and premium, if any, on the 2012 Parity Bonds shall be payable at maturity or on such date as may be specified for prior redemption upon presentation and surrender of the 2012 Parity Bonds by the Owners at the principal corporate trust office or offices of the Bond Registrar. Notwithstanding the foregoing, payment of any 2012 Parity Bonds registered in the name of DTC or its nominee shall be made in accordance with the Letter of Representations.

Section 6. Redemption and Purchase of 2012 Parity Bonds.

(a) Optional Redemption. The Designated Authority Representative may designate certain maturities of the 2012 Parity Bonds as being subject to redemption by the Authority prior to their stated maturity dates, and may specify the date on and after and the price at which those designated 2012 Parity Bonds may be redeemed.

(b) Mandatory Redemption. The Designated Authority Representative may approve the designation of certain maturities of the 2012 Parity Bonds as 2012 Term Parity Bonds and approve the dates and the principal amounts.

If the Authority redeems pursuant to optional redemption provisions, purchases for cancellation or defeases 2012 Term Parity Bonds, the principal amount of the 2012 Term Parity Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) shall be credited against one or more scheduled mandatory sinking fund redemptions for 2012 Term Parity Bonds of the same Series and maturity.

(c) Partial Redemption. Portions of the principal amount of any 2012 Parity Bond, in any Authorized Denomination, may be redeemed. If less than all of the principal amount of any

2012 Parity Bond is redeemed, upon surrender of that 2012 Parity Bond to the Bond Registrar, there shall be issued to the Registered Owner, without charge, a new 2012 Parity Bond (or 2012 Parity Bonds, at the option of the Registered Owner) of the same maturity and interest rate in any Authorized Denomination in the aggregate principal amount remaining unredeemed.

(d) Selection of 2012 Parity Bonds for Redemption. If fewer than all of the outstanding 2012 Parity Bonds within a maturity are to be redeemed prior to maturity, 2012 Parity Bonds shall be selected for redemption by lot within such maturity in such manner as the Bond Registrar shall determine. Notwithstanding the foregoing, so long as the 2012 Parity Bonds are registered in the name of DTC or its nominee, selection of 2012 Parity Bonds for redemption shall be in accordance with the Letter of Representations.

(e) Purchase. The Authority reserves the right and option to purchase any or all of the 2012 Parity Bonds in the open market at any time at any price acceptable to the Authority plus accrued interest to the date of purchase.

(f) 2012 Parity Bonds to be Canceled. All 2012 Parity Bonds purchased or redeemed under this Section shall be surrendered to the Bond Registrar and canceled.

Section 7. Notice and Effect of Redemption. The Authority shall cause notice of any intended redemption of 2012 Parity Bonds to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Owner of any 2012 Parity 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 notice is actually received by that Owner. Notwithstanding the foregoing, notice of redemption of any 2012 Parity Bonds registered in the name of DTC or its nominee shall be made in accordance with the Letter of Representations.

In addition, the redemption notice shall be mailed by the Bond Registrar within the same period to each of the Rating Agencies, but these additional mailings shall not be a condition precedent to the redemption of 2012 Parity Bonds.

In the case of an optional redemption, the notice may state that the Authority retains the rights to rescind that notice on or prior to the scheduled redemption date, and that the notice and optional redemption shall be of no effect to the extent that the Authority gives notice to the affected Owners at any time on or prior to the scheduled redemption date that the Authority is rescinding the redemption notice in whole or in part. Any 2012 Parity Bonds subject to a rescinded notice of redemption shall remain Outstanding, and the rescission shall not constitute a Default.

If notice of redemption has been duly given, and in the case of a conditional notice of optional redemption, not rescinded, then on the date fixed for redemption each 2012 Parity Bond or portion thereof so called for redemption shall become due and payable at the redemption price specified in such notice unless that 2012 Parity Bond or portion thereof is subject to a rescinded notice of optional redemption. From and after the date fixed for redemption, if money for the payment of the redemption price of any 2012 Parity Bond or portion thereof so called for redemption that becomes payable is held by the Bond Registrar, interest thereon shall cease to accrue and that 2012 Parity Bond or portion thereof shall cease to be Outstanding and to be entitled to any benefit, protection or security hereunder, and the Owner of such 2012 Parity Bond or portion thereof shall have no rights in respect thereof except to receive payment of the redemption price upon delivery of such 2012 Parity Bond to the Bond Registrar.

Section 8. Failure to Pay 2012 Parity Bonds. If any 2012 Parity Bond is not paid when properly presented at its maturity or date fixed for redemption, the Authority shall be obligated to pay interest on that 2012 Parity Bond at the same rate provided in that 2012 Parity Bond from and after its maturity or date fixed for redemption until that 2012 Parity 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 Parity Bond Account.

Section 9. Form and Execution of 2012 Parity Bonds. The Designated Authority Representative is authorized to approve the form of the 2012 Parity Bonds, which shall be

prepared in a form consistent with the provisions of this Resolution and State law and 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 2012 Parity Bonds bearing a Certificate of Authentication in 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 bond is one of the fully registered The Central Puget Sound Regional Transit Authority Sales Tax Refunding Bonds, Series 2012S-1, described in the 2012 Parity Bond Resolution." The authorized signing of a Certificate of Authentication shall be conclusive evidence that the 2012 Parity 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 the 2012 Parity Bonds ceases to be an officer of the Authority authorized to sign bonds before the 2012 Parity Bonds bearing his or her manual or facsimile signature are authenticated or delivered by the Bond Registrar or issued by the Authority, those 2012 Parity Bonds nevertheless may be authenticated, issued and delivered 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 2012 Parity Bond also may be signed on behalf of the Authority by any person who, on the actual date of signing of the 2012 Parity 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 2012 Parity 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 2012 Parity 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 2012 Parity Bonds transferred or exchanged in accordance with the provisions of the 2012 Parity Bonds and this

Resolution, to serve as the Authority's paying agent for the 2012 Parity 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 2012 Parity 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 2012 Parity 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 2012 Parity Bonds, but, to the extent practicable, shall be mailed no later than the Record Date for any principal payment or redemption date of any 2012 Parity Bond.

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on the 2012 Parity Bonds. The Bond Registrar may become the Owner of 2012 Parity 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 2012 Parity 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 2012 Parity Bonds. The Board has determined that it is in the best interest of the Authority to delegate to the Designated Authority Representative pursuant to RCW 39.46.040(2), the authority to approve the final principal amount, interest rates, prices, payment dates, maturity dates, maturity amounts, the Parity Reserve Account Requirement and redemption provisions of the 2012 Parity Bonds, and minimum savings to be achieved by the Refunding Plan, in the manner provided herein, provided that:

(a) The aggregate principal amount of the 2012 Parity Bonds does not exceed \$200,000,000;

(b) One or more rates of interest may be fixed for the 2012 Parity Bonds, and no rate of interest for any maturity of the 2012 Parity Bonds may exceed 6.0%;

(c) The combined true interest cost to the Authority for all 2012 Parity Bonds issued under this Resolution does not exceed 4.0%;

(d) The purchase price for the 2012 Parity Bonds may not be less than 99% of the aggregate principal amount;

(e) The 2012 Parity Bonds shall be issued subject to optional and mandatory redemption provisions, including designation of Term Bonds, if any, set forth in Section 6.

(f) There is a minimum net present value savings of 3.0% of the Refunded Bonds calculated by taking into account the overall savings achieved by refunding the Refunded Bonds together with the Refunding Candidates refunded by the 2012 Prior Bonds;

(g) The 2012 Parity Bonds shall be dated as of the date of their delivery, which date and time for the issuance and delivery of the 2012 Parity Bonds is not later than December 31, 2013; and

(h) Interest shall be payable at fixed rates semiannually on each May 1 and November 1, principal shall be payable annually on each November 1 and the final maturity shall not be later than November 1, 2030.

