NEW ISSUE
BOOK-ENTRY ONLY

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

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the 2007A Bonds, interest on the 2007A 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 2007A Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2007A 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 2007A Bonds received by certain S corporations may be subject to tax, and interest on the 2007A Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the 2007A Bonds may have other federal tax consequences for certain taxpayers. See "TAX EXEMPTION."

SOUNDTRANSIT

$450,000,000
The Central Puget Sound Regional Transit Authority
Sales Tax Bonds, Series 2007A

Dated: Date of initial delivery **Base CUSIP No.:** 15504R **Due:** November 1, as set forth on the inside cover

The Central Puget Sound Regional Transit Authority ("Sound Transit"), a Washington regional transit authority, is issuing its Sales Tax Bonds, Series 2007A in the aggregate principal amount of $450,000,000 (the "2007A Bonds"), under a book-entry system, initially registered to Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as initial securities depository for the 2007A Bonds. Individual purchases of 2007A Bonds are to be made in authorized denominations, in book-entry form only, and purchasers will not receive certificates representing their interest in the 2007A Bonds, except as described herein. Payments of principal of and premium, if any, and interest on the 2007A Bonds are to be made to DTC by the fiscal agent of the State of Washington (currently The Bank of New York in New York, New York) (the "Bond Registrar"). Disbursement of payments to DTC participants is the responsibility of DTC and disbursement of payments to beneficial owners of the 2007A Bonds is the responsibility of DTC participants.

The 2007A Bonds are subject to redemption prior to maturity upon the terms and conditions and at the prices described herein.

The scheduled payment of principal of and interest on the Insured 2007A Bonds (as set forth on the inside cover) when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured 2007A Bonds by FINANCIAL SECURITY ASSURANCE INC.

FSA®

The 2007A Bonds are special limited obligations of Sound Transit payable from and secured solely by a pledge of the taxes described herein, including the proceeds of certain sales and use and rental car taxes imposed by Sound Transit, and amounts, if any, in certain accounts held by Sound Transit. The 2007A Bonds are not obligations of the State of Washington or any political subdivision thereof other than Sound Transit. The 2007A Bonds do not constitute a lien or charge upon any general fund or upon any money or other property of Sound Transit not specifically pledged thereto.

The pledge for the payment of the 2007A Bonds of certain taxes and certain amounts in certain accounts is subordinate to the pledge thereon securing the Prior Bonds, as described herein. Sound Transit has reserved the right to issue obligations in the future that are secured by prior or parity pledges of those taxes and the amounts in those accounts.

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

The 2007A 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, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Seattle, Washington. It is expected that the 2007A 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 December 18, 2007.

Merrill Lynch & Co. **Siebert Brandford Shank & Co., LLC**

Banc of America Securities LLC **Citi** **Lehman Brothers** **UBS Investment Bank**

November 29, 2007.

$450,000,000

The Central Puget Sound Regional Transit Authority

Sales Tax Bonds, Series 2007A

$105,675,000 Serial Bonds

Due (November 1)	Principal Amount	Interest Rate	Yield	CUSIP No. 15504R
2008	$14,555,000	5.00%	3.275%	CL1
2009†	15,000,000	5.00	3.31	CM9
2010†	3,000,000	4.00	3.31	CN7
2011†	7,335,000	5.00	3.34	CP2
2012†	7,585,000	5.00	3.40	CQ0
2013†	4,570,000	4.00	3.46	CR8
2018†	3,630,000	4.00	3.86*	CS6
2034†	50,000,000	5.00	4.49*	CV9

$125,045,000 5.00% Term Bonds due November 1, 2032† Yield 4.47%* CUSIP No. 15504R CT4

$78,075,000 5.00% Term Bonds due November 1, 2034 Yield 4.53%* CUSIP No. 15504R CU1

$141,205,000 5.00% Term Bonds due November 1, 2036 Yield 4.55%* CUSIP No. 15504R CW7

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† Insured by Financial Security Assurance Inc.

* Calculated to the par call date of November 1, 2017.

Sound Transit

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

Board of Directors

Name (Board Position)	Entity Representing	Elected/Appointed Position
John W. Ladenburg (Chair)	Pierce County	County Executive
Connie Marshall (Vice Chair)	City of Bellevue	Councilmember
Aaron Reardon (Vice Chair)	Snohomish County	County Executive
Julie Anderson	City of Tacoma	Councilmember
Mary-Alyce Burleigh	City of Kirkland	Councilmember
Fred Butler	City of Issaquah	Deputy Council President
Dow Constantine	King County	Councilmember
David Enslow	City of Sumner	Mayor
Paula J. Hammond	State of Washington	Secretary of Transportation
Richard L. Marin	City of Edmonds	Councilmember
Richard J. McIver	City of Seattle	Councilmember
Greg Nickels	City of Seattle	Mayor
Julia Patterson	King County	Council Vice Chair
Larry Phillips	King County	Councilmember
Paul Roberts	City of Everett	Councilmember
Ron Sims	King County	County Executive
Claudia Thomas	City of Lakewood	Mayor
Peter von Reichbauer	King County	Councilmember

Principal Administrative Officers

Joni Earl	Chief Executive Officer
Brian McCartan	Executive Director, Finance and Information Technology
Desmond Brown	Executive Director, General Counsel
Ahmad Fazel	Executive Director, Link Light Rail
Agnes Govern	Executive Director, Operations, Projects and Corporate Services
Ric Ilgenfritz	Executive Director, Policy, Planning and Public Affairs
Tracy Butler	Treasurer – Finance and Information Technology

Advisors and Consultants

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

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 2007A 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 2007A 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 expressly provided 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 2007A Bonds, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the 2007A 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 2007A Bonds to certain dealers (including dealers depositing 2007A Bonds into investment trusts) and others at prices lower than the initial offering prices corresponding to the yields set forth on the inside cover hereof, and such initial offering prices may be changed, from time to time, by the Underwriters, without prior notice.

CUSIP numbers are included in this Official Statement for convenience of the holders and potential holders of the 2007A Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. No assurance can be given that the CUSIP number for the 2007A Bonds will remain the same after the date of initial delivery. Sound Transit is not responsible for the selection of CUSIP numbers, nor is any representation made as to their correctness on the 2007A Bonds or as indicated herein.

Information on web site addresses set forth in this Official Statement is not included in this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor can it be relied upon in making investment decisions regarding the 2007A Bonds.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security" or the "Bond Insurer") contained under the caption "BOND INSURANCE" and Appendix F—"SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the 2007A Bonds; or (iii) the tax exempt status of the interest on the 2007A Bonds.

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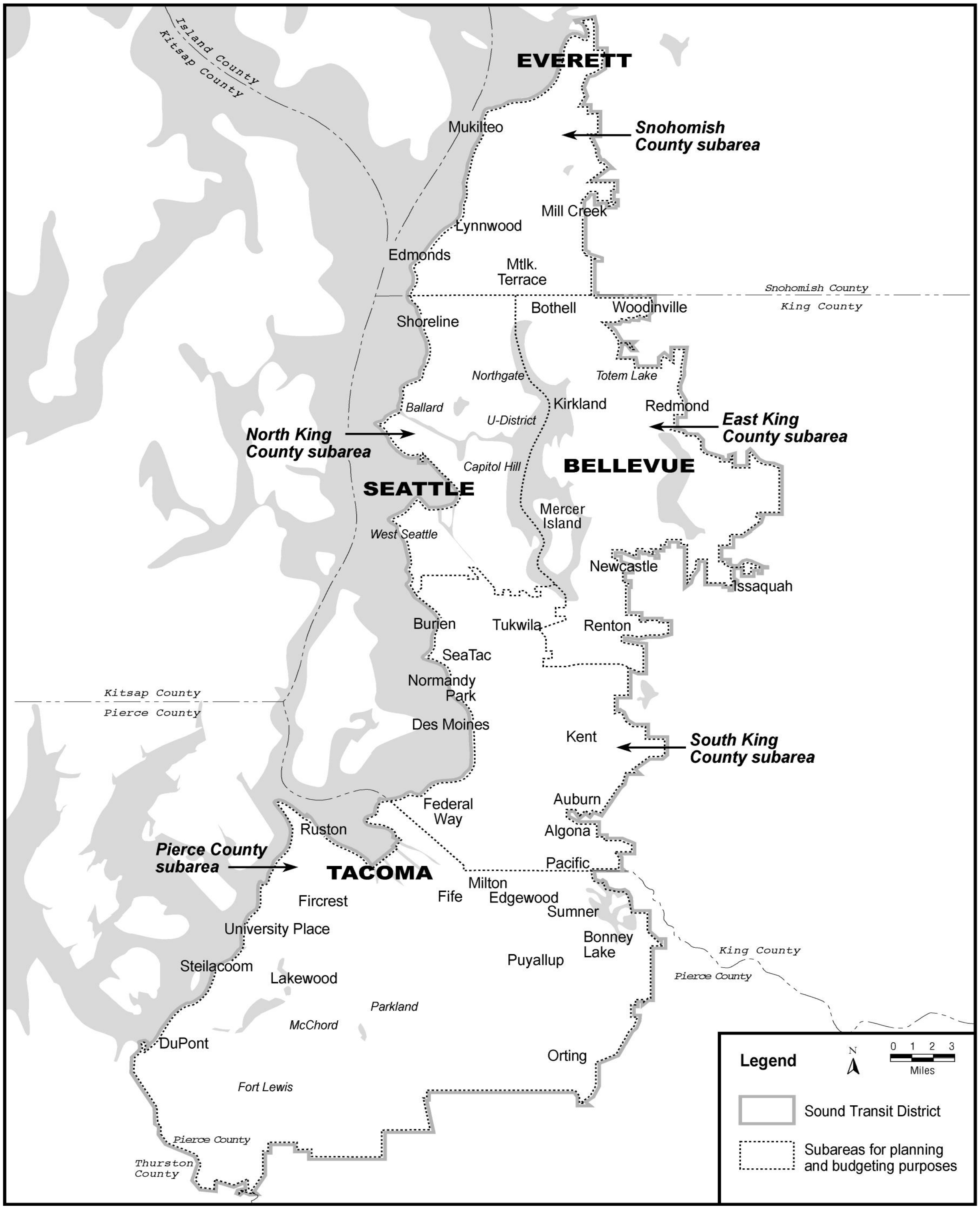
SOUND TRANSIT DISTRICT



OFFICIAL STATEMENT

$450,000,000

THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY (SOUND TRANSIT)

SALES TAX BONDS, SERIES 2007A

INTRODUCTION

This Official Statement, including the cover, inside cover and appendices hereto and any documents incorporated herein by reference, is being provided by The Central Puget Sound Regional Transit Authority ("Sound Transit"), a regional transit authority of the State of Washington (the "State"), to furnish information in connection with the issuance by Sound Transit of its Sales Tax Bonds, Series 2007A in the aggregate principal amount of $450,000,000 (the "2007A Bonds"). The 2007A Bonds, together with any obligations issued in the future secured by a pledge of Pledged Taxes on a parity with the pledge securing the 2007A Bonds (the "Future Parity Bonds") and the Sales Tax Bonds, Series 2005A (the "2005A 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 hereto, for more complete statements with respect to the matters summarized. Unless otherwise defined in this Official Statement, capitalized terms used herein have the meanings set forth in Appendix B—"FORM OF RESOLUTION NO. R2007-22—Section 1, 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. 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") has a 2006 estimated population of 2.7 million, or more than 40% 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 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 "Sound Move: The Ten-Year Regional Transit System Plan" (the "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 facilities and other improvements. The System Plan consists of three primary programs: high-occupancy-vehicle 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"). See "SOUND TRANSIT."

