



Appendix B: Financial Policies

Sound Transit 2 A Mass Transit Guide The Regional Transit System Plan for Central Puget Sound

July 2008



Link light rail • Sounder commuter rail • ST Express regional bus • Tacoma Link light rail

Easy connections to more places
for more people.

– Sound Transit vision statement

Sound Transit plans, builds, and operates
regional transit systems and services to
improve mobility for Central Puget Sound.

– Sound Transit mission statement

Sound Transit financial policies

The Sound Transit Board may amend these Financial Policies from time to time; the most current version of the Financial Policies is available at www.soundtransit.org.

As adopted May 31, 1996 (Resolution No. 72)
As amended April 13, 2006 (Resolution No. 72-1)
As amended May 24, 2007 (Resolution No. R2007-05)
As amended July 24, 2008 (Resolution No. R2008-10)*

PURPOSE

The Sound Transit Board (the Board) adopted an initial framework for the financing of *Sound Move*, by setting local tax rates, focusing on minimal debt financing, requiring conservative projections for federal and state funding, and establishing a definition by which equity will be measured. The Financial Policies reflect the Board's policy intent for implementing the financial framework for completing *Sound Move* and subsequent system plans and for providing the tools to the Board to appropriately manage toward and respond to future conditions.

LEGAL RESPONSIBILITIES

In adopting these Financial Policies, the Board recognizes certain legal responsibilities. Existing state law grants all legislative and policy authority to the Board, and does not allow the Board to abrogate, transfer or delegate such authority to other agencies or to the five subareas within the Sound Transit District. Consequently, all funds collected by or provided to Sound Transit, including local tax revenues, federal and other government grants, bond proceeds, farebox revenues, interest earnings, and private development revenues, may be disbursed only with approval of the Board. Priorities for disbursements will be determined within Sound Transit's annual budgetary process, which by law requires a two-thirds affirmative vote of the Board.

Similarly, the Board recognizes that bonds issued by Sound Transit will be secured by a pledge of repayment through local taxes. When the bonds are issued, Sound Transit will enter a binding contract with its bondholders that requires a first claim against local tax revenues for repayment. Stated differently, bondholders will have a legal priority to Sound Transit's local tax revenues, above and beyond any commitment Sound Transit may wish to make with its subareas that no subarea will pay another subarea's debt. Therefore, these Financial Policies reflect Sound Transit's commitment to subarea equity while maintaining the flexibility necessary to manage the financing of the System Plan on a consolidated basis and within legal constraints.

* Resolution No. R2008-10 provides that these amended Financial Policies take effect upon the earlier of either the approval of local funding for the Sound Transit 2 Plan by the voters at an election, or upon Board adoption of the amended Financial Policies by separate Resolution.

EQUITY

Definition of equity

Equity will be defined as utilizing local tax revenues for projects and services that provide transportation benefits to the residents and businesses in each of the subareas generally in proportion to the level of revenues each subarea generates. Subareas may fund projects or services located outside of the geographic subarea when the project substantially benefits the residents and businesses of the funding subarea. The Financial Plan for Sound Transit activities addresses this equity principle by providing a financial plan for each of the five Sound Transit subareas, comprised of the subarea's share of local taxes, bonding capacity, farebox proceeds and an assumption for federal funding. The five subareas are defined as Snohomish County, North King County/Seattle, East King County, South King County, and Pierce County. While the Financial Plan will be managed by the Board on a consolidated basis, the Board will report annually on individual subarea performance.

The Board agrees, therefore, that the facilities, projects and services identified in all voter-approved system plans represent a reasonable definition of equity for purposes of satisfying both public policy concerns and statutory requirements. The Financial Plan for voter-approved system plans will serve as the starting point for evaluating the equity principle.

IMPLEMENTATION POLICY

Subarea reporting

1. The Financial Plan will provide projections for each of the five subareas, comprised of the subarea's projected share of local taxes, use of bonds, farebox proceeds, an assumption for federal funding and related expenditures.
2. Local taxes will be allocated for subarea reporting based on actual tax receipts collected by subarea and within the Sound Transit District. The annual Financial Plan will incorporate updated forecasts based on these actual receipts. A portion of local taxes from each subarea will be allocated to fund system-wide costs as identified by the Board.