In determining the final principal amount of the 2012 Parity Bonds, interest rates, payment dates, maturity dates, the Parity Reserve Account Requirement and redemption provisions of the 2012 Parity Bonds, and minimum savings to be achieved by the Refunding Plan, the Designated Authority Representative, in consultation with other Authority officials and staff and advisors, shall take into account those factors that, in his or her judgment, will result in the lowest true interest cost on the 2012 Parity Bonds to their maturity, including, but not limited to current financial market conditions and current interest rates for obligations comparable to the 2012 Parity Bonds.

The 2012 Parity Bonds shall be sold by negotiated sale to any or all of: Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets, LLC and Siebert Brandford

Shank & Co., LLC (collectively, the "Underwriters"), as determined by the Designated Authority Representative. Subject to the terms and conditions set forth in this Section 11, the Designated Authority Representative is hereby authorized to approve and to execute and deliver a purchase contract to be presented by the Underwriters (the "Bond Purchase Contract") on behalf of the Authority upon the determination by the Designated Authority Representative that the conditions of this Section 11 have been met.

In approving Future Parity Bonds, the Board may elect to adopt a delegation Series Resolution or adopt a Series Resolution with all final terms of such Future Parity Bonds.

The 2012 Parity Bonds shall be printed at Authority expense and will be delivered to the Underwriters in accordance with this Resolution, with the approving legal opinion of Foster Pepper PLLC, municipal bond counsel of Seattle, Washington, regarding the 2012 Parity Bonds.

Section 12. Authorization of Official Statement. The Board authorizes and approves the preparation of a preliminary official statement in connection with the offering of the 2012 Parity Bonds pursuant to Section 11 and authorizes the Designated Authority Representative to "deem final" such preliminary official statement as of its date, except for the omission of information dependent upon the pricing of the 2012 Parity Bonds and the completion of the purchase. The Authority agrees to deliver or cause to be delivered, within seven business days after the date of the sale of the 2012 Parity Bonds and in sufficient time to accompany any confirmation that requests payment from any customer of the Underwriters, copies of a final official statement and by the time and in sufficient quantity to comply with Section (b)(4) of the Rule and the rules of the MSRB.

In addition, the Authority authorizes and approves the preparation, execution by the Designated Authority Representative and delivery to the purchaser of a final official statement for the 2012 Parity Bonds, in the form of the preliminary official statement, with such modifications and amendments thereto as shall be deemed necessary or desirable by the Designated Authority Representative.

Section 13. Preservation of Tax Exemption for Interest on 2012 Parity Bonds. The Authority covenants that it will take all actions necessary to prevent interest on the 2012 Parity Bonds from being included in gross income for federal income tax purposes, and that it will neither take any action nor make or permit any use of proceeds of the 2012 Parity Bonds or other funds of the Authority treated as proceeds of the 2012 Parity Bonds at any time during the term of the 2012 Parity Bonds which will cause interest on the 2012 Parity 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 2012 Parity Bonds, take all actions necessary to comply (or to be treated as having complied) with that requirement in connection with the 2012 Parity 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 2012 Parity Bonds from being included in gross income for federal income tax purposes.

Section 14. Deposit, Use and Investment of Proceeds. The principal proceeds and premium, if any, received from the sale and delivery of the 2012 Parity Bonds shall be paid to the Refunding Trustee as outlined in Section 15 below, or into the "2012 Parity Bond Proceeds Account" of the Authority or such other accounts or subaccounts of the Authority as the Chief Financial Officer may designate and shall be used to (i) carry out the Refunding Plan, (ii) fund a portion of the Prior Reserve Account Requirement, if necessary; (iii) fund a portion of the Parity Reserve Account Requirement, if necessary, and (iv) pay costs of issuing the 2012 Parity Bonds.

The Chief Financial Officer may establish and may transfer, record, allocate or restrict proceeds of the 2012 Parity Bonds not deposited with the Refunding Trustee 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 the 2012 Parity Bond Resolution.

Until needed to pay the costs described herein, the Authority may invest principal proceeds of the 2012 Parity Bonds temporarily in any legal investment, and the investment earnings shall be deposited in such accounts as may be designated by the Designated Authority Representative. Earnings subject to a federal tax or rebate requirement may be withdrawn from any such account and used for those tax or rebate purposes.

All Pledged Taxes allocated to the payment of the principal of and interest on the 2012 Parity Bonds shall be deposited in the Parity Bond Account.

Section 15. Refunding of the Refunded Bonds.

(a) Appointment of Refunding Trustee. The Designated Authority Representative is authorized to appoint a Refunding Trustee in connection with the Refunded Bonds.

(b) Use of 2012 Parity Bond Proceeds. A sufficient amount of the proceeds of the sale of the 2012 Parity Bonds shall be deposited immediately upon the receipt thereof with the Refunding Trustee and used to discharge the obligations of the Authority relating to the Refunded Bonds under Resolution No. R2005-02 by providing for the payment of the amounts required to be paid by the Refunding Plan. Any 2012 Parity Bond proceeds or other money deposited with the Refunding Trustee not needed to carry out the Refunding Plan shall be returned to the Authority at the time of delivery of the 2012 Parity Bonds to the initial purchasers thereof and deposited in the Parity Bond Account to pay interest on the 2012 Parity Bonds on the first interest payment date.

(c) Administration of Refunding Plan. The Refunding Trustee is authorized and directed to make the payments required to be made by the Refunding Plan from the money deposited with the Refunding Trustee pursuant to this Resolution. All money deposited with the Refunding Trustee and any income therefrom shall be held irrevocably, invested and applied in accordance with the provisions of Resolution Nos. R2005-02 and R2005-07, this Resolution, chapter 39.53 RCW and other applicable statutes of the State, and the Refunding Trust Agreement. All necessary and proper fees, compensation and expenses of the Refunding Trustee for the 2012 Parity Bonds and all other costs incidental to the setting up of the escrow

to accomplish the refunding of the Refunded Bonds and costs related to the issuance and delivery of the 2012 Parity Bonds shall be paid out of the proceeds of the 2012 Parity Bonds.

(d) Authorization for Refunding Trust Agreement. To carry out the Refunding Plan provided for by this Resolution, the Chief Financial Officer of the Authority is authorized and directed to execute and deliver to the Refunding Trustee the Refunding Trust Agreement setting forth the duties, obligations and responsibilities of the Refunding Trustee in connection with the payment and redemption of the Refunded Bonds as provided herein.

(e) Authorization for Replacement Bonds. If necessary, the Authority may issue replacement bonds in principal amounts reflecting the defeased and nondefeased portions of the 2005A Parity Bonds. The replacement bonds shall be printed, executed and authenticated in the same manner as the 2005A Parity Bonds.

Section 16. Call for Redemption of the Refunded Bonds. The Authority calls for redemption on May 1, 2015, all of the Refunded Bonds at par plus accrued interest. Such call for redemption shall be irrevocable after the delivery of the 2012 Parity Bonds to the initial purchasers thereof. The date on which the Refunded Bonds are herein called for redemption is the first date on which the Refunded Bonds may be called.

The proper Authority officials are authorized and directed to give or cause to be given such notices as required, at the times and in the manner required, pursuant to Resolution Nos. R2005-02 and R2005-07 in order to effect the redemption of the Refunded Bonds prior to their maturity.