Purpose

The 2007A Bonds are being issued to provide funds necessary to pay or reimburse Sound Transit for the payment of a portion of the costs of planning, designing and constructing additions, betterments, extensions and improvements to Sound Transit's high capacity transportation service, as set forth in the System Plan. Proceeds of the 2007A Bonds also are expected to be used to pay the costs of issuing the 2007A Bonds. See "PLAN OF FINANCE."

Pledged Taxes

Sound Transit has obtained voter approval to impose and collect two taxes within the District: a 0.4% sales and use tax (the "Sales Tax" or "Sales and Use Tax") and a 0.3% motor vehicle excise tax (the "Motor Vehicle Tax" or "MVET"), both of which Sound Transit imposed effective April 1, 1997, together with a 0.8% rental car tax (the "Rental Car Tax"), which did not require voter approval. The Sales Tax, Motor Vehicle Tax and Rental Car Tax are referred to collectively as the "Local Option Taxes." See "SOUND TRANSIT TAXES."

In January 1999, Sound Transit issued $350 million of its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (the "1999 Bonds") to finance a portion of the System Plan and pledged all of the Local Option Taxes to payment of the Prior Bonds (as defined in "Security" under this heading), including the 1999 Bonds.

The Motor Vehicle Tax is not pledged to the payment of the Parity Bonds, including the 2007A Bonds. However, Sound Transit has pledged the Motor Vehicle Tax to the payment of the Prior Bonds, including the 1999 Bonds, which are scheduled to be retired in 2028, and for so long as the Motor Vehicle Tax is collected and is subject to the requirements of the Prior Resolution (as defined in "Security" under this heading), Sound Transit expects to use the revenue from all Local Option Taxes (including the Motor Vehicle Tax) for the purposes and in the priorities described in "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Local Option Tax Accounts, Additional Taxes Accounts and Flow of Funds," including for payment of debt service on Parity Bonds.

The Sales Tax, the Rental Car Tax and any other taxes Sound Transit may hereafter pledge to the payment of Parity Bonds are referred to collectively as the "Pledged Taxes." See "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Pledged Taxes."

On November 6, 2007, voters of the District rejected a second phase plan to be financed by the existing Local Option Taxes and an additional sales and use tax of up to 0.5%.

Security

The Parity Bonds are secured primarily by a pledge of Pledged Taxes and of certain amounts, if any, in certain accounts held by Sound Transit. The Parity Bonds are "Subordinate Lien Obligations" as that term is defined in Resolution No. R98-47 (the "Prior Resolution"), adopted by Sound Transit's Board of Directors (the "Board") on November 12, 1998, pursuant to which Sound Transit issued the 1999 Bonds. The 1999 Bonds and any obligations issued in the future under the Prior Resolution on a parity with the 1999 Bonds are referred to collectively as the "Prior Bonds."

The pledge of Pledged Taxes securing the Parity Bonds, including the 2007A Bonds, is subordinate to the pledge securing the Prior Bonds.

Sound Transit has pledged to the payment of the 2007A Bonds amounts in the Subordinate Bond Account and the Additional Taxes Accounts (as such terms are defined in "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Pledged Accounts") and proceeds of the 2007A Bonds deposited in any account created for the deposit of 2007A Bond proceeds. This pledge is a charge on the amounts in such accounts equal to the charge of any Parity Bonds thereon, and superior to all other charges of any kind or nature.

Sound Transit has also pledged to the payment of the 2007A Bonds 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. This pledge is a prior charge upon the Pledged Taxes and the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount 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 Parity Bonds. The use of Pledged Taxes to pay debt service on the Parity Bonds ranks prior to the use of Pledged Taxes to pay costs of operating and maintaining Sound Transit and its facilities.

A Subordinate Reserve Account was created pursuant to Resolution No. R2005-02 adopted by the Board on February 10, 2005, which authorized the issuance of the 2005A Bonds (the "2005A Resolution"), to secure the payment of the principal of, premium, if any, and interest on Parity Bonds for which a separate Subordinate Reserve Account Requirement has not been established. The 2007A Bonds have a separate Subordinate Reserve Account Requirement of zero. **The 2007A Bonds have no claim on the money in the Subordinate Reserve Account.**

See "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS."

Concurrently with the authorization of the 2007A Bonds, Sound Transit authorized the issuance of $100,000,000 of Future Parity Bonds. Sound Transit expects to issue those Future Parity Bonds on or prior to May 1, 2008. The resolutions authorizing the issuance of those Future Parity Bonds provide that those Future Parity Bonds may bear interest in an auction mode, daily mode, weekly mode, flexible mode, term rate mode or fixed rate mode. Sound Transit expects to issue additional series of bonds as described in "PLAN OF FINANCE—Financial Plan." Sound Transit has reserved the right to issue Prior Bonds, Future Parity Bonds and Junior Obligations as described in "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Additional Prior Bonds," "—Future Parity Bonds" and "—Junior and Other Obligations."

The scheduled payment of principal of and interest on the Insured 2007A Bonds (as set forth on the inside cover) when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2007A Bonds by Financial Security Assurance Inc. See "BOND INSURANCE" and Appendix F—"SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

Authority for Issuance

The 2007A Bonds are authorized to be issued pursuant to chapters 81.104 and 81.112 RCW, as amended (the "Act"), and chapter 39.46 RCW, together with Resolution No. R2007-22 adopted by the Board on November 8, 2007 and Resolution No. R2007-27, adopted by the Board on November 29, 2007 (collectively, the "2007A Bond Resolutions"). The 2007A Bond Resolutions, together with Resolution No. R2005-02, adopted by the Board on February 10, 2005 and Resolution No. R2005-07, adopted by the Board on March 2, 2005, which together authorized the issuance of the 2005A Bonds, are referred to collectively in this Official Statement as the "Parity Bond Resolutions."

The form of Resolution No. R2007-22, which authorizes the issuance of the 2007A Bonds, is set forth in its entirety in Appendix B—"FORM OF RESOLUTION NO. R2007-22."

PLAN OF FINANCE

Financial Plan

Sound Transit has prepared a Draft 2008 Financial Plan (the "Financial Plan") expected to be adopted by the Board in December 2007. The Financial Plan sets forth sources and uses of funds in the 1997-2016 period for all three Sound Transit services: ST Express bus service, Sounder commuter rail service and Link light rail service. The Financial Plan assumes completion of all major new capital projects included in the System Plan by 2016. Table 1 sets forth a summary of the sources and uses of funds included in the Financial Plan. See "SOUND TRANSIT—System Plan," "—Transit Operations" and "—Budgeting and Capital Planning Process."

The Financial Plan is subject to amendment from time to time. There can be no assurance that the sources and uses of funds set forth in the Financial Plan will correspond to actual sources and uses of funds for that period, and such differences may be material.

TABLE 1
FINANCIAL PLAN SOURCES AND USES OF FUNDS
1997-2016 [(1)]

Sources of Funds		
Tax Revenues [(2)]	$	6,925
Federal Grants [(3)]		1,821
Bonds [(4)]		2,398
Fares and Other Operating Revenues [(5)]		431
Local Grants and Interest Earnings		567
Total Sources of Funds	**$**	**12,143**
Uses of Funds		
Sounder Commuter Rail	$	1,268
ST Express Bus		785
Link Light Rail		4,175
Total Capital		6,229
Transit Operations [(6)]		2,712
System-wide Activities		533
Total Operations and Maintenance		3,246
Debt Service		1,218
Contribution to Reserves		1,450
Total Uses of Funds	**$**	**12,143**

(1) Millions of year-of-expenditure dollars. The average annual inflation rate for capital costs other than construction and property acquisition is assumed to be 2.6% plus, for financial planning purposes, a contingency of 1%. The average annual inflation rate for construction costs is assumed to be 3.06% plus, for financial planning purposes, a contingency of 0.5%. The average annual inflation rate for property acquisition is assumed to be 2.6% plus, for financial planning purposes, a contingency of 2%. Totals may not foot due to rounding.

(2) Local Option Taxes. Assumes an average annual growth rate of approximately 5.1% for Sales Tax and Motor Vehicle Tax and that no recession occurs.

(3) Assumes receipt of, among others, two full funding grants from the Federal Transit Administration for Link light rail totaling $1.25 billion. See "SOUND TRANSIT—Transit Operations."

(4) In addition to the 1999 Bonds and 2005A Bonds, assumes the issuance of $1.66 billion in bonds (including the 2007A Bonds) that bear interest at a blended rate of 5.0%. Concurrently with the authorization of the 2007A Bonds, Sound Transit authorized the issuance of $100,000,000 of Future Parity Bonds. Sound Transit expects to issue those Future Parity Bonds on or prior to May 1, 2008. The resolutions authorizing the issuance of those Future Parity Bonds provide that those Future Parity Bonds may bear interest in an auction mode, daily mode, weekly mode, flexible mode, term rate mode or fixed rate mode. Sound Transit has reserved the right to issue Prior Bonds, Future Parity Bonds and Junior Obligations as described in "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Additional Prior Bonds," "—Future Parity Bonds" and "—Junior and Other Obligations."

(5) Assumes fare revenues keep pace with assumed average annual inflation of 2.6%.

(6) Assumes operating expenses grow at an average annual rate (per unit of service) of approximately 4.7% per year for ST Express and Sounder and 4.1% for Link.

Source: Sound Transit.

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 2007A Bonds, are considered general obligation bonds for purposes of determining the source of authority for issuance.

Debt Capacity

Although Sound Transit has no authority to levy property taxes, its debt capacity is determined by reference to the value of taxable property within the District. Under State law, issuance of bonds payable from any type of taxes, such as the 2007A 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 securing voter approval for such debt. The 1999 Bonds and the 2005A Bonds were issued and the 2007A Bonds are being issued within this limit, without securing 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 2 sets forth the legal debt capacity for Sound Transit after giving effect to the issuance of the 2007A Bonds.

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TABLE 2
LEGAL DEBT CAPACITY
($000s) (1)

Assessed valuation in 2006 for collection of taxes in 2007	$	325,173,136
Maximum nonvoted debt (1½% of assessed valuation)		4,877,597
Less: Outstanding 1999 Bonds		341,285
Less: Outstanding 2005A Bonds		422,815
Less: Other outstanding nonvoted debt (2)		6,403
Less: 2007A Bonds		450,000
Nonvoted debt capacity remaining	$	3,657,094
Maximum voted debt (5% of assessed valuation)	$	16,258,657
Less: Aggregate outstanding nonvoted debt		770,503
Less: 2007A Bonds		450,000
Less: Outstanding voted debt		–
Voted debt capacity remaining	$	15,038,154

(1) Other than assessed valuation, as of September 30, 2007.