3. For subarea reporting purposes, government funding that is received for a specific project or service will be allocated to subarea(s) on a basis consistent with the allocation of costs for the project or service, unless the Board takes action to allocate the funds to other subareas as it deems in the best interest of Sound Transit after consideration of the funding needs to complete, enhance or extend the system plan.

For subarea reporting purposes, government funding that is received that is agency-wide or general in scope will be allocated by the Board as it deems in the best interest of Sound Transit after consideration of the funding needs to complete, enhance or extend the system plan.

4. Miscellaneous revenues, such as those generated through public/private partnerships, advertising and terminal concessions will be allocated for subarea reporting based on subarea investment in the facility and/or service from which the revenue is generated.
5. Debt will be allocated for subarea reporting based on a subarea's share of total long-term bonding requirements or as otherwise directed by the Board as deemed in the best interest of Sound Transit.
6. Subarea expenditures will be allocated for subarea reporting based on facilities and services to be provided, their projected costs and project contingencies, associated operating costs, debt service, reserves for debt service, operations and maintenance and capital replacement. The allocation of expenditures for reporting purposes for facilities and services that cross subarea boundaries will be made by the Board to ensure safe and efficient operation of the system-wide facilities and services after due consideration to subarea benefits and priorities.

Monitoring function

1. Sound Transit will establish a system that on an annual basis reports subarea revenues and expenditures. This monitoring and reporting function will be incorporated into Sound Transit's financial cycle. The Board may at its discretion conduct an independent assessment of the consistency of subarea reporting with Board policy guidance.
2. Sound Transit will appoint an advisory citizen oversight committee to monitor Sound Transit performance under these policies (see Public Accountability, page B-4).

Adjustments to subarea projects and services

1. Subarea capital projects and transit services will be evaluated and adjusted annually as part of the Board's consideration and adoption of an annual budget which requires a two-thirds affirmative vote of the Board. Adjustments to subarea capital projects and services can include additional priority projects and/or services within that subarea should funding be available. This adjustment process recognizes that some fluctuation in revenues and expenditures against forecasts will occur.
2. For those cases where a subarea's actual and projected expenditures exceed its actual and projected revenues and funding sources by five percent or greater, and/or where unforeseen circumstances occur which would result in an inability to substantially complete projects within such subarea's plan, the Board shall take one or more of the following actions:
 - Correct the shortfall through use of such subarea's uncommitted funds and/or bond capacity which is available to the subarea; and/or
 - Scale back the subarea plan or projects within the plan to match a revised budget; and/or
 - Extend the time period of completion of the subarea plan; and/or
 - Seek legislative authorization and voter approval for additional resources.
3. For those cases where a subarea's actual and projected revenue to be collected until the system plan is completed will exceed its actual and projected expenditures by five percent or greater, and/or where unforeseen circumstances occur which would result in the subarea's ability to fund additional projects and services not identified in the System Plan, then Sound Transit may use such surplus funds to complete, extend or enhance the System Plan to provide transportation benefits for the subarea's residents or businesses as determined by the Board.
4. Contributions from other parties, including the State, local governments and private sector can be programmed by the Board to complete, extend or enhance the System Plan, consistent with agreements with the other party.

SYSTEM-WIDE EXPENDITURES

The Board shall fund such system-wide expenditures as necessary to maintain and plan for an integrated regional transit system consistent with voter-approved system plans. Such system-wide expenditures shall include fare integration, research and technology programs, future phase planning and agency administration and other such expenditures as determined by the Board to be appropriate. Properties authorized for purchase by the Board to preserve required right-of-way will be funded as a system-wide cost until such time as the right-of-way is utilized by a subarea(s), at which time the cost will be allocated to the subarea(s) consistent with Board approved allocation. System-wide expenditures, not funded by dedicated system-wide agency interest earnings, revenues or other specific funding sources, shall be allocated to subareas proportional to the subarea's share of total local tax revenues, population, benefits received, or on another basis as deemed appropriate by the Board.

DEBT MANAGEMENT

Legal definition of Sound Transit debt financing capacity

Sound Transit's enabling legislation defines Sound Transit's capacity for issuing general obligation debt at one and one-half percent of the value of the taxable property within the boundaries of the Sound Transit District (and with approval of three-fifths of voters voting within the Sound Transit District, up to five percent of the value of the taxable property within the district's boundaries). There is no dollar limit for revenue indebtedness.