Section 17. Authority Findings with Respect to Refunding. The Board authorizes the Designated Authority Representative to issue the 2012 Parity Bonds if it will achieve debt service savings to the Authority and is in the best interest of the Authority and its taxpayers and in the public interest. In making such finding and determination, the Designated Authority Representative will give consideration to the fixed maturities of the 2012 Parity Bonds and the Refunded Bonds, the costs of issuance of the 2012 Parity Bonds and the expected income from

the investment of the proceeds of the issuance and sale of the 2012 Parity Bonds pending payment and redemption of the Refunded Bonds.

The Designated Authority Representative may also purchase Acquired Obligations to be deposited with the Refunding Trustee, together with the income therefrom, and with any necessary beginning cash balance, which will be sufficient to redeem the Refunded Bonds and will discharge and satisfy the obligations of the Authority under Resolution No. R2005-02 with respect to the Refunded Bonds. Immediately upon the delivery of such Acquired Obligations to the Refunding Trustee and the deposit of any necessary beginning cash balance, the Refunded Bonds shall be deemed not to be Outstanding and shall cease to be entitled to any lien, benefit or security under Resolution No. R-2005-02 authorizing their issuance except the right to receive payment from the Acquired Obligations and beginning cash balance so set aside and pledged.

Section 18. 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 18(b), including for the purposes set forth in Section 24(a), and subject to the requirements set forth in the Prior Bond Resolution, in Resolution No. R2005-02, in Resolution No. R2007-22 and in Resolution No. R2009-16. 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 Prior Bond Account in the following order:

- (1) to pay the interest when due on the Prior Bonds (including regularly scheduled Payments under Prior Payment Agreements); 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 Prior Reserve Account by Section 7(b) of the Prior Bond Resolution 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 Prior Letter of Credit or Qualified Prior Insurance with respect to the Prior 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;

Third, to make all payments required to be made into the Parity 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 Parity Reserve Account Requirement, and other than the provider of a letter of credit, standby bond purchase agreement or other liquidity facility), if any, 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 Parity Reserve Account required under any resolution authorizing the issuance of Parity Bonds to meet the Parity Reserve Account Requirement and to make all payments required to be made pursuant to a reimbursement obligation in connection with bond insurance, if any, with respect to the Parity 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; provided, that the Authority may determine that items in this "Seventh" category shall be paid in a 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 19. Pledge of Pledged Taxes. From and after the issuance and delivery of the 2012 Parity Bonds and so long as any of the 2012 Parity 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. All Parity Bonds now or hereafter Outstanding shall be equally and ratably payable and secured hereunder and under each Series Resolution 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, 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 payment 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 Motor Vehicle Tax, and/or receipts resulting from an Adopted Parity Rate Adjustment, as "Pledged Taxes." The Board has determined that the future inclusion of such Adopted Parity Rate Adjustment, Additional Taxes and/or the Motor Vehicle Tax 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. The Authority has designated the additional sales and use tax approved at an election held on November 4, 2008, and imposed by Resolution No. R2008-15, as an Adopted Parity Rate Adjustment and a component of Pledged Taxes pledged to the payment of the Parity Bonds.

All Parity Bonds are special limited obligations of the Authority payable from and secured solely by Pledged Taxes and amounts, if any, in the Parity Bond Account, the Parity Reserve Account (except as otherwise provided in Section 19(b) of Resolution No. R2005-02, Section 19(b) of Resolution No. R2007-22, Section 19(b) of Resolution No. R2009-16 and Section 23(b) of this Resolution), the Local Option Tax Accounts, the Additional Taxes Accounts, the 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 2012 Parity Bonds are "Subordinate Obligations" as that term is defined by and under the Prior Bond Resolution.

There is hereby pledged for the payment of the 2012 Parity Bonds (a) amounts in the Parity Bond Account, the Additional Taxes Accounts and proceeds of the 2012 Parity Bonds

deposited in any account created for the deposit of 2012 Parity Bond proceeds, and such pledge is hereby declared to be a charge on the amounts in such accounts equal to the charge of any other Parity Bonds thereon, and superior to all other charges of any kind or nature, and (b) the Pledged Taxes and amounts in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount and 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 other 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.

The Parity Bonds are not obligations of the State of Washington or any political subdivision thereof other than the Authority. The Parity Bonds do not constitute a lien or charge upon any general fund or upon any money or other property of the Authority not specifically pledged thereto.

Section 20. Issuance of Future Parity Bonds and Future Prior Bonds. Following the issuance of the 2012 Parity Bonds, except as provided in Section 21, 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 Parity Bond Account;
- (b) an amount equal to the Parity Reserve Account Requirement (including for the Future Parity Bonds to be issued) shall be on deposit or shall be otherwise provided for in the Parity Reserve Account on or prior to the date of issuance of such Future Parity Bonds, all in accordance with Section 23(b);

- (c) no Default (as defined in Section 29) has occurred and is continuing; and
- (d) an Authority Parity Bond 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 Parity Period were not less than 1.5 times Maximum Annual Prior Bond Debt Service 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 Motor Vehicle Tax Not Included as Pledged Taxes.* Pledged Taxes received during the Base Parity Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement (and after all the Motor Vehicle Tax has been applied for that purpose) were not less than 1.5 times Maximum Annual Parity Bond 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 Bond Coverage Test for Period While Motor Vehicle Tax and/or Additional Taxes Are Included as Pledged Taxes.* Pledged Taxes received during the Base Parity 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 Parity Bond 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.

In preparing such certificate: (A) the Local Option Taxes and/or Pledged Taxes during the Base Parity 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 Parity Period any Adopted Parity Rate Adjustment, Additional Taxes and Motor Vehicle Tax included as Pledged Taxes pursuant to Section 19, and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Parity Period; (C) the Motor Vehicle Tax 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 Motor Vehicle Tax 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 Parity 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 Parity Bond Certificate; and (E) deposits into and withdrawals from the Tax Stabilization Subaccount during the Base Parity Period may not be taken into account.

The Authority covenants that it will not issue additional series of Prior Bonds unless it delivers an Authority Parity Bond Certificate as set forth in this Section 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 21. Refunding Parity Bonds. The Authority, by means of a Series Resolution and in compliance with the provisions of Section 20 (except as otherwise provided below), may issue Refunding Parity Bonds as follows:

(a) Refunding Parity Bonds may be issued at any time, consistent with applicable law, upon delivery of an Authority Parity Bond 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 Parity 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 Parity Bonds or the Authority obligations to be refunded, paying the expenses of issuing the Refunding Parity Bonds and of effecting such refunding.

(b) Refunding Parity Bonds also may be issued for the purpose of refunding Parity Bonds without regard to the requirements of Section 20(d), if a Designated Authority Representative certifies that the Annual Parity Bond Debt Service on such Refunding Parity

Bonds in any Fiscal Year will not exceed the Annual Parity Bond Debt Service by more than \$5,000 on the Parity Bonds to be refunded were such refunding not to occur.

(c) Refunding Parity Bonds also may be issued, consistent with applicable law, without regard to the requirements of Section 20, 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 22. 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 23. Parity Bond Account and Parity Reserve Account.

(a) Parity Bond Account. The Subordinate Bond Account was 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 25 and was renamed the "Parity Bond Account" by Resolution No. R2009-16. The Parity Bond Account is pledged to the payment of Parity Bonds and Parity Payment Agreements meeting the requirements of Section 25, 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.