(2) Includes the approximate present value, as of September 30, 2007, of certain capital lease obligations. See "SOUND TRANSIT—Capital Leases."

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

Expected Sources and Uses of 2007A Bond Proceeds

The 2007A Bonds are being issued to provide funds necessary to pay or reimburse Sound Transit for the payment of a portion of the costs of planning, designing and constructing additions, betterments, extensions and improvements to Sound Transit's high capacity transportation service, as set forth in the System Plan. See "SOUND TRANSIT—System Plan." Proceeds of the 2007A Bonds also are expected to be used to pay the costs of issuing the 2007A Bonds.

Table 3 sets forth the expected sources and uses of the 2007A Bond proceeds.

TABLE 3
EXPECTED SOURCES AND USES OF 2007A BOND PROCEEDS

Sources of 2007A Bond Proceeds	
Principal of the 2007A Bonds	$450,000,000
Original Issue Premium	17,009,352
Total Sources	$467,009,352
Uses of 2007A Bond Proceeds	
2007A Bond Proceeds Account	$463,881,911
Issuance Costs (1)	3,127,441
Total Uses	$467,009,352

(1) Includes rating agency fees, financial advisor and legal fees, bond insurance premium, Underwriters' discount and other costs of issuance of the 2007A Bonds.

THE 2007A BONDS

General

The 2007A Bonds are dated the date of initial delivery, bear interest from their dated date and mature on November 1 in the years and in the amounts set forth on the inside cover of this Official Statement, subject to prior redemption as described in "Redemption and Purchase" under this heading.

The 2007A Bonds are being issued in the aggregate principal amount of $450,000,000 in denominations of $5,000 and any integral multiple thereof within a single maturity and bear interest at the rates set forth on the inside cover of this Official Statement. Interest on the 2007A Bonds is calculated on the basis of a 360-day year consisting of twelve 30-day months, and is payable on each May 1 and November 1, commencing May 1, 2008.

Payment of the 2007A Bonds

The fiscal agent of the State (currently The Bank of New York in New York, New York) will serve as initial paying agent, authenticating agent, transfer agent and registrar for the 2007A Bonds (the "Bond Registrar").

The 2007A 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 2007A Bonds. Individual purchases of 2007A Bonds are to be made in authorized denominations in book-entry form only. Purchasers will not receive certificates representing their interest in the 2007A Bonds, except as described in Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

Payments of principal of and premium, if any, and interest on the 2007A 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 2007A Bonds is the responsibility of DTC participants, all as described in Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

Interest on certificated 2007A Bonds is payable by checks, drafts, or warrants of the Bond Registrar, or, if requested in writing prior to the Record Date by the Owner of $1,000,000 or more in principal amount of 2007A Bonds, by wire, mailed or transferred on the applicable Interest Payment Date to Owners of the 2007A 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 2007A Bonds is payable on the maturity date or date fixed for redemption upon presentation and surrender of the 2007A Bonds by the Owners at the principal corporate trust office or offices of the Bond Registrar.

If any 2007A Bond is not paid when properly presented at its maturity or date fixed for redemption, Sound Transit is obligated to pay interest on that 2007A Bond at the same rate provided in that 2007A Bond from and after its maturity or date fixed for redemption until that 2007A Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Subordinate Bond Account.

Redemption and Purchase

Optional Redemption. The 2007A Bonds maturing on or after November 1, 2018, are subject to optional redemption by Sound Transit, in whole or in part (within one or more maturities to be selected by Sound Transit), in authorized denominations, at any time on or after November 1, 2017, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption, and without premium.

Mandatory Sinking Fund Redemption. The 2007A Bonds stated to mature on November 1, 2032 (the "2032 Term Bonds"), if not redeemed, purchased or defeased in accordance with the 2007A Bond Resolutions, are to be called for redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, and without premium, on November 1 in the years and principal amounts as follows:

2032 Term Bonds

Year	Principal Amount
2029	$ 4,250,000
2030	4,630,000
2031	56,665,000
2032 (maturity)	59,500,000

The $78,075,000 in aggregate principal amount of 2007A Bonds stated to mature on November 1, 2034 with CUSIP Number 15504R CU1 (the "2034 Term Bonds"), if not redeemed, purchased or defeased in accordance with the 2007A Bond Resolutions, are to be called for redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, and without premium, on November 1 in the years and principal amounts as follows:

2034 Term Bonds

Year	Principal Amount
2033	$62,475,000
2034 (maturity)	15,600,000

The 2007A Bonds stated to mature on November 1, 2036 (the "2036 Term Bonds," and together with the 2032 Term Bonds and the 2034 Term Bonds, the "Term Bonds"), if not redeemed, purchased or defeased in accordance with the 2007A Bond Resolutions, are to be called for redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, and without premium, on November 1 in the years and principal amounts as follows:

2036 Term Bonds

Year	Principal Amount
2035	$68,880,000
2036 (maturity)	72,325,000

Within each maturity, the Term Bonds to be redeemed are to be selected by the Bond Registrar by lot or in such other manner as the Bond Registrar shall determine. If Sound Transit redeems, purchases or defeases a portion of the Term Bonds of one maturity, the principal amount of the Term Bonds of that maturity so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) is to be credited against one or more scheduled mandatory sinking fund redemptions for such Term Bonds, in a manner to be determined by Sound Transit. If no such determination is made, the allocation shall be made by the Bond Registrar on a pro rata basis. In no event shall any Term Bond be Outstanding in a principal amount that is not an authorized denomination.

Partial Redemption. Whenever fewer than all of the 2007A Bonds of a single maturity then Outstanding are to be redeemed, the Bond Registrar is to select the 2007A Bonds of that maturity or portions thereof to be redeemed by lot (or in such other manner as the Bond Registrar shall determine), except that, for so long as the 2007A Bonds are registered in the name of DTC or its nominee, DTC is to select the 2007A Bonds of that maturity or portions thereof to be redeemed in accordance with the Letter of Representations. In no event shall any 2007A Bond be Outstanding in a principal amount that is not an authorized denomination.

Notice of Redemption. Notice of redemption of any 2007A 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 2007A Bonds to be given not less than 30 days nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Owner of any 2007A 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 2007A Bonds subject to a rescinded notice of redemption shall remain Outstanding, and the rescission shall not constitute a default under the 2007A Bond Resolutions.

Effect of Call for Redemption. If notice of redemption has been duly given, then on the date fixed for redemption each 2007A Bond or portion thereof so called for redemption shall become payable at the redemption price specified in such notice unless that 2007A 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 2007A 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 2007A Bond or portion thereof shall cease to be Outstanding and to be entitled to any benefit, protection or security under the 2007A Bond Resolutions, and the Owner of such 2007A Bond or portion thereof shall have no rights in respect thereof except to receive payment of the redemption price upon delivery of such 2007A Bond to the Bond Registrar.

Purchase. Sound Transit has reserved the right and option to purchase any or all of the 2007A 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 2007A Bonds

The 2007A Bonds initially are to be registered in the name of Cede & Co., as the nominee of DTC. The 2007A 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 E—"DTC AND ITS BOOK-ENTRY SYSTEM."

Neither Sound Transit 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 2007A 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 2007A Bonds, or any notice which is permitted or required to be given to Owners under the 2007A Bond Resolutions (except such notice as is required to be given by the Bond Registrar to DTC).

For as long as any 2007A Bonds are held by DTC in the book-entry system, except as otherwise provided in "BOND INSURANCE—Rights of the Bond Insurer," DTC or its nominee shall be deemed to be the Owner for all purposes under the 2007A Bond Resolutions and all references to Owners shall mean DTC or its nominee and shall not mean the owners of beneficial interests in the 2007A Bonds.

2007A Bonds surrendered to the Bond Registrar may be exchanged for 2007A Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. 2007A 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 2007A Bond during the period beginning on the date the Bond Registrar receives direction to send notice of redemption of that 2007A 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 imposed effective April 1, 1997, together with the Rental Car Tax, which did not require voter approval.

A map of the District is set forth on page iv of this Official Statement. See Appendix C—"DEMOGRAPHIC 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 a sales and use tax to generate revenues to carry out essential governmental purposes. The State has never collected 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 currently are imposed in the Counties by the State and local taxing entities at the following aggregate rates: King, between 8.5 and 9.4%; Pierce, between 7.8 and 8.8%; and Snohomish, between 8.0 and 8.9%. These rates include Sound Transit's 0.4% Sales Tax. King County has imposed an additional incremental 0.1% sales and use tax dedicated to funding mental health and substance abuse treatment services and therapeutic courts beginning in April 2008.

In 1992, the State Legislature authorized regional transit authorities to impose an incremental sales and use tax upon voter approval. Voters within the District approved imposition of the Sales Tax at a rate of up to 0.4% at an election held on November 5, 1996. Sound Transit imposed the Sales Tax at the rate of 0.4%, effective April 1, 1997, pursuant to Resolution No. 82, adopted by the Board on February 13, 1997. In 2006, Sound Transit received or accrued $259.2 million on account of the Sales Tax. See Table 4 in "Historical Pledged Tax Revenues" under this heading for historical information regarding Sound Transit's Sales Tax receipts. Sound Transit has reserved the right to reduce the rate of the Sales Tax to as low as 0.3% upon satisfaction of the conditions described in "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Other Covenants—Permissive Reduction of Sales Tax Rate."

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

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

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 entered into a ten-year contract with the DOR for the collection and disbursement of the Sales Tax and the Rental Car Tax. Under this contract, the DOR administers and collects the regional transit authority taxes from retailers and the County auditors on account of the Sales Tax and the Rental Car Tax and disburses the proceeds to Sound Transit on a monthly basis. The DOR charges no ongoing administrative fee for this service. The contract is for a ten-year period, with provision for annual renewals based on the mutual consent of the DOR and Sound Transit. The initial ten-year period expired on March 31, 2007, and the contract was renewed for a one-year period expiring March 31, 2008.

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 by entities imposed by jurisdictions in states in which such 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 retail outlet at which or from which delivery is made to the jurisdiction in which the purchaser resides.

In 2007, the State Legislature enacted the sourcing provisions, to become effective in July 2008. As a result, the shift in sales tax revenues from jurisdictions with businesses that involve delivery of goods to customers who reside in other areas to jurisdictions in which such customers reside may be substantial. The State Legislature established a mitigation account to mitigate certain effects of the sourcing provisions. After reviewing the potential impacts of the legislation and analysis produced by the DOR, Sound Transit expects the overall impact of the legislation on Sound Transit to be very small (less than 0.1% of sales tax revenues).