Debt service coverage requirements

The Board recognizes that its future bondholders will hold first claim against taxes pledged as repayment for outstanding bonds. However, Sound Transit's debt financing capacity will be calculated on a more conservative basis, by evaluating all revenues and deducting total operating expenses for net revenues available for debt service.

For long-term planning purposes, Sound Transit agency debt service coverage ratio policy will be set at an average coverage ratio of 2.0x for net revenues over annual debt service costs, not to fall below 1.5x in any single year. However, as voter-approved plans are implemented, prudent changes to coverage ratios may be made by the Board as appropriate. Prior to bond issuance, Sound Transit will establish the appropriate debt service coverage ratio to incorporate into its bond covenants.

Uses of debt financing

1. Debt financing for capital projects covers two distinct types of borrowing, the first related to long-term debt financing, and the second related to short-term debt financing.
2. Short-term debt financing (with terms of ten years or less) is expected to be used primarily to bridge the gap between the necessary timing of expenditures and the anticipated receipt of revenues.
3. The use of long-term financing (with terms of more than 10 years) is expected to be limited to capital and related costs for portions of the program that have a useful life in excess of the term of the debt. Long-term financing should be preserved for those aspects of the program for which other sources of funds are not likely to be available.

Allocation of Sound Transit debt

1. For reporting purposes, the amount of long-term debt financing used to benefit each of the subareas will be based on each subarea's ability to repay debt after covering operating costs. The Board may determine appropriate debt service limits by subarea.
2. While the above policy prescribes the use of debt financing for subarea reporting, the Board will manage the agency's debt capacity on a consolidated basis so as to maximize resources between subareas.

SETTING PRIORITIES FOR EXPENDITURES

The Board will adopt expense budgets for transit operations and agency administration and maintain a multi-year capital improvement plan. A two-thirds affirmative vote of the Board is required for budget adoption. Sound Transit will establish guidelines for its budgeting process and criteria by which to establish priorities for expenditures.

FINANCIAL MANAGEMENT

Sound Transit shall maintain policies for debt and investment management, risk management, capital replacement, fares and operating expenses and grants management so as to effectively manage voter-approved revenues and efficiently operate the regional public transit system.

PUBLIC ACCOUNTABILITY

To ensure that the construction program development and implementation occurs within the framework and intent of these policies, Sound Transit will:

1. Conduct an annual independent audit of its financial statements in compliance with state and federal requirements;
2. Implement a performance audit program; and
3. Appoint and maintain an advisory citizen oversight committee, charged with an annual review of Sound Transit's performance and financial plan, for reporting and recommendations to the Board.

FUTURE PHASES

Voter approval requirement

The Board recognizes that the voter-approved taxes are intended to be used to implement the System Plan and to provide permanent funding for future operations, maintenance, capital replacement and debt service (permanent operations) for voter-approved programs and services. The Board has the authority to fund these future costs through a continuation of the local taxes authorized by the voters. However, as a part of its commitment to public accountability, the Board pledges that the local taxes will be rolled back to the level required for permanent operations and debt service after the voter-approved Sound Transit 2 (ST2) and *Sound Move* plans are completed and implemented. The rollback procedure is prescribed in the Tax Rate Rollback section. The Board further pledges that, after the voter-approved ST2 and *Sound Move* plans are completed, any subsequent phase capital programs that would continue local taxes after the System is completed at tax rates higher than necessary for permanent operations will require approval by a vote of those citizens within the Sound Transit District.

Tax rate rollback

When the voter-approved capital projects in ST2 and *Sound Move* are completed, the Board will initiate two steps to roll back the rate of sales tax collected by Sound Transit.

1. First, Sound Transit will initiate an accelerated pay off schedule for any outstanding bonds whose retirement will not otherwise impair the ability to collect tax revenues and complete ST2 or *Sound Move*, or impair contractual obligations and bond covenants. Sound Transit will implement a sales tax rollback to a level necessary to pay the accelerated schedule for debt service on outstanding bonds, system operations and maintenance, fare integration, capital replacement and ongoing system-wide costs and reserves.
2. Once all debt is retired, Sound Transit will implement a tax rollback to a level necessary to pay for system operations and maintenance, fare integration, capital replacement and ongoing system-wide costs and reserves.

Financial policies review

These Financial Policies may be amended from time to time as the Board deems necessary to implement and complete the System Plan. These policies, as they may be amended, will apply to future capital programs. The Financial Policies will be reviewed for applicability prior to any submittal of a future capital program to the Sound Transit District voters.

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