Subject to the requirements of Section 19(b), the Authority hereby irrevocably obligates and binds itself for so long as any Parity Bonds remain Outstanding to set aside or cause to be set aside and pay or cause to be paid into the Parity Bond Account from Pledged Taxes:

(i) approximately equal monthly deposits such that the amounts projected to be on deposit on the next interest payment date will be sufficient to pay the interest scheduled to become due and redemption premium, if any, on Outstanding Parity Bonds; and

(ii) approximately equal monthly deposits such that the amounts projected to be on deposit on the next principal payment date will be sufficient to pay maturing principal (including sinking fund redemptions) for Parity Bonds; and

(iii) regularly scheduled Payments under a Parity Payment Agreement.

(b) Parity Reserve Account. The Subordinate Reserve Account has been created as a special account of the Authority for the purpose of securing the payment of the principal, premium, if any, and interest on the Parity Bonds and is hereby renamed the Parity Bond Account. The 2007A Parity Bonds, the 2009 Parity Bonds and the 2012 Parity Bonds shall not be secured by amounts in the Parity Reserve Account or by bond insurance providing any portion of the Parity Reserve Account Requirement for other Parity Bonds and shall not be provided with any rights or protections under Section 19(b) of Resolution No. R2005-02. The debt service on the 2007A Parity Bonds, the 2009 Parity Bonds and the 2012 Parity Bonds shall not be included in the calculation of the Parity Reserve Account Requirement for all other Series of Parity Bonds.

(c) Deposits into Accounts. 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) Investment of Amounts in Accounts. Amounts in the Local Option Tax Accounts, the Additional Taxes Accounts and the Parity Bond Account shall be invested by the Authority in any legal investment for funds of regional transit authorities of the State.

Section 24. Covenants. The Authority makes the following covenants with the Owners of the 2012 Parity Bonds for as long as any of the same remain Outstanding:

(a) Pledged Taxes. The Authority shall impose the rental car sales and use tax authorized by RCW 81.104.160 at a rate of not less than eight-tenths of one percent and the Sales Tax at a rate of not less than nine-tenths of one percent; provided, that the Authority may impose the Sales Tax at a rate of less than nine-tenths of one percent but not less than eight-tenths of one percent so long as an Authority Pledged Taxes Sufficiency Certificate is delivered on or prior to the date of that reduction in rate and within 30 days after the end of each Fiscal Year during which the Sales Tax has been so reduced, which Authority Pledged Taxes Sufficiency 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 payment of the Parity Bonds the Sales Tax in excess of nine-tenths of one percent, the rental car sales and use tax authorized by RCW 81.104.160 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 Tax rate above nine-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 Tax at a rate less than nine-tenths of one percent, an Authority Pledged Taxes Sufficiency Certificate shall be delivered that states that:

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

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

In preparing such certificate: (A) the Local Option Taxes and/or Pledged Taxes during the Base Parity 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 Parity Period any Adopted Parity Rate Adjustment, Additional Taxes and Motor Vehicle Tax included as Pledged Taxes pursuant to Section 19, and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Parity Period; (C) the Sales Tax received during the Base Parity Period shall be adjusted to reflect the reduced rate of less than nine-tenths of one percent; (D) the Motor Vehicle Tax 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 Motor Vehicle Tax 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 Parity 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 Pledged Taxes Sufficiency Certificate.

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

If the Authority is imposing the Sales Tax authorized by RCW 81.104.170 at a rate less than nine-tenths of one percent and if the Authority is unable to deliver an Authority Pledged Taxes Sufficiency Certificate as described above within 30 days after the end of any Fiscal Year, it shall, within 90 days after the end of that Fiscal Year, take all action required on its part to increase the rate of that Sales Tax imposed, but not to exceed the rate of nine-tenths of one percent for the purpose of being able to deliver such Authority Pledged Taxes Sufficiency 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 payment of the Parity 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 payment 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 subsection, the Authority shall not take any action that limits, terminates, reduces or otherwise impairs its authority to impose and collect all Local Option Taxes and Pledged Taxes.

(b) Maintenance of its Facilities. 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.

(c) Property and Liability Insurance. 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.

(d) Books and Records. 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 25. Parity Payment Agreements. A Payment made under a Payment Agreement may be secured by a pledge of Pledged Taxes equal to the pledge securing the 2012 Parity Bonds if the Payment Agreement satisfies the requirements for issuing Future Parity Bonds described in Section 20, 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 2012 Parity 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 either the exemption from federal income taxation of the interest on any Outstanding Tax-Exempt Parity Bonds or the entitlement to receive from the United States Treasury the applicable federal credit payments in respect of any Outstanding Build America 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 Parity Bond Account and Annual Parity Bond Debt Service shall include any regularly scheduled Payments adjusted by any regularly scheduled Receipts during a Fiscal Year or Base Parity Period, as applicable. Receipts shall be paid directly into the Parity 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 26. Defeasance.

(a) Defeased Bonds. If the Authority deposits irrevocably with an escrow agent money and/or noncallable Government Obligations which, together with the earnings thereon and without any reinvestment thereof, are sufficient to pay the principal of and premium, if any, on any particular 2012 Parity Bonds or portions thereof (the "Defeased Bonds") as the same shall become due, together with all interest accruing thereon to the maturity date or redemption date, and, in the case of Defeased Bonds to be redeemed prior to maturity, irrevocably calls the Defeased Bonds for redemption on the redemption date, and pays or makes provision for payment of all fees, costs and expenses of that escrow agent due or to become due with respect to the Defeased Bonds, then all liability of the Authority with respect to the Defeased

Bonds shall cease, the Defeased Bonds shall be deemed not to be Outstanding and the Owners of the Defeased Bonds shall be restricted exclusively to the money or Government Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to the Defeased Bonds.

(b) Escrow Agent. The escrow agent shall hold the money, Government Obligations and earnings described in subsection (a) above in trust exclusively for the Owners of the Defeased Bonds, and that money, Government Obligations and earnings shall not secure any other Parity Bonds. In determining the sufficiency of the money and Government Obligations deposited pursuant to this Section, that escrow agent shall receive, at the expense of the Authority, and may rely upon, a verification report of a firm of nationally recognized independent certified public accountants or other qualified firm acceptable to the Authority and that escrow agent.

(c) Opinions. In connection with any defeasance under this Section, the escrow agent shall receive, at the expense of the Authority, and may rely upon, an opinion of Bond Counsel to the effect that the defeasance is permitted under the laws of the State and this Resolution and an opinion of nationally recognized tax counsel (which may be Bond Counsel) that such defeasance will not, in and of itself, adversely affect the exclusion of interest on the Defeased Bonds from gross income for federal income tax purposes.

(d) Administrative Provisions. Notwithstanding the foregoing provisions of this Section to the contrary, the provisions of this Resolution relating to the execution, authentication, registration, exchange, transfer and cancellation of the 2012 Parity Bonds shall apply to the Defeased Bonds.

Section 27. Lost, Stolen, Mutilated or Destroyed 2012 Parity Bonds. In case any 2012 Parity Bond shall be lost, stolen, mutilated or destroyed, the Bond Registrar may execute and deliver a new 2012 Parity 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 2012 Parity

Bond was actually lost, stolen or destroyed (including the presentation of a mutilated 2012 Parity Bond) and of ownership thereof, and upon furnishing the Authority with indemnity satisfactory to the Authority.

Section 28. Supplements and Amendments.