Rental Car Tax

General. In 1992, the State Legislature authorized regional transit authorities to impose an incremental sales and use tax if such authorities were also imposing the special motor vehicle excise taxes authorized by RCW 81.104.160(1), upon retail car rentals that are otherwise taxable by the State pursuant to chapters 82.08 and 82.12 RCW. Sound Transit imposed the Rental Car Tax upon car rentals in the District at the rate of 0.8% of the rental value, effective April 1, 1997, pursuant to Resolution No. 82. Both the Rental Car Tax and the Sales Tax are collected upon taxable retail car rentals in the District. In 2006, Sound Transit received or accrued $2.4 million on account of the Rental Car Tax. See Table 4 in "Historical Pledged Tax Revenues" under this heading for historical information regarding Sound Transit's Rental Car Tax receipts.

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

Method of Collection. The retail rental car tax is paid by the customer on the rental of a passenger car (as defined in RCW 46.04.382) for a period of less than 30 days. The base of the Rental Car Tax is the rental value of the car. Rental car companies are required by law to collect the retail rental car tax, temporarily hold the tax receipts in trust, and remit such tax receipts to the 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 Pledged Tax Revenues

Table 4 sets forth historical Pledged Tax revenues for the past nine years, as reported in Sound Transit's audited financial statements for the years 1998 through 2006.

TABLE 4
HISTORICAL PLEDGED TAX REVENUES
($000s)

Year	Sales Tax Revenue	Growth Rate	Rental Car Tax Revenue	Growth Rate	Total Revenue From Pledged Taxes	Growth Rate
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	(2.5)	2,151	(1.4)	206,718	(2.5)
2001	209,752	(1.3)	2,182	(9.1)	211,935	(1.4)
2000	212,478	8.4	2,401	(8.9)	214,879	8.2
1999	196,025	8.5	2,636	29.1	198,661	8.7
1998	180,637	–	2,042	–	182,679	–

Source: Sound Transit audited financial statements.

Motor Vehicle Tax

The Motor Vehicle Tax is not pledged to the payment of the Parity Bonds, including the 2007A Bonds. However, Sound Transit has pledged the Motor Vehicle Tax to the payment of the Prior Bonds, including the 1999 Bonds, which are scheduled to be retired in 2028, and for so long as the Motor Vehicle Tax is collected and is subject to the requirements of the Prior Resolution, Sound Transit expects to use the revenue from all Local Option Taxes (including the Motor Vehicle Tax) for the purposes and in the priorities described in "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Local Option Tax Accounts, Additional Taxes Accounts and Flow of Funds," including for payment of debt service on Parity Bonds. Sound Transit expects to issue additional series of bonds as described in "PLAN OF FINANCE—Financial Plan." Sound Transit has reserved the right to issue Prior Bonds, to which the Motor Vehicle Tax would be pledged, as described in "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Additional Prior 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, pursuant to Resolution No. 82, adopted by the Board on February 13, 1997. In 2006, Sound Transit received or accrued $70.2 million on account of the Motor Vehicle Tax. See Table 5 in "Historical Motor Vehicle Tax Revenues" under this heading for historical information regarding Sound Transit's Motor Vehicle Tax receipts. In December 2006, in response to a voter-approved initiative purporting to limit motor vehicle excise taxes, the State Supreme Court upheld Sound Transit's continued collection of the Motor Vehicle Tax. See "LITIGATION—I-776 Litigation."

Method of Collection. The values of motor vehicles are determined by the State Department of Licensing. Generally, passenger vehicles are valued at a percentage of the manufacturer's suggested retail price. The percentages are prescribed by a statute in effect at the time 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 ten-year contract with the State Department of Licensing for the collection and disbursement of the Motor Vehicle Tax. Under this contract, which expires in 2008, the Department of Licensing segregates money received from the County auditors on account of the Motor Vehicle Tax into a separate account of the State Treasury. This money is disbursed to Sound Transit on a monthly basis. Sound Transit reimburses the Department of Licensing for its actual and administrative costs in collecting the Motor Vehicle Tax.

Historical Motor Vehicle Tax Revenues

Table 5 sets forth historical Motor Vehicle Tax revenues for the past nine years, as reported in Sound Transit's audited financial statements for the years 1998 through 2006.

TABLE 5
HISTORICAL MOTOR VEHICLE TAX REVENUES
($000s)

Year	Motor Vehicle Tax Revenue	Growth Rate
2006	$70,202	5.9%
2005	66,308	2.5
2004	64,714	5.8
2003	61,189	4.9
2002	58,319	3.9
2001	56,123	(0.2)
2000 (1)	56,242	29.3
1999 (1)	43,499	(1.8)
1998	44,279	–

(1) Decrease in 1999 and increase in 2000 affected by delay in payment on the part of many vehicle owners pending an election on a voter initiative to reduce motor vehicle excise taxes.

Source: Sound Transit.

SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS

Limited Obligations

The 2007A Bonds are not obligations of the State or any political subdivision thereof other than Sound Transit. The 2007A Bonds do not constitute a lien or charge upon any general fund or upon any money or other property of Sound Transit not specifically pledged thereto.

Pledged Taxes

Pledge of Pledged Taxes. The 2007A Bonds are special limited obligations of Sound Transit payable from and secured by a pledge of the Pledged Taxes. See "SOUND TRANSIT TAXES" for more information regarding the Pledged Taxes.

Pledge of Additional Taxes. In the 2007A Bond Resolutions, 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."

Increases in Tax Rates. To the extent Sound Transit is permitted by law and authorized by the District voters, Sound Transit may impose the Sales Tax at a rate in excess of 0.4%. Sound Transit may also 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(s) will not, automatically, be subject to the pledge securing the 2007A Bonds. However, Sound Transit has reserved the right to pledge such additional tax revenue, if any, to the payment of the Parity Bonds.

On November 6, 2007, voters of the District rejected a second phase plan to be financed by the existing Local Option Taxes and an additional sales and use tax of up to 0.5%.

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

Pledged Accounts

Pledged Accounts. Sound Transit has pledged to the payment of the 2007A Bonds the following:

(1) Amounts in:

(a) the Subordinate Bond Account,

(b) any separate accounts of Sound Transit, including any separate tax stabilization accounts, into which Sound Transit deposits Additional Taxes (the "Additional Taxes Accounts"), and

(c) proceeds of the 2007A Bonds deposited in any account created for the deposit of 2007A Bond proceeds;

which pledge is a charge on the amounts in such accounts equal to the charge of any Parity Bonds thereon, and superior to all other charges of any kind or nature; and

(2) 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; which pledge is a prior charge upon the Pledged Taxes and the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount 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 Parity Bonds.

Subordinate Bond Account. The Subordinate Bond Account was created pursuant to the 2005A Resolution. The Subordinate Bond Account secures the payment of the Parity Bonds and Sound Transit's regularly scheduled payments under Parity Payment Agreements (as defined in "Payment Agreements" under this heading). The Subordinate Bond Account is pledged to the payment of Parity Bonds and Sound Transit's regularly scheduled payments under Parity Payment Agreements. For so long as any Parity Bonds remain Outstanding, Sound Transit has covenanted, subject to the Flow of Funds described in the following subsection, to set aside or cause to be set aside into the Subordinate Bond Account from Pledged Taxes:

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

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

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

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

2007 Bond Proceeds Account. Sound Transit has authorized the 2007 Bond Proceeds Account to be created to pay costs of projects and costs incidental thereto and costs incurred in connection with the issuance and sale of the 2007A Bonds.

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

Local Option Tax Accounts and Additional Taxes Accounts. Sound Transit maintains Local Option Tax Accounts pursuant to the Prior Resolution. The Prior Resolution requires that all Local Option Tax receipts be deposited into the Local Option Tax Accounts and be applied in accordance with the priorities set forth below. Under the Parity Bond Resolutions, Sound Transit continues to maintain the Local Option Tax Accounts with regard to the Local Option Taxes other than the Motor Vehicle Tax. Sound Transit may provide that Additional Taxes be deposited into Additional Taxes Accounts instead of the Local Option Tax Accounts. Sound Transit is required to use Additional Taxes deposited in Additional Taxes Accounts for the purposes and in the order of priority set forth in the Flow of Funds described below, beginning with the "*Third*" category. Amounts collected on account of the Motor Vehicle Tax are not pledged to the payment of the Parity Bonds.

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

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

Second, to make all payments required to be made into the Prior Reserve Account to meet the Prior Reserve Account Requirement (as such terms are defined in "Other Accounts—Prior Reserve Account" under this heading) and to make all payments required to be made pursuant to a reimbursement obligation in connection with a "qualified letter of credit" or "qualified insurance" (as defined in the Prior Resolution) with respect to the Prior Reserve Account Requirement;

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

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

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

(3) to make all payments required to be made pursuant to a reimbursement obligation in connection with Bond Insurance (other than Bond Insurance obtained to satisfy all or a part of the Subordinate Reserve Account Requirement (as defined in "Other Accounts—Subordinate Reserve Account" under this heading) for certain Parity Bonds, but not the 2007A Bonds, and other than to the provider of a letter of credit, standby bond purchase agreement or other liquidity facility) for the payment of the principal and/or interest on any Parity Bonds, provided, that if there is not sufficient money to make all payments under all reimbursement agreements the payments is to be made to the providers on a pro rata basis;

Fourth, to make all payments required to be made into the Subordinate Reserve Account (as defined in "Other Accounts—Subordinate Reserve Account" under this heading) that secures certain Parity Bonds, but not the 2007A Bonds, to meet the Subordinate Reserve Account Requirement and to make all payments required to be made pursuant to a reimbursement obligation in connection with Bond Insurance with respect to the Subordinate Reserve Account Requirement, provided, that if there is not sufficient money to make all payments under all reimbursement agreements the payments are to be made to the providers on a pro rata basis;

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

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

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

The Prior Resolution requires that Sound Transit make approximately equal monthly deposits into the Prior Bond Account for payment of debt service on the Prior Bonds. The Parity Bond Resolutions require that Sound Transit make deposits into the Subordinate Bond Account sufficient to pay debt service on the Parity Bonds when due.

Tax Stabilization Subaccount

The Prior Resolution authorized Sound Transit to create a Tax Stabilization Subaccount within the Local Option Tax Accounts. The Parity Bond Resolutions also authorize Sound Transit to create this subaccount, if not created under the Prior Resolution. Sound Transit may deposit Pledged Taxes into and withdraw Pledged Taxes from the Tax Stabilization Subaccount for any lawful purposes in accordance with the Flow of Funds described in the prior subsection, including for the purpose of reducing the rate of the Sales Tax as described in "Other Covenants—Permissive Reduction of Sales Tax Rate" under this heading. However, deposits into and withdrawals from the Tax Stabilization Subaccount may not be taken into account in calculating the Parity Bonds coverage test that must be satisfied as a condition to issuing Future Parity Bonds. See "Future Parity Bonds" under this heading.

Amounts in the Tax Stabilization Subaccount were pledged in the Prior Resolution to secure the payment of the Prior Bonds. Such amounts, to the extent they represent revenues from Pledged Taxes, are also pledged in the Parity Bond Resolutions to secure the payment of the Parity Bonds. Accordingly, the pledge of amounts in the Tax Stabilization Subaccount securing the Parity Bonds is subordinate to the pledge thereof securing 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, and there is no guarantee that Sound Transit will create or fund the Tax Stabilization Subaccount at any time while the 2007A Bonds are Outstanding.

Subordinate Nature of 2007A Bonds

Following the occurrence of a "Default" under the Prior 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.

"Defaults" under the Prior Resolution include: (i) a failure to make required deposits into the Prior Bond Account or the Prior Reserve Account; (ii) a failure to pay the principal of, premium on and interest on any Prior Bonds, when due (including amounts coming due pursuant to early redemption); and (iii) a failure to observe and perform other covenants, conditions and agreements contained in the Prior Resolution, which failure is not remedied within 90 days after discovery by or written notice to Sound Transit, without Sound Transit either remedying the failure within 90 days or, if such failure can be remedied, but not within such 90-day period, taking all action reasonably possible to remedy the failure.

The required deposits and payments under the Prior Resolution include debt service payments on the Prior Bonds, approximately equal monthly deposits into the Prior Bond Account, deposits into the Prior Reserve Account (to the extent of any deficiencies therein) and reimbursement payments to providers of letters of credit, insurance policies and/or surety policies that satisfy the Prior Reserve Account Requirement. The Prior Bonds are not subject to acceleration if a "Default" occurs under the Prior Resolution.

Defaults under the Parity Bond Resolutions are described in "Defaults and Remedies" under this heading.

Other Accounts

Amounts in the Prior Bond Account, the Prior Reserve Account and the Subordinate Reserve Account described below are not pledged to the payment of the 2007A Bonds. Sound Transit's obligations to fund certain of the following accounts rank higher in priority than Sound Transit's obligations to fund accounts established to pay and secure the 2007A Bonds. See "Local Option Tax Accounts, Additional Taxes Accounts and Flow of Funds" under this heading.

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

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

Certain Definitions Under the Prior Resolution. Under the Prior Resolution, the definitions of "annual debt service," "average annual debt service" and "maximum annual debt service" with respect to the Prior Bonds are substantially equivalent to those set forth with respect to the Parity Bonds in Appendix B—"FORM OF RESOLUTION NO. R2007-22—Section 1, Definitions."

Subordinate Reserve Account. The Subordinate Reserve Account was created pursuant to the 2005A Resolution to secure the payment of the principal of, premium, if any, and interest on Parity Bonds for which a separate Subordinate Reserve Account Requirement has not been established. The 2007A Bond Resolutions establish a separate Subordinate Reserve Account Requirement for the 2007A Bonds of zero. **The 2007A Bonds have no claim on the money in the Subordinate Reserve Account.**

Sound Transit has covenanted in the 2005A Resolution that on the date of issuance of each Series of Parity Bonds, it will assure that the amount on hand in the Subordinate Reserve Account will be sufficient to meet the Subordinate Reserve Account Requirement. The Subordinate Reserve Account Requirement for the Parity Bonds is the lesser of (i) Maximum Annual Debt Service and (ii) 125% of Average Annual Debt Service, provided that upon the issuance of any Series of Parity Bonds, the Subordinate Reserve Account Requirement is not required to be funded or increased by an amount greater than 10% of the proceeds of that Series; notwithstanding the foregoing, Sound Transit may establish a separate Subordinate Reserve Account Requirement for any Series of Future Parity Bonds, and amounts or 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 Subordinate Reserve Account or by Bond Insurance providing any portion of the Subordinate Reserve Account Requirement for other Parity Bonds.

In the 2005A Resolution, Sound Transit reserved the right to satisfy the Subordinate Reserve Account Requirement by deposits of cash, investments, Bond Insurance or a combination of the foregoing. Sound Transit satisfied the Subordinate Reserve Account Requirement for the 2005A Bonds by investing proceeds of the 2005A Bonds in the amount of $39,553,205.35 pursuant to a Subordinate Reserve Account Agreement with Lehman Brothers Special Financing Inc. Any deficiency created in the Subordinate Reserve Account must be made up within one year of the deficiency out of the next available Pledged Taxes (after required deposits and payments with respect to the Parity Bonds and Prior Bonds have been made under clauses *First*, *Second* and *Third* in "Local Option Tax Accounts, Additional Taxes Accounts and Flow of Funds—Flow of Funds" under this heading) or by providing Bond Insurance.

The 2005A Resolution provides that amounts in the Subordinate Reserve Account in excess of the Subordinate Reserve Account Requirement may, at Sound Transit's discretion, be withdrawn to pay debt service on the Parity Bonds or for any other lawful purpose.

Additional Prior Bonds

Sound Transit has reserved the right to issue additional series of Prior Bonds secured by a pledge of Local Option Taxes, the Local Option Tax Accounts and the Tax Stabilization Subaccount prior to the pledge securing the Parity Bonds upon compliance with each of the following conditions:

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

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

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

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

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

Sound Transit has covenanted in the Parity Bond Resolutions that it will not issue additional series of Prior Bonds unless it delivers an Authority Certificate described in “Future Parity Bonds” under this heading in addition to any certificates that may be required under the Prior Resolution.

Future Parity Bonds

Concurrently with the authorization of the 2007A Bonds, Sound Transit authorized the issuance of $100,000,000 of Future Parity Bonds. Sound Transit expects to issue those Future Parity Bonds on or prior to May 1, 2008. The resolutions authorizing the issuance of those Future Parity Bonds provide that those Future Parity Bonds may bear interest in an auction mode, daily mode, weekly mode, flexible mode, term rate mode or fixed rate mode.

Sound Transit has reserved the right to issue Future Parity Bonds secured by a pledge of Pledged Taxes equal to the pledge securing the Parity Bonds upon compliance with the following conditions:

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

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

(3) No Default has occurred and is continuing under the Parity Bond Resolutions; and

(4) Sound Transit certifies (an “Authority Certificate”), upon the issuance of the Future Parity Bonds, that:

   (i) <u>Prior Bonds Coverage Test</u>. 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 the type of Authority Certificate described in this section, the “Base Period”) were not less than 1.5 times “maximum annual debt service” (as defined in the Prior Resolution) on all Prior Bonds that will be outstanding upon the issuance of such series of Future Parity Bonds (the “Prior Bonds Coverage Requirement”); and

   (ii) <u>Parity Bond Coverage Test for Period While Motor Vehicle Tax Not Included as Pledged Taxes</u>. Pledged Taxes received during the Base Period minus any Pledged Taxes necessary to be taken into account to meet the coverage test described in clause (i) above (and after all Motor Vehicle Taxes have been applied for that purpose) were not less than 1.5 times Maximum Annual Debt Service during the period that the Motor Vehicle Tax will not be included as Pledged Taxes to secure the Future Parity Bonds; and

   (iii) <u>Parity Bond Coverage Test for Period While Motor Vehicle Tax and/or Additional Taxes Are Included as Pledged Taxes</u>. Pledged Taxes received during the Base Period minus any Pledged Taxes necessary to be taken into account to meet the coverage test described in clause (i) above were not less than 1.5 times Maximum Annual Debt Service during the period that the Motor Vehicle Tax and/or Additional Taxes will be included as Pledged Taxes to secure the Future Parity Bonds.

In preparing such an Authority Certificate:

(1) the Local Option Taxes and/or Pledged Taxes during the Base Period may be only those shown in audited or unaudited financial statements of Sound Transit;

(2) in calculating amounts received during the Base Period, Sound Transit must take into account (A) any reduction or increase in the rate of the imposition of Pledged Taxes if Sound Transit 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 (each, an "Adopted Rate Adjustment"), (B) Additional Taxes and the Motor Vehicle Tax if included as Pledged Taxes, and (C) taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Period;

(3) 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 such Future Parity Bonds is in full force and effect for the period in which they are included as Pledged Taxes;

(4) any Adopted 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 Certificate; and

(5) deposits into and withdrawals from the Tax Stabilization Subaccount during the Base Period may not be taken into account.

Sound Transit has also covenanted that it will not issue any obligations that are secured by a pledge of any or all of the Pledged Taxes subordinate to the pledge of such taxes to the Prior Bonds but senior to the pledge of such taxes to the Parity Bonds.

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

Sound Transit may issue Parity Bonds for refunding purposes without an Authority Certificate described above if, in every Fiscal Year, the Annual Debt Service on the Parity Bonds to be issued does not exceed the Annual Debt Service by more than $5,000 on the Parity Bonds to be refunded were the refunding not to occur. In addition, Parity Bonds may be issued without regard to any of the conditions for issuing Future Parity Bonds for the purpose of refunding (including by purchase) any obligations of Sound Transit (other than Junior Obligations, as defined in "Junior and Other Obligations" under this heading) for the payment of which sufficient funds are not available or are forecasted to be unavailable in the future.

Junior and Other Obligations

Sound Transit has reserved the right to issue obligations secured by a pledge of the Pledged Taxes subordinate to that of the Parity Bonds ("Junior Obligations") for any lawful purpose of Sound Transit. The maturity date of Junior Obligations may not be accelerated (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 Parity Bond Resolutions, Pledged Taxes may not be used to pay the principal of or interest on Junior Obligations unless all deposits and payments required to be made with respect to the Prior Bonds and the Parity Bonds have been fully made or paid. Sound Transit has also reserved the right to issue obligations payable from revenues of Sound Transit other than Pledged Taxes. See Appendix B—"FORM OF RESOLUTION NO. R2007-22—Section 18, Junior Obligations; Obligations with Pledge of Revenues."

Payment Agreements

Sound Transit has reserved the right to enter into written agreements for the purpose of managing or reducing its exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, asset or liability management purposes ("payment agreements"). Sound Transit further has reserved the right to make payments under payment agreements 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 issuing additional series of Prior Bonds, or to make such payments under payment agreements secured by a pledge of Pledged Taxes on a parity with the pledge securing the Parity Bonds if the payment agreement satisfies the requirements for issuing Future Parity Bonds. A payment agreement under which Sound Transit's regularly scheduled payment obligations are secured by a pledge of Pledged Taxes on an equal and ratable basis with the Pledged Taxes required to be paid into the Subordinate Bond Account to pay and secure the payment of the principal of and interest on Parity Bonds is referred to as a "Parity Payment Agreement." Amounts received by Sound Transit under Parity Payment Agreements are to be paid directly into the Subordinate Bond Account. See "SOUND TRANSIT—Payment Agreements" for a discussion regarding interest rate swaps and other payment agreements. See also Appendix B—"FORM OF RESOLUTION NO. R2007-22—Section 21, Parity Payment Agreements."

Defeasance

Sound Transit has reserved the right to defease Parity 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 2007A 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. Upon defeasance, the Defeased Bonds will 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. See Appendix B—"FORM OF RESOLUTION NO. R2007-22—Section 22, 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

Covenant to Impose Taxes. Sound Transit has covenanted in the 2007A Bond Resolutions to impose the Sales Tax at a rate of not less than 0.4% and to impose the Rental Car Tax at a rate of not less than 0.8% for so long as any 2007A Bonds remain Outstanding, except that Sound Transit may reduce the Sales Tax rate in the manner described in the following subsection. Sound Transit has further covenanted in the Parity Bond Resolutions to take all reasonable actions necessary to impose and provide for the continued collection of the Pledged Taxes and the application of those taxes for repayment of the Parity Bonds in accordance with the Parity Bond Resolutions. Sound Transit has covenanted not to take any action that would limit, terminate, reduce or otherwise impair its authority to impose the Local Option Taxes pledged to repay Prior Bonds.