(a) Without Owners' Consent. The Authority may adopt at any time without the consent or concurrence of any Owner, 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 25;
- (ii) To add covenants and agreements of the Authority for the purpose of further securing the payment of the 2012 Parity Bonds; provided, that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Prior Resolution, this Resolution or any Series Resolution;
- (iii) To prescribe further limitations and restrictions upon the issuance of Parity Bonds and/or the incurrence of obligations under Parity Payment Agreements that are not contrary to or inconsistent with the limitations and restrictions in the Prior Resolution, this Resolution or any Series 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, Motor Vehicle Tax, income or revenues to the pledge of this Resolution or confirm as further assurance any pledge or provision for payment of the 2012 Parity Bonds created by this Resolution and to make such confirming changes as shall be necessary or desirable in connection therewith, in each such case as are not contrary to or inconsistent with the limitations and restrictions in the Prior Resolution, this Resolution or any Series Resolution;
- (vi) To specify the order of priority in which payments are to be made for purposes in the "Fifth" or "Seventh" category of Section 18(b);

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(vii) 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 the Prior Bonds or any Parity Bonds;

(viii) 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 the Prior Bonds or any Parity Bonds;

(ix) 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 28(b)); or

(x) 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 the Prior Bonds or any Parity Bonds and will not cause any Rating Agency to lower a rating on any Parity Bonds.

(b) Special Amendments. The Owners from time to time of the Outstanding 2012 Parity Bonds and any Future Parity Bonds, by taking and holding the same, shall be deemed to have consented to the adoption by the Authority of any Supplemental Resolution or Resolutions amendatory or supplemental to this Resolution for any one or more of the following purposes:

(i) To delete Section 29(b) of this Resolution and the corresponding provision of any Parity Bond Authorizing Resolution;

(ii) To permit federal credit payments received in respect of Outstanding Build America Parity Bonds (other than federal credit payments received under a Payment Agreement) to be deposited into the Parity Bond Account and credited against the Pledged Taxes otherwise required to be deposited into the Parity Bond Account;

(iii) To permit federal credit payments scheduled to be received in any Fiscal Year in respect of Outstanding Build America Parity Bonds (other than federal credit payments

received under a Payment Agreement) to be credited against Parity Bond Debt Service in calculating Annual Parity Bond Debt Service for that Fiscal Year; or

(iv) In satisfying the conditions to the issuance of Future Parity Bonds that will not be secured by the Parity Reserve Account, to disregard the requirement that an amount equal to the Parity Reserve Account Requirement (including for the Future Parity Bonds to be issued) be on deposit or otherwise provided for in the Parity Reserve Account on or prior to the date of issuance of such Future Parity Bonds.

(c) 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 Parity Bonds then Outstanding. However, without the specific consent of the Owner of each Parity Bond, no Supplemental Resolution shall (1) permit the creation of a charge on Pledged Taxes superior to the payment of the Parity Bonds; (2) reduce the percentage of Bond Owners which are required to consent to any Supplemental Resolution; or (3) give to any Parity Bond or Parity Bonds any preference over any other Parity Bond or Parity Bonds. No Supplemental Resolution shall change the date of payment of the principal of any Parity Bond, reduce the principal amount or Accreted Value of any Parity 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 Parity Bond may first be called for redemption prior to its fixed maturity date without the specific consent of the Owner of that Parity Bond; and no such amendment shall change or modify any of the rights or obligations of the Bond Registrar for the 2012 Parity Bonds without its written consent.

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

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

Section 29. 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 Parity Bond Account or Parity 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 Parity 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 30. 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.

- (a) Parity Bondowners' Trustee. So long as a Default shall not have been remedied, a Parity Bondowners' Trustee may be appointed by the Owners of at least 50% in aggregate 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 Parity Bondowners' Trustee and the Authority. Any Parity 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 Parity Bondowners' Trustee may be removed at any time, and a successor Parity Bondowners' Trustee may be appointed, by the Owners of a majority in aggregate 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 Parity 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 Parity Bondowners' Trustee.

- (b) Suits at Law or in Equity. The Parity 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 Parity 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 Parity Bondowners' Trustee without the possession of any Parity 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 Parity 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 Parity 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 Parity 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 Parity 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 Parity Bondowners' Trustee. The Authority covenants that if a Default shall happen and shall not have been remedied, the Authority, upon demand of the Parity Bondowners' Trustee, shall pay over to the Parity Bondowners' Trustee (i) forthwith, all amounts in the Parity Bond Account, Parity 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 Parity Bondowners' Trustee. During the continuance of a Default, the Pledged Taxes and other funds received by the Parity Bondowners' Trustee pursuant to the provisions of the preceding paragraph shall be applied by the Parity Bondowners' Trustee first, to the payment of the reasonable and proper charges, expenses and liabilities paid or incurred by the Parity Bondowners' Trustee and second, in accordance with the provisions of Section 18(b).

In the event that at any time the funds held by the Parity 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 Parity 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 Parity 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 Parity 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 Parity Bondowners' Trustee or provision deemed by the Parity Bondowners' Trustee to be adequate shall be made therefor, the Parity Bondowners' Trustee shall pay over to the Authority all money and securities then remaining unexpended and held by the Parity 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 Parity 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 Owners. 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 Parity Bondowners' Trustee has been appointed as herein provided, but any remedy herein authorized to be exercised by the Parity 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 Parity Bondowners' Trustee has been appointed, or with the consent of the Parity Bondowners' Trustee if such Parity 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 Parity Bondowners' Trustee or the Owners of the Parity 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 31. Undertaking to Provide Continuing Disclosure. To meet the requirements of paragraph (b)(5) of the United States Securities and Exchange Commission ("SEC") Rule 15c2-12 (the "Rule 15c2-12"), as applicable to a participating underwriter for the 2012 Parity Bonds, the Authority makes the following written undertaking (the "Undertaking") for the benefit of holders of the 2012 Parity Bonds:

(a) Undertaking to Provide Annual Financial Information and Notice of Material Events. The Authority undertakes to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

(1) Annual financial information and operating data of the type included in the final official statement for the 2012 Parity Bonds and as described in subsection (b) of this Section ("annual financial information");

(2) Timely notice (not in excess of 10 business days after the occurrence of the event) of the occurrence of any of the following events with respect to the 2012 Parity Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the 2012 Parity Bonds; (7) modifications to rights of holders of the 2012 Parity Bonds, if material; (8) bond calls (other than scheduled mandatory redemptions of 2012 Term Parity Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale

of property securing repayment of the 2012 Parity Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Authority, as such "Bankruptcy Events" are defined in Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(3) Timely notice of a failure by the Authority to provide required annual financial information on or before the date specified in subsection (b) of this Section.

(b) Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the Authority undertakes to provide in subsection (a) of this Section:

(1) Shall consist of (1) 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; and (2) historical operating and financial information consisting of (A) aggregate principal amount of Prior Bonds, Parity Bonds and Junior Obligations 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 that the Authority is authorized to levy; and (D) a sufficiency calculation of the type set forth in

Section 20 of this Resolution if the Authority is required to provide an Authority certificate under that Section;

(2) Shall be provided not later than the last day of the ninth month after the end of each fiscal year of the Authority (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the Authority's fiscal year ending December 31, 2012; and

(3) May be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

(c) Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the 2012 Parity Bonds without the consent of any holder of any 2012 Parity Bonds, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12.

The Authority will give notice to the MSRB 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 financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

(d) Beneficiaries. The Undertaking evidenced by this Section shall inure to the benefit of the Authority and any holder of 2012 Parity Bonds, and shall not inure to the benefit of or create any rights in any other person.

(e) Termination of Undertaking. The Authority's obligations under this Undertaking shall terminate upon the legal defeasance of all of the 2012 Parity Bonds. In addition, the Authority's obligations under this Undertaking shall terminate if those provisions of Rule 15c2-12 which require the Authority to comply with this Undertaking become legally inapplicable in respect of the 2012 Parity Bonds for any reason, as confirmed by an opinion of nationally

recognized bond counsel or other counsel familiar with federal securities laws delivered to the Authority, and the Authority provides timely notice of such termination to the MSRB.