Permissive Reduction of Sales Tax Rate. Sound Transit has reserved the right to reduce the rate of the Sales Tax to as low as 0.3%, provided that Sound Transit certifies (also an "Authority 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 the type of Authority Certificate described in this section, the "Base Period") were not less than 1.5 times "maximum annual debt service" (as defined in the Prior Resolution) on all Prior Bonds outstanding on the date such certification is made;

(ii) Parity Bonds Coverage Test for Period While Motor Vehicle Tax Not Included as Pledged Taxes. Pledged Taxes received during the Base Period minus any Pledged Taxes necessary to be taken into account to meet the coverage test described in clause (i) above (and after all Motor Vehicle Taxes have been applied for that purpose) were not less than 1.5 times Maximum Annual Debt Service during the period that the Motor Vehicle Tax will not be included as Pledged Taxes to secure Parity Bonds Outstanding on the date such certification is made; and

(iii) Parity Bonds Coverage Test for Period While Motor Vehicle Tax and/or Additional Taxes Are Included as Pledged Taxes. Pledged Taxes received during the Base Period minus any Pledged Taxes necessary to be taken into account to meet the coverage test described in clause (i) above were not less than 1.5 times Maximum Annual Debt Service during the period that the Motor Vehicle Tax and/or Additional Taxes will be included as Pledged Taxes to secure Parity Bonds Outstanding on the date such certification is made.

In preparing such an Authority Certificate:

(1) the Local Option Taxes and/or Pledged Taxes during the Base Period may be only those shown in audited or unaudited financial statements of Sound Transit;

(2) in calculating amounts received during the Base Period, Sound Transit must take into account any Adopted 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 Period;

(3) the Sales Tax received during the Base Period is to be adjusted to reflect the reduced rate of less than 0.4%;

(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 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 Certificate.

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

Sound Transit has covenanted in the Parity Bond Resolutions that, if it is imposing the Sales Tax at a rate less than 0.4% and if Sound Transit is unable to deliver an Authority Certificate as described above within 30 days of the end of any Fiscal Year, it shall, within 90 days of the end of that Fiscal Year, take all action required on its part to increase the rate of that Sales Tax imposed, but not to exceed the rate of 0.4% for the purpose of being able to deliver such Authority Certificate.

The Prior Resolution and the Parity Bond Resolutions do not allow for similar reductions of the Rental Car Tax and the Motor Vehicle Tax.

Other Covenants. Sound Transit has made various covenants in the Parity 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 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—"FORM OF RESOLUTION NO. R2007-22—Section 20, Covenants."

Defaults and Remedies

The following events constitute a Default under the Parity Bond Resolutions: (1) a "Default" has occurred and is continuing under the Prior Resolution; (2) failure to make required payments into the Subordinate Bond Account or Subordinate Reserve Account and such default is not remedied; (3) failure to pay principal, premium, if any, or interest when due, or to redeem Subordinate Term Bonds in the required amounts; or (4) material failure to observe 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 "Subordinate Nature of 2007A Bonds" under this heading for a summary of events that constitute a "Default" under the Prior Resolution. See also Appendix B—"FORM OF RESOLUTION NO. R2007-22—Section 25, Defaults."

Upon the event of a Default, an Owners' trustee may be appointed to exercise the rights of the Owners, all as described in the Parity Bond Resolutions. See Appendix B—"FORM OF RESOLUTION NO. R2007-22—Section 26, Remedies Upon Default." If an Owners' trustee has been appointed, the Owners' remedies may not be exercised individually by the Owners without the trustee's consent.

No Statutory Lien

The Owners of the 2007A Bonds do not have a statutory 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 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 2007A Bonds could be time consuming. Substantial delays or reductions in payments to the Owners of the 2007A Bonds could result. Even if a court determines that post-bankruptcy money in such accounts is payable to the Owners of the 2007A Bonds, subject only to the pledge and charge in favor of the Owners of the Prior Bonds, the court may permit Sound Transit to spend such money in such accounts to pay operation and maintenance costs of Sound Transit or to pay general creditors, notwithstanding any provision of the Parity Bond Resolutions to the contrary.

No Acceleration Upon Default

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

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the 2007A Bonds, Financial Security Assurance Inc. ("Financial Security" or the "Bond Insurer") will issue its Municipal Bond Insurance Policy (the "Policy") for the 2007A Bonds specified on the inside cover as being insured by Financial Security (the "Insured 2007A Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured 2007A Bonds when due as set forth in the form of the Policy set forth in Appendix F—"SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,691,965,000 and its total net unearned premium reserve was approximately $2,201,808,000 in accordance with statutory accounting principles. At September 30, 2007, Financial Security's consolidated shareholder's equity was approximately $2,975,654,000 and its total net unearned premium reserve was approximately $1,721,678,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2006 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Insured 2007A Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Insured 2007A Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Insured 2007A Bonds or the advisability of investing in the Insured 2007A Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to Sound Transit the information presented under this caption for inclusion in the Official Statement.

Rights of the Bond Insurer

The Bond Insurer has certain rights under the 2007A Bond Resolutions, including the following:

(1) The Bond Insurer is to be deemed to be the sole Owner of the Insured 2007A Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Insured 2007A Bonds are entitled to take pursuant to the 2007A Bond Resolutions pertaining to (a) defaults and remedies and (b) the duties and obligations of the Bondowners' Trustee.

(2) If Sound Transit materially defaults in the observance and performance of any of the covenants, conditions and agreements on the part of Sound Transit contained in the 2007A Bond Resolutions or any other resolution authorizing the issuance of Parity Bonds (other than a payment default relating to the Parity Bonds), and such default shall have continued for a period of 90 days after discovery by Sound Transit or written notice to Sound Transit, and if such failure can be remedied, but not within such 90-day period, the Bond Insurer will have the right in its sole discretion, with respect to the Insured 2007A Bonds, to determine whether Sound Transit has taken all action reasonably possible to remedy such failure within such 90-day period.

(3) The Bond Insurer is included as a third party beneficiary to the 2007A Bond Resolutions.

(4) Any amendment, supplement or modification to or waiver of the 2007A Bond Resolutions that requires the consent of the Owners of the Insured 2007A Bonds or adversely affects the rights and interests of the Bond Insurer is subject to the prior written consent of the Bond Insurer.

(5) Amounts paid by the Bond Insurer under the Policy will not be deemed paid for purposes of the 2007A Bond Resolutions, and the Insured 2007A Bonds relating to such payments will remain Outstanding and continue to be due and owing until paid by Sound Transit in accordance with the 2007A Bond Resolutions.

(6) The Bond Insurer will, to the extent it makes any payment of principal of or interest on the Insured 2007A Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Policy.

(7) Notwithstanding satisfaction of the other conditions to the issuance of Future Parity Bonds set forth in the 2007A Bond Resolutions, no such issuance may occur (a) if a Default (or any event which, once all notice or grace periods have passed, would constitute a Default) exists unless such default shall be cured upon such issuance and (b) unless the Subordinate Reserve Account is fully funded at the Subordinate Reserve Account Requirement (including the proposed issue) upon the issuance of such Future Parity Bonds, in either case unless otherwise permitted by the Bond Insurer.

(8) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the 2007A Bond Resolutions would adversely affect the security for the Insured 2007A Bonds or the rights of the Owners of the Insured 2007A Bonds, Sound Transit is required to consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Policy.

SOUND TRANSIT

Introduction

Sound Transit is a regional transit authority created under chapter 81.112 RCW on September 17, 1993, the date of the Board's initial meeting. 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 high occupancy vehicle lanes, which taken as a whole, provides a substantially higher level of passenger capacity, speed, and service frequency than traditional public transportation systems operating principally in general purpose roadways."

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

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

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, the cities of Seattle, Tacoma, Bellevue and Everett. The estimated 2006 population within the District was 2.7 million. (The City of Covington, with an estimated 2007 population of 17,190, is not within the District boundaries even though it is included within "urban growth boundaries" designated by King County). Sound Transit may annex adjacent areas, subject to certain conditions contained in the Act, including approval by voters within the area to be annexed. Sound Transit's service area generally encompasses the District.

System Plan

Introduction. 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.

The System Plan consists of three primary programs: high-occupancy-vehicle ("HOV") access improvements, transit centers and park-and-ride lots to support a system of ST Express regional buses, Sounder commuter rail and Link electric light rail.

Progress to Date. Sound Transit has completed construction on the Tacoma Link light rail system, seven park-and-ride facilities, nine transit centers, eleven HOV access projects and nine commuter rail stations. In addition, Sound Transit currently operates 24 ST Express bus routes, nine round-trip Sounder commuter rail trains daily and daily operations of Tacoma Link light rail. Sound Transit had over 12 million passenger boardings in 2006.

Sound Transit expects to make expenditures associated with the System Plan through 2016, and to finance those expenditures with, among other things, Local Option Taxes, federal, State and local grants, the proceeds of additional bonds, fares and other operating revenues, as well as interest earnings on money from such sources. See "PLAN OF FINANCE—Financial Plan."

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

Financial Policies. The System Plan contains Board-adopted financial policies that provide the framework for more detailed agency financial and administrative policies. The financial policies outline debt financing capacity, guidelines for setting priorities for expenditures, and public accountability standards. In addition, the financial policies establish the guidelines for monitoring and maintaining funding equity among the geographic regions that comprise Sound Transit. The policies also establish principles for maintaining a regional fund for fare integration, research and development of new technology, future phase capital development planning and agency administration.

Transit Operations

Partner Agencies. Sound Transit purchases buses and trains that are then operated and maintained by its partner agencies—King County, 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. Sound Transit's current operations contracts for ST Express buses with King County, Community Transit and Pierce Transit expire on December 31, 2009. The HOV access projects are being implemented with WSDOT. Sound Transit has entered into an operations contract for King County to operate Link light rail in King County.

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

Sound Transit currently operates 24 ST Express bus routes in the Counties. ST Express bus ridership in 2006 was 9.7 million. This compares to 8.8 million in 2005 and 8.4 million in 2004. ST Express buses currently carry more than 38,000 passengers each weekday.

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

The commuter rail system, when completed, is expected to include 12 stations. The System Plan calls for major multimodal terminals in Everett, Seattle and Tacoma. Additional major intermodal terminals, developed through a partnership between Sound Transit and other public agencies (including Washington State Ferries), are planned for the Mukilteo and Edmonds waterfronts. At the end of 2007, nine stations are expected to be in service, and the majority of track and signal improvements between Tacoma and Everett is expected to be in place. All three remaining stations are expected to be under construction, with completion expected in 2008. Sound Transit expects that construction will begin on the first stage of the Tacoma to Lakewood track and signal improvements by the end of 2007.