(f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the Authority learns of any failure to comply with the Undertaking, the Authority will proceed with due diligence to cause such noncompliance to be corrected. No failure by the Authority or other obligated person to comply with the Undertaking shall constitute a default in respect of the 2012 Parity Bonds. The sole remedy of any holder of a 2012 Parity Bond shall be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the Authority or other obligated person to comply with the Undertaking.

(g) Designation of Official Responsible to Administer Undertaking. The Chief Financial Officer of the Authority (or such other officer of the Authority who may in the future perform the duties of that office) or his or her designee is authorized and directed in his or her discretion to take such further actions as may be necessary, appropriate or convenient to carry out the Undertaking of the Authority in respect of the 2012 Parity Bonds set forth in this Section in accordance with the Rule, including, without limitation, the following actions:

- (1) Preparing and filing the annual financial information undertaken to be provided;
- (2) Determining whether any event specified in subsection (a) has occurred and preparing and disseminating notice of its occurrence;
- (3) Determining whether any person other than the Authority is an "obligated person" within the meaning of the Rule with respect to the 2012 Parity Bonds, and obtaining from such person an undertaking to provide any annual financial information and notice of enumerated events for that person in accordance with the Rule;
- (4) Selecting, engaging and compensating designated agents and consultants, including but not limited to financial advisors and legal counsel, to assist and advise the Authority in carrying out the Undertaking; and

- (5) Effecting any necessary amendment of the Undertaking.

Section 32. Resolution a Contract. This Resolution shall constitute a contract with the Owners of the 2012 Parity Bonds.

Section 33. 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 2012 Parity Bonds issued pursuant to the terms hereof.

Section 34. 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 2012 Parity 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 28th day of June, 2012.

Pat McCarthy
Board Chair

ATTEST:

Marcia Walker
Board Administrator

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APPENDIX C

FORM OF CONTINUING DISCLOSURE UNDERTAKINGS

The following is a summary of the continuing disclosure undertakings with respect to the 2012 Prior Bonds and the 2012 Parity Bonds. Capitalized words or phrases which are not defined in this summary or conventionally capitalized have the meanings given such words or phrases in the 2012 Bond Resolutions.

A. Contract/Undertakings.

Sound Transit will enter into undertakings (the “Undertakings”) constituting the written undertakings for the benefit of the beneficial owners of the 2012 Prior Bonds and the 2012 Parity Bonds in order to assist the Underwriters of the 2012 Prior Bonds and the 2012 Parity Bonds in complying with paragraph (b)(5) of Rule 15c2-12 (“Rule 15c2-12”) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. For purposes of the Undertakings, the term “holders of the 2012 Bonds” shall have the meaning intended for such term under Rule 15c2-12.

Sound Transit undertakes to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the “MSRB”), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

B. Financial Statements/Operating Data.

1. Annual Disclosure Report. Sound Transit covenants that not later than nine months after the end of each Fiscal Year (the “Submission Date”), commencing September 2013 for the fiscal year ending December 31, 2012, Sound Transit shall provide or cause to be provided to the MSRB an annual report (the “Annual Disclosure Report”) that is consistent with the requirements of part (2) of this subsection (B). The Annual Disclosure Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in part (2) of this subsection (B); provided, that any audited annual financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such audited annual financial statements are not available by the Submission Date. If Sound Transit’s Fiscal Year changes, Sound Transit shall give notice of such change in the same manner as notice is to be given of the occurrence of an event listed in subsection (C) hereof.

2. Content of Annual Disclosure Reports. Sound Transit’s Annual Disclosure Report shall contain or include by reference the following:

i. Audited financial statements. Audited financial statements, except that if any audited financial statements are not available by the Submission Date, the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for Sound Transit, and Sound Transit’s audited financial statements shall be filed in the same manner as the Annual Disclosure Report when and if they become available.

ii. Operating and Financial Information.

- a. Aggregate principal amount of Prior Bonds, Parity Bonds and Junior Obligations 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 that Sound Transit is authorized to levy; and

- d. Sufficiency Test calculation if Sound Transit is required to comply with the Sufficiency Test.

Any or all of the items listed above may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the Securities and Exchange Commission.

Items listed in 2(ii) will be required to be provided separately to the MSRB only to the extent that such information is not included in the information provided pursuant to item 2(i) above.

C. Listed Events. Sound Transit agrees to provide or cause to be provided to the MSRB timely notice (not in excess of 10 business days after the occurrence of the event) of the occurrence of any of the following events with respect to the 2012 Prior Bonds and the 2012 Parity Bonds:

- i. Principal and interest payment delinquencies;
- ii. Non-payment related defaults, if material;
- 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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the 2012 Prior Bonds or the 2012 Parity Bonds;
- vii. Modifications to rights of the holders of the 2012 Prior Bonds or the 2012 Parity Bonds, if material;
- viii. 2012 Prior Bond or 2012 Parity Bond calls (other than scheduled mandatory redemptions of 2012 Prior Term Bonds or 2012 Parity Term Bonds), if material, and tender offers;
- ix. Defeasances;
- x. Release, substitution or sale of property securing the repayment of the Prior Bonds or the Parity Bonds, if material;
- xi. Rating changes;
- xii. Bankruptcy, insolvency, receivership or similar event of Sound Transit, as such “Bankruptcy Events” are defined in Rule 15c2-12;
- xiii. The consummation of a merger, consolidation, or acquisition involving Sound Transit or the sale of all or substantially all of the assets of Sound Transit other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- xiv. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

D. Notice Upon Failure to Provide Financial Data. Sound Transit agrees to provide or cause to be provided to the MSRB timely notice of its failure to provide the annual financial information described in subsection (B) above on or prior to the date set forth in subsection (B) above.

The Undertakings are subject to amendment after the primary offering of the 2012 Prior Bonds and the 2012 Parity Bonds without the consent of any holder of any 2012 Prior Bond or 2012 Parity Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12. Sound Transit will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertakings 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 financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

If Sound Transit or any other obligated person fails to comply with the Undertakings, Sound Transit will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after Sound Transit learns of that failure. No failure by Sound Transit or any other obligated person to comply with the Undertakings shall constitute a default with respect to the 2012 Prior Bonds or the 2012 Parity Bonds. The sole remedy of any holder of a 2012 Prior Bond or 2012 Parity Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel Sound Transit or any other obligated person to comply with the Undertakings.

E. Termination/Modification. Sound Transit's obligations under the Undertakings shall terminate upon the legal defeasance of all of the 2012 Prior Bonds and 2012 Parity Bonds. In addition, Sound Transit's obligations under the Undertakings shall terminate if those provisions of Rule 15c2-12 which require Sound Transit to comply with the Undertakings become legally inapplicable in respect of the 2012 Prior Bonds or the 2012 Parity Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to Sound Transit, and Sound Transit provides timely notice of such termination to the MSRB.

F. Designation of Official Responsible to Administer Undertakings. The Chief Financial Officer of Sound Transit (or such other officer of Sound Transit who may in the future perform the duties of that office) or his or her designee is authorized and directed in his or her discretion to take such further actions as may be necessary, appropriate or convenient to carry out the Undertakings of Sound Transit in respect of the 2012 Prior Bonds and the 2012 Parity Bonds in accordance with Rule 15c2-12, including, without limitation, the following actions:

- i. Preparing and filing the annual financial information undertaken to be provided;
- ii. Determining whether any event specified in subsection (A) has occurred and preparing and disseminating notice of its occurrence;
- iii. Determining whether any person other than Sound Transit is an "obligated person" within the meaning of Rule 15c2-12 with respect to the 2012 Prior Bonds or the 2012 Parity Bonds, and obtaining from such person an undertaking to provide any annual financial information and notice of certain events for that person in accordance with Rule 15c2-12;
- iv. Selecting, engaging and compensating designated agents and consultants, including but not limited to financial advisors and legal counsel, to assist and advise Sound Transit in carrying out the Undertakings; and
- v. Effecting any necessary amendment of the Undertakings.