Sounder commuter rail service between Tacoma and Seattle began in September 2000 with two round trips on weekdays and weekend event service for Seattle Mariners baseball games. Service has gradually been expanded, and there are now six round trips between Tacoma and Seattle and three round trips between Everett and Seattle on weekdays, as well as event service on weekends.

Sounder commuter rail ridership in 2006 was 1.7 million. This compares to 1.3 million in 2005 and 0.9 million in 2004. Sounder trains currently carry more than 8,000 passengers each weekday.

Sound Transit and BNSF have entered into agreements that allow Sound Transit to operate the Sounder service on the entire 82-mile corridor from Lakewood to Everett. Sound Transit's contract with BNSF requires the completion of specific track and signal improvements to accommodate passenger service along BNSF's right-of-way and the payment of certain amounts to acquire easements from BNSF. See Note 13 in Appendix A—"AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005."

Link Light Rail. The System Plan initially envisioned a 20-mile light rail system, running from the University District in Seattle, through downtown Seattle, to just south of the Seattle-Tacoma International Airport (the "Airport") in the City of SeaTac. In November 2001, Sound Transit scaled the light rail project down to a 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 Federal Transit Administration (the "FTA") to pay a portion of the costs of this initial segment. Service on the initial segment is scheduled to begin in July 2009. In July 2005, the Board selected an alignment to extend the initial segment south to the Airport. Service to the Airport is scheduled to begin by December 2009.

In September 2001, the Board directed staff to initiate a process for developing a North Link Supplemental Environmental Impact Statement (the "EIS") and design effort to reconsider routes between downtown Seattle and Northgate. The North Link Final Supplemental EIS was completed in April 2006. That same month the Board selected the North Link project route to Northgate and selected the University Link portion of North Link from downtown Seattle to the University of Washington Station as the first phase of North Link for implementation and which assumes New Starts funding from the FTA. The University Link project has received an overall rating of "high" from the FTA, which is the highest possible rating under the Section 5309 New Starts criteria. Construction is expected to begin in late 2008 or early 2009 with operations beginning in 2016.

University Link is a three-mile light rail extension that is expected to tunnel east from the Downtown Seattle Transit Tunnel, cross under I-5 and proceed east and then north to a Capitol Hill Station serving the First Hill/Capitol Hill urban center. The tunnel route is then expected to cross 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.

Tacoma Link light rail connects downtown Tacoma with a regional transit center at the Tacoma Dome Station, where riders can transfer to Sounder commuter rail, ST Express regional buses, or local Pierce Transit buses. Tacoma Link began service in August 2003. Ridership in 2006 was 885,397. This compares to annual passenger boardings of 884,895 in 2005 and 794,582 in 2004. Tacoma Link light rail trains currently carry more than 3,000 passengers each weekday.

Governance and Organizational Structure

Sound Transit is governed by an 18-member Board of Directors (the "Board") that establishes and controls policy for Sound Transit. Seventeen of the Board members are local elected officials, appointed by the County executive and confirmed by the legislative authority of each County. The State Secretary of Transportation also serves on the Board. The local elected officials include county executives, county 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 i of this Official Statement.

None of the Board members or other officers of Sound Transit has any interest in the issuance of the 2007A Bonds that is prohibited by law.

Key Staff Biographies

Joni Earl, Chief Executive Officer. Appointed unanimously by the Board on January 25, 2001, Ms. Earl became Acting Executive Director—then CEO—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 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 is a graduate of Harvard University's State & Local Government Executive Program.

Desmond Brown, Executive Director, General Counsel. Mr. Brown joined Sound Transit in May 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 20 years 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 financed capital projects, issuing 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, Link Light Rail. Mr. Fazel joined Sound Transit in October 2000 as the Systems Engineering Manager, and became the Director of Link Light Rail a year later. With over 18 years of experience in transportation, he has specialized in approaches and management structures, engineering techniques, and procedures for implementing light rail transit projects in complex urban and urbanizing areas. Prior to joining Sound Transit, he served as the Director of Planning and Development for the Regional Transportation District in Denver, where he managed more than $500 million of capital improvement projects, including build out of Denver's first two segments of light rail. Mr. Fazel has also served as Systems Engineer for the Tri-County Metropolitan Transportation District of Oregon (Tri-Met).

Agnes Govern, Executive Director, Operations, Projects and Corporate Services. Before joining Sound Transit, Ms. Govern was the Assistant General Manager of the Snohomish County Public Utility District. She also held various management positions with METRO (now King County), including serving as acting finance director and information systems division manager. In her tenure at Sound Transit, she has directed the start-up of the ST Express service and bus capital program and has managed the bus and commuter rail capital programs. In her current role, Ms. Govern oversees the ST Express/Sounder Capital Projects Department, Transportation Services Department, Corporate Communications, Human Resources, Contracts and Rail Activation. Ms. Govern holds a master's degree in public administration from the University of Washington.

Ric Ilgenfritz, Executive Director, Policy, Planning and Public Affairs. 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.

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. Under the debt management policy, the debt service coverage ratio for financial planning purposes is to be set at an average coverage ratio of 2.0x for net revenues over annual debt service costs, not to fall below 1.3x in any single year. 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. See "Payment Agreements" under this heading. The Board may revise the Asset Liability Management Policy at any time.

Labor Relations

As of September 30, 2007, Sound Transit employed 360 permanent employees. No employees are currently represented by collective bargaining units. However, Sound Transit expects that seven employees involved in the operation of Tacoma Link will authorize representation by the Amalgamated Transit Union, Local 758. Sound Transit management believes that employee relations are satisfactory.

Pension Plans

Sound Transit provides a defined contribution money purchase plan and trust ("401(a) Plan") to its full-time employees and Board members that is administered by ICMA Retirement Corporation. Employees are responsible for directing the investment of employee and employer contributions. Sound Transit's contribution rate in 2006 on a covered payroll of $26.3 million was 12%, or $3.1 million, and the employee contribution rate was 10%, or $2.6 million. These contribution rates have remained unchanged for the past five years.

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, 2006, there was one remaining employee participating in PERS.

Risk Management

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

The central Puget Sound area has a history of seismic activity, and a number of significant known earthquake faults are located in the District. Sound Transit self-insures earthquake damage to its headquarters at Union Station. Other Sound Transit property locations are commercially insured for earthquake damage.

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

December 31, 2009, with the exception of the professional liability and contractor's pollution policy, which was extended to December 31, 2016.

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

Budgeting and Capital Planning Process

Sound Transit prepares an annual proposed budget for presentation to the Board no later than 60 days prior to the end of each Fiscal Year. The budget includes operating expenses and revenues for the upcoming Fiscal Year as well as a six-year capital plan. The six-year capital plan contains project-by-project summaries of total costs and capital outlays by phase, such as construction and property acquisition. 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 2007 was adopted by the Board on December 14, 2006.

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, 2006 AND 2005" for a summary of Sound Transit's significant accounting policies.

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

Financial Statements. Sound Transit's audited financial statements for the years ended December 31, 2006 and 2005, including the accompanying notes, are set forth in Appendix A—"AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005." 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.

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 2006, 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 2007 as part of this initiative, an audit was performed and completed on Link light rail project delivery. Follow-up performance audits of Sound Transit may be conducted when determined necessary by the State Auditor's Office.

Payment Agreements

Sound Transit is authorized by chapter 39.96 RCW and by the Prior Resolution and the Parity 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. Chapter 39.96 RCW was amended during 2004 to include Sound Transit within its scope. Sound Transit has adopted a formal policy with respect to its potential use of payment agreements. Sound Transit may amend such policy at any time.

Chapter 39.96 RCW imposes various requirements that must be satisfied before Sound Transit enters into a payment agreement. Among other requirements, Sound Transit would have to: (i) solicit and consider counterparty proposals from two or more entities that have ratings (or 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.

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

To date, Sound Transit has not entered into any payment agreement of the type authorized by chapter 39.96 RCW. See "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Payment Agreements" for a summary of requirements contained in the Parity 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, 2006, the present value of Sound Transit's future payments under the sublease was $59.9 million. Sound Transit expects that its payment obligations under the sublease will be fully satisfied from investment earnings on the amounts deposited with AIG-FP Special Finance Ltd. and AIG Matched Funding Corp. pursuant to repurchase agreements with such parties. However, such payments can be made from Local Option Taxes, if necessary. The pledge of Local Option Taxes under the sublease documents is expressly subordinate to the pledges of Local Option Taxes securing the Prior Bonds and Parity Bonds. Sound Transit will be subject to an additional, lump sum payment (which could be substantial) if it defaults or prematurely terminates any of these transactions. Sound Transit also may be subject to certain payment obligations if the counterparty to these transactions has financial difficulties.

Sound Transit has entered into other capital leases and expects to do so from time to time as a means of acquiring equipment (such as copiers) and other property. As of December 31, 2006, the present value of Sound Transit's future payments under such leases was approximately $0.5 million.

Other Obligations

Sound Transit was required by BNSF to establish a direct-pay letter of credit to secure Sound Transit's obligation to pay the capital construction costs of the Seattle-Tacoma Sounder commuter rail project and to pay any tax liabilities related to the construction and operation of that project. That letter of credit is provided by Bank of America, N.A., and was outstanding in the amount of $41.1 million as of September 30, 2007. Sound Transit has deposited money with Bank of America, N.A., to provide collateral to secure its obligations to reimburse the bank for draws under such letters of credit. As of September 30, 2007, the amount on deposit with a bank or held in investments, including interest receivable, for this purpose was approximately $46.2 million.

Debt Service Requirements

The 1999 Bonds were issued in the aggregate principal amount of $350,000,000 and remain outstanding as of September 30, 2007, in the aggregate principal amount of $341,285,000. The 2005A Bonds were issued and remain Outstanding as of September 30, 2007, in the aggregate principal amount of $422,815,000. Table 6 sets forth the annual principal and interest requirements of the 1999 Bonds, the 2005A Bonds and the 2007A Bonds, rounded to the nearest dollar. Sound Transit expects to issue additional series of bonds as described in "PLAN OF FINANCE—Financial Plan." Sound Transit has reserved the right to issue Prior Bonds, Future Parity Bonds and Junior Obligations as described in "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Additional Prior Bonds," "—Future Parity Bonds" and "—Junior and Other Obligations."