G. Additional Information. Nothing in the Undertakings shall be deemed to prevent Sound Transit from disseminating any other information, using the means of dissemination set forth in the Undertakings or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a listed event, in addition to that which is required by the Undertakings. If Sound Transit chooses to

include any information in any Annual Disclosure Report or notice of the occurrence of a listed event in addition to that specifically required by the Undertakings, Sound Transit shall have no obligation under the 2012 Bond Resolutions to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a listed event.

APPENDIX D

DEMOGRAPHIC AND ECONOMIC INFORMATION

The boundaries of the District incorporate areas within King, Pierce and Snohomish Counties. (A map of the District is set forth on page iv of this Official Statement.) King County consists of 2,126 square miles, Pierce County consists of 1,676 square miles, and Snohomish County consists of 2,090 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 83.1 square miles, is the center of economic activity in the District.

The 2011 population of the District is estimated to be 2.76 million, which is approximately 80% of the population of the Counties (87% of King County's population, 83% of Pierce County's population and 58% of Snohomish County's population), and 41% of the State's population of 6.8 million.

As of March 2012, the Seattle-Bellevue-Everett-Tacoma metropolitan areas (approximately coextensive with the District boundaries) accounted for approximately 55% of the State's total employment. The District economy is diversified in the aerospace, manufacturing, trade, high technology, services, construction, tourism and government sectors.

**TABLE D-1
POPULATION IN THE COUNTIES**

Year	King County	Pierce County	Snohomish County	Total
2011	1,942,600	802,150	717,000	3,461,750
2010	1,931,249	795,225	713,335	3,439,809
2009	1,909,300	813,600	704,300	3,427,200
2008	1,884,200	805,400	696,600	3,386,200
2007	1,861,300	790,500	686,300	3,338,100
2006	1,835,300	773,500	671,800	3,280,600
2005	1,808,300	755,900	655,800	3,220,000
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

Sources: 2002-2009 and 2011, State Office of Financial Management; 2010, U.S. Department of Commerce, Bureau of Census.

TABLE D-2
ANNUAL AVERAGE NONAGRICULTURAL EMPLOYMENT IN THE COUNTIES ⁽¹⁾

	2012 ⁽²⁾	2011	2010	2009	2008
Total ⁽³⁾	1,688,800	1,673,100	1,641,200	1,669,000	1,758,800
Natural Resources and Mining	800	1,000	1,100	1,100	1,300
Construction	78,200	80,000	82,500	93,700	119,800
Manufacturing	182,300	175,500	166,900	172,500	187,300
Trade, Transportation and Utilities	310,100	308,900	301,600	305,100	325,600
Information	87,700	88,700	87,800	88,300	89,000
Financial Activities	88,200	89,400	89,700	95,400	103,200
Professional and Business Services	231,700	229,900	220,600	221,400	241,800
Education and Health Services	222,900	215,000	208,000	207,000	200,100
Leisure and Hospitality	161,800	160,400	155,700	156,800	164,900
Other Services	64,400	64,900	63,100	63,600	64,600
Government	260,700	259,800	264,200	264,200	261,400

(1) Not seasonally adjusted.

(2) Average through March 2012.

(3) Totals may not foot due to rounding.

Source: State Employment Security Department.

TABLE D-3
ANNUAL AVERAGE UNEMPLOYMENT IN THE COUNTIES ⁽¹⁾

Year	King County		Pierce County		Snohomish County	
	Labor Force	% Unemployed	Labor Force	% Unemployed	Labor Force	% Unemployed
2012 ⁽²⁾	1,107,210	7.1%	395,450	9.4%	386,030	8.3%
2011	1,105,550	8.1	387,250	9.8	385,370	9.3
2010	1,107,060	9.1	392,440	10.2	387,140	10.6
2009	1,115,980	8.6	394,690	9.7	383,150	10.1
2008	1,091,720	4.4	393,080	5.7	373,780	5.2
2007	1,068,970	3.6	383,850	4.8	364,040	4.0
2006	1,049,960	4.2	371,220	5.1	360,390	4.6
2005	1,012,950	4.7	367,270	5.9	346,770	5.1
2004	997,520	5.2	359,950	7.0	339,050	5.8
2003	989,570	6.2	351,880	8.2	335,910	7.1
2002	985,580	6.1	347,200	8.0	333,170	7.0

(1) Not seasonally adjusted.

(2) Average through April 2012.

Source: State Employment Security Department.

**TABLE D-4
MAJOR PRIVATE EMPLOYERS IN THE COUNTIES**

Employer	Business Activity
The Boeing Company	Aerospace manufacturer
Microsoft Corporation	Software developer
Providence Health System	Health care
Wal-Mart	Retailer
Fred Meyer Stores	Retailer
MultiCare Health System	Health care
Franciscan Health System	Health care
Costco Inc.	Membership warehouses
Group Health Cooperative	Health care
Nordstrom Inc.	Department stores
Swedish Health Services	Health care
Alaska Air Group Inc.	Airline
Quality Food Centers	Retail grocery
Virginia Mason Medical Center	Health care
Target	Retailer
Bank of America	Banking and financial services
Macy's Northwest	Department stores
Lowe's Cos Inc.	Home improvement retailer
Safeway Inc.	Retail grocery

Source: *Puget Sound Business Journal* The Book of Lists, December 2011.

**TABLE D-5
PERSONAL INCOME IN THE COUNTIES
(\$000s)**

Year	King County	Pierce County	Snohomish County
2010	\$106,806,333	\$32,212,709	\$30,324,620
2009	104,237,546	31,395,360	29,606,348
2008	109,927,858	32,198,440	30,427,333
2007	106,693,888	30,164,757	28,328,071
2006	99,609,451	27,915,787	25,578,064
2005	89,432,163	25,579,464	23,200,836
2004	89,382,811	23,905,533	21,632,182
2003	80,128,451	22,789,755	20,627,988
2002	78,430,459	21,933,684	20,136,581
2001	77,991,423	21,214,654	19,826,949

Source: U.S. Bureau of Economic Analysis.

TABLE D-6
PER CAPITA INCOME IN THE COUNTIES

<u>Year</u>	<u>King County</u>	<u>Pierce County</u>	<u>Snohomish County</u>
2010	\$55,136	\$40,500	\$42,391
2009	54,517	39,417	41,917
2008	58,628	40,996	43,804
2007	57,735	39,049	41,415
2006	54,641	36,567	38,136
2005	49,815	34,190	35,429
2004	50,348	32,299	33,615
2003	45,439	31,050	32,454
2002	44,596	30,125	31,886
2001	44,463	29,611	31,856

Source: U.S. Bureau of Economic Analysis.

**TABLE D-7
NEW BUILDING PERMIT VALUES (RESIDENTIAL) IN THE COUNTIES**

Year	Single-Family		Multi-Family	
	Total Permits	Total Value (\$000s)	Total Units	Total Value (\$000s)
2011	5,907	\$1,528,302	5,047	\$ 619,583
2010	6,092	1,502,676	3,820	375,101
2009	4,998	1,148,146	2,350	261,590
2008	6,638	1,551,485	8,772	1,182,837
2007	11,730	2,776,867	12,360	1,497,557
2006	14,230	3,174,285	9,856	1,202,679
2005	16,175	3,511,193	7,272	735,249
2004	14,643	2,949,917	7,307	669,544
2003	15,003	2,825,754	5,598	482,899
2002	13,198	2,350,861	6,328	560,010

Source: U.S. Census Bureau.

**TABLE D-8
TAXABLE RETAIL SALES IN THE COUNTIES
(\$000s)**

Year	King County	Pierce County	Snohomish County
2011 ⁽¹⁾	\$19,154,289	\$ 5,012,765	\$ 4,388,464
2010 ⁽¹⁾	18,607,030	4,989,070	4,402,064
2010	39,275,355	10,547,025	9,327,728
2009	39,736,351	10,397,773	9,275,210
2008	45,711,920	11,621,810	10,320,564
2007	47,766,339	12,449,284	11,209,499
2006	43,993,479	12,068,965	10,438,480
2005	40,463,997	11,177,879	9,292,805
2004	37,253,104	10,055,822	8,276,392
2003	35,370,831	9,448,120	7,763,786
2002	35,156,210	8,802,690	7,544,267

(1) First half.

Source: State Department of Revenue.

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APPENDIX E

FORMS OF BOND COUNSEL OPINIONS

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[Closing Date]

The Central Puget Sound Regional Transit Authority

Re: The Central Puget Sound Regional Transit Authority
Sales Tax and Motor Vehicle Excise Tax Refunding Bonds, Series 2012P-1

We have served as bond counsel to The Central Puget Sound Regional Transit Authority (the "Authority") in connection with the issuance of the Sales Tax and Motor Vehicle Excise Tax Refunding Bonds, Series 2012P-1 (the "2012 Prior 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 2012 Prior Bonds are issued by the Authority pursuant to Resolution No. R98-47, as amended, including as amended and restated by Resolutions Nos. R2009-15 and R2012-14 and as supplemented by Resolution No. R2012-15 (together, the "2012 Prior Bond Resolutions"), to refund a portion of the 2005A Bonds and to pay the costs of issuing the 2012 Prior Bonds, all as set forth in the 2012 Prior Bond Resolutions. Reference is made to the 2012 Prior Bond Resolutions for the definitions of capitalized terms used and not otherwise defined herein.

The 2012 Prior Bonds are payable solely out of the Prior Bond Account, into which account the Authority irrevocably has pledged and bound itself to deposit Local Option Taxes in an amount sufficient to pay principal of and interest on the 2012 Prior Bonds as they become due, all at the times and in the manner set forth in the 2012 Prior Bond Resolutions.

The pledge for the payment of the Prior Bonds of the Local Option Taxes and amounts in the Local Option Tax Accounts, the Prior Bond Account, the Prior Reserve Account and any project account created for the deposit of Prior Bond proceeds is a prior charge upon the Local Option Taxes and such accounts superior to all other charges of any kind or nature.

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 2012 Prior Bonds or otherwise used in connection with the 2012 Prior 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 2012 Prior Bonds in order to maintain the exclusion of the interest on the 2012 Prior Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2012 Prior Bond proceeds and the facilities financed or refinanced with 2012 Prior Bond proceeds, limitations on investing gross proceeds of the 2012 Prior Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2012 Prior Bonds. The Authority has covenanted in the 2012 Prior Bond Resolutions to comply with those requirements with respect to the 2012 Prior Bonds, but if the Authority fails to comply with those requirements, interest on the 2012 Prior Bonds could become taxable retroactive to the date of issuance of the 2012 Prior 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 2012 Prior Bonds to the purchasers 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 2012 Prior 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 2012 Prior Bonds constitute valid and binding special limited obligations of the Authority, payable from and secured solely by Local Option Taxes and amounts, if any, in the Local Option Tax Accounts, the Prior Bond Account, the Prior Reserve Account and any project account created for the deposit of Prior Bond proceeds, 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 2012 Prior Bonds with applicable requirements of the Code, the interest on the 2012 Prior 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 2012 Prior Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2012 Prior 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 2012 Prior Bonds received by certain S corporations may be subject to tax, and interest on the 2012 Prior 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 2012 Prior 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.

[Closing Date]

The Central Puget Sound Regional Transit Authority

Re: The Central Puget Sound Regional Transit Authority
Sales Tax Refunding Bonds, Series 2012S-1

We have served as bond counsel to The Central Puget Sound Regional Transit Authority (the “Authority”) in connection with the issuance of the Sales Tax Refunding Bonds, Series 2012S-1 (the “2012 Parity 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 2012 Parity Bonds are issued by the Authority pursuant to Resolution No. R2012-16 (the “2012 Parity Bond Resolution”), to provide funds to refund a portion of the 2005A Bonds and to pay the costs of issuing the 2012 Parity Bonds, all as set forth in the 2012 Parity Bond Resolution. Reference is made to the 2012 Parity Bond Resolution for the definitions of capitalized terms used and not otherwise defined herein.

The 2012 Parity Bonds are payable solely out of the Parity 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 2012 Parity Bonds as they become due, all at the times and in the manner set forth in the 2012 Parity Bond Resolution.

The pledge for the payment of the 2012 Parity Bonds of the Pledged Taxes and amounts in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount and 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, is a prior charge 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 other Parity Bonds. The pledge for the payment of the 2012 Parity Bonds of amounts in the Parity Bond Account, the Additional Taxes Accounts and proceeds of the 2012 Parity Bonds deposited in any account created for the deposit of 2012 Parity Bond proceeds is a charge equal to the charge of any other Parity Bonds and superior to all other charges of any kind or nature.

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 2012 Parity Bonds or otherwise used in connection with the 2012 Parity 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 2012 Parity Bonds in order to maintain the exclusion of the interest on the 2012 Parity Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2012 Parity Bond proceeds and the facilities financed or refinanced with 2012 Parity Bond proceeds, limitations on investing gross proceeds of the 2012 Parity Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2012 Parity Bonds. The Authority has covenanted in the 2012 Parity Bond Resolution to comply with those requirements, but if the Authority fails to comply with those requirements with respect to the 2012 Parity Bonds, interest on the 2012 Parity Bonds could become taxable retroactive to the date of issuance of the 2012 Parity 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 2012 Parity Bonds to the purchasers 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 2012 Parity 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 2012 Parity Bonds constitute valid and binding special limited obligations of the Authority, payable from and secured solely by Pledged Taxes and amounts, if any, in the Parity Bond Account, the Local Option Tax Accounts, the Additional Taxes Accounts, the 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, 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 2012 Parity Bonds with applicable requirements of the Code, the interest on the 2012 Parity 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 2012 Parity Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2012 Parity 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 2012 Parity Bonds received by certain S corporations may be subject to tax, and interest on the 2012 Parity 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 2012 Parity 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.

APPENDIX F

DTC AND ITS BOOK-ENTRY SYSTEM

The information in this appendix has been furnished by DTC and has not been independently verified by Sound Transit or the Underwriters. Neither Sound Transit nor the Underwriters makes any representation 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 2012 Bonds. The 2012 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 2012 Bond certificate will be issued for each maturity of each series of the 2012 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 rating of AA+. 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 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2012 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 2012 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 2012 Bonds, except in the event that use of the book-entry system for the 2012 Bonds is discontinued.

To facilitate subsequent transfers, all 2012 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 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial DTC Owners of the 2012 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2012 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 2012 Bonds within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series and maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2012 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 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the 2012 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 Bond 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 Bond Registrar or Sound Transit, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of Sound Transit or the Bond 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 securities depository with respect to the 2012 Bonds at any time by giving reasonable notice to Sound Transit or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, 2012 Bond certificates 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, 2012 Bond certificates will be printed and delivered.

The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources that Sound Transit believes to be reliable, but Sound Transit takes no responsibility for the accuracy thereof.