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TABLE 6
ANNUAL DEBT SERVICE REQUIREMENTS

Year	Prior Bonds Debt Service	2005A Bonds	2007A Bonds Principal	2007A Bonds Interest	2007A Bonds Total	Parity Bonds Debt Service	Aggregate Debt Service
2007	$ 21,349,188	$ 20,580,819	–	–	–	$ 20,580,819	$ 41,930,006
2008	21,340,000	20,580,819	$ 14,555,000	$ 19,465,122	$ 34,020,122	54,600,941	75,940,941
2009	21,309,258	20,705,819	15,000,000	21,660,250	36,660,250	57,366,069	78,675,326
2010	21,310,585	20,705,819	3,000,000	20,910,250	23,910,250	44,616,069	65,926,654
2011	21,298,918	26,515,819	7,335,000	20,790,250	28,125,250	54,641,069	75,939,986
2012	21,288,891	26,641,589	7,585,000	20,423,500	28,008,500	54,650,089	75,938,980
2013	21,283,101	30,039,914	4,570,000	20,044,250	24,614,250	54,654,164	75,937,265
2014	21,273,206	33,092,439	–	19,861,450	19,861,450	52,953,889	74,227,095
2015	21,266,685	37,678,376	–	19,861,450	19,861,450	57,539,826	78,806,511
2016	21,255,831	37,506,520	–	19,861,450	19,861,450	57,367,970	78,623,801
2017	21,246,581	37,370,920	–	19,861,450	19,861,450	57,232,370	78,478,951
2018	21,239,090	31,206,920	3,630,000	19,861,450	23,491,450	54,698,370	75,937,460
2019	34,770,829	37,345,870	–	19,716,250	19,716,250	57,062,120	91,832,949
2020	34,740,629	37,192,339	–	19,716,250	19,716,250	56,908,589	91,649,218
2021	34,708,479	32,005,970	–	19,716,250	19,716,250	51,722,220	86,430,699
2022	34,735,066	32,002,250	–	19,716,250	19,716,250	51,718,500	86,453,566
2023	34,707,660	32,006,500	–	19,716,250	19,716,250	51,722,750	86,430,410
2024	34,681,116	32,007,250	–	19,716,250	19,716,250	51,723,500	86,404,616
2025	34,648,341	32,007,250	–	19,716,250	19,716,250	51,723,500	86,371,841
2026	34,615,848	32,004,250	–	19,716,250	19,716,250	51,720,500	86,336,348
2027	34,580,548	31,995,250	–	19,716,250	19,716,250	51,711,500	86,292,048
2028	34,542,780	31,993,000	–	19,716,250	19,716,250	51,709,250	86,252,030
2029	–	51,974,250	4,250,000	19,716,250	23,966,250	75,940,500	75,940,500
2030	–	51,806,750	4,630,000	19,503,750	24,133,750	75,940,500	75,940,500
2031	–	–	56,665,000	19,272,250	75,937,250	75,937,250	75,937,250
2032	–	–	59,500,000	16,439,000	75,939,000	75,939,000	75,939,000
2033	–	–	62,475,000	13,464,000	75,939,000	75,939,000	75,939,000
2034	–	–	65,600,000	10,340,250	75,940,250	75,940,250	75,940,250
2035	–	–	68,880,000	7,060,250	75,940,250	75,940,250	75,940,250
2036	–	–	72,325,000	3,616,250	75,941,250	75,941,250	75,941,250
Total (1)	$ 602,192,629	$ 776,966,700	$ 450,000,000	$ 529,175,372	$ 979,175,372	$1,756,142,072	$2,358,334,701

(1) Totals may not foot due to rounding.

Source: Sound Transit.

Historical Operating Results

Table 7 sets forth a summary of revenues, expenses and changes in net assets for the past five years, as reported in Sound Transit's audited financial statements for the years 2002 through 2006. Notes to Table 7 are set forth on the following page.

TABLE 7
HISTORICAL REVENUES, EXPENSES AND CHANGES IN NET ASSETS
($000s)

	2002	2003	2004	2005	2006
Operating Revenues					
Passenger fares	$ 9,225	$ 11,625	$ 13,205	$ 16,483	$ 18,052
Other operating revenue	2,146	3,403	3,403	3,376	3,431
Total Operating Revenues	**11,371**	**15,028**	**16,608**	**19,859**	**21,483**
Operating Expenses					
Operations and maintenance	52,006	60,423	70,870	81,103	89,134
General and administrative	17,961	17,467	15,987	16,690	18,471
Loss on disposal of assets	–	–	108	8	3
Depreciation, amortization and accretion	14,352	17,570	22,956	34,477	33,486
Total Operating Expenses	**84,318**	**95,460**	**109,921**	**132,278**	**141,094**
Loss from Operations	**(72,947)**	**(80,432)**	**(93,313)**	**(112,419)**	**(119,611)**
Non-Operating Revenues (Expenses)					
Sales Tax	204,566	206,665	219,020	239,785	259,164
Motor Vehicle Tax	58,319	61,189	64,714	66,308	70,202
Rental Car Tax	2,151	2,182	2,166	2,245	2,427
Investment income	42,923	20,020	10,626	26,090	37,277
Capital lease and other revenues	802	1,173	15	5	62
Non-operating expenses (1)	(4,169)	(1,807)	(14,592)	(15,789)	(12,358)
Interest expense	(199)	(203)	(74)	(252)	(436)
Discontinued and impaired projects (2)	(660)	(106)	(194)	(6,330)	(5,944)
Loss on change in interlocal agreement (3)	–	–	(4,584)	–	–
Loss on disposal of assets	–	369	(920)	(353)	–
Total Non-Operating Revenues, Net	**303,731**	**288,744**	**276,177**	**311,709**	**350,394**
Income Before Capital Contributions	**230,784**	**208,312**	**182,864**	**199,290**	**230,783**
Capital contributions to other governments (4)	(41,536)	(4,443)	(99,118)	(55,888)	(72,750)
Federal capital contributions	78,088	26,879	68,842	135,393	130,445
Other capital contributions	9,754	6,689	27,617	7,092	14,080
Net Capital Contributions	**46,306**	**29,125**	**(2,659)**	**86,597**	**71,775**
Changes in Net Assets Before Cumulative Effect Adjustment	**277,090**	**237,437**	**180,205**	**285,887**	**302,558**
Cumulative effect of accretion expense	–	–	–	211	–
Change in Net Assets	277,090	237,437	180,205	285,676	302,558
Total Net Assets, Beginning of Year	**1,364,314**	**1,641,404**	**1,878,841**	**2,059,046**	**2,344,722**
Total Net Assets, End of Year	**$ 1,641,404**	**$ 1,878,841**	**$ 2,059,046**	**$ 2,344,722**	**$ 2,647,280**

(1) Includes mitigation payments, planning for future projects and fare integration subsidies paid to other transit agencies.
(2) Includes discontinued projects in 2005 associated with a change in Link alignment and writeoffs in 2006 due to design errors and overhead related to postponed projects.
(3) In 2005, Sound Transit executed a substitute interlocal agreement with the City of Seattle relating to Sound Transit's commitment to fund certain community development. Certain aspects with respect to timing and source of funding were changed that resulted in amounts previously receivable being charged to other expenses.
(4) Pursuant to capital funding agreements, Sound Transit provides funding to or constructed assets for various governments or their subsidiaries for transit-related capital improvements.

Source: Sound Transit audited financial statements.

Prior Bonds Historical Debt Service Coverage. Table 8 sets forth historical debt service coverage for the 1999 Bonds (the outstanding Prior Bonds) for the past five years. There is no guarantee that future Local Option Taxes will be collected in amounts that are consistent with those shown set forth in Table 8. Sound Transit has reserved the right to issue additional Prior Bonds as described in "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Additional Prior Bonds."

TABLE 8
HISTORICAL DEBT SERVICE COVERAGE ON PRIOR BONDS
($000s)

	2002	2003	2004	2005	2006
Sales Tax	$204,566	$206,665	$219,020	$239,785	$259,164
Rental Car Tax	2,151	2,182	2,166	2,245	2,427
Motor Vehicle Tax	58,319	61,189	64,714	66,308	70,202
Total Local Option Taxes	$265,036	$270,036	$285,900	$308,338	$331,793
Maximum annual debt service on the 1999 Bonds (1)	$34,771	$34,771	$34,771	$34,771	$34,771
Debt service coverage (2)	7.62x	7.77x	8.22x	8.87x	9.54x

(1) See "Debt Service Requirements" under this heading.
(2) Local Option Taxes divided by maximum annual debt service on the 1999 Bonds.

Source: Sound Transit.

Parity Bonds Historical Debt Service Coverage. Table 9 sets forth historical debt service coverage for the 2005A Bonds (the Outstanding Parity Bonds). There is no guarantee that future Pledged Taxes will be collected in amounts that are consistent with those set forth in Table 9. Sound Transit expects to issue additional series of bonds as described in "PLAN OF FINANCE—Financial Plan." In addition to the 2007A Bonds, Sound Transit has reserved the right to issue Prior Bonds, Future Parity Bonds and Junior Obligations as described in "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Additional Prior Bonds," "—Future Parity Bonds" and "—Junior and Other Obligations."

TABLE 9
HISTORICAL DEBT SERVICE COVERAGE ON PARITY BONDS
($000s)

	2002	2003	2004	2005	2006
Sales Tax	$204,566	$206,665	$219,020	$239,785	$259,164
Rental Car Tax	2,151	2,181	2,166	2,245	2,427
Total Pledged Taxes	206,717	208,847	221,186	242,030	261,591
Less: Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement, after all Motor Vehicle Taxes have been applied for that purpose (1)	–	–	–	–	–
Pledged Taxes available for debt service on the 2005A Bonds	206,717	208,847	221,186	242,030	261,591
Motor Vehicle Tax	58,319	61,189	64,714	66,308	70,202
Less: debt service on Prior Bonds	(17,164)	(17,164)	(17,164)	(17,164)	(21,348)
Local Option Taxes available for debt service on the 2005A Bonds	$247,872	$252,872	$268,736	$291,174	$310,445
Maximum Annual Debt Service (2)	–	–	–	$51,974	$51,974
Debt service coverage:					
Pledged Taxes (3)	–	–	–	4.66x	5.03x
Local Option Taxes (4)	–	–	–	5.60x	5.97x

(1) Equal to zero in each year, because Motor Vehicle Taxes in each year exceeded the Prior Bonds Coverage Requirement (1.5 times maximum annual debt service on the Prior Bonds). **The Motor Vehicle Tax is not pledged to the payment of the Parity Bonds.** However, Sound Transit has pledged the Motor Vehicle Tax to the payment of the Prior Bonds, including the 1999 Bonds, which are scheduled to be retired in 2028, and for so long as the Motor Vehicle Tax is collected and is subject to the requirements of the Prior Resolution, Sound Transit expects to use the revenue from all Local Option Taxes (including the Motor Vehicle Tax) for the purposes and in the priorities described under "SECURITY AND SOURCES OF PAYMENT FOR THE PARITY BONDS—Local Option Tax Accounts, Additional Taxes Accounts and Flow of Funds," including for payment of debt service on Parity Bonds.

(2) See "Debt Service Requirements" under this heading.

(3) Pledged Taxes available for debt service on the 2005A Bonds, divided by Maximum Annual Debt Service on the 2005A Bonds.

(4) Local Option Taxes available for debt service on the 2005A Bonds, divided by Maximum Annual Debt Service on the 2005A Bonds.

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 eight percent (initiatives) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Regular gubernatorial elections occur every four years, with the last such election held in November 2004.

An initiative or referendum measure will be enacted if it is approved by a majority of those voting on the measure. Laws enacted in this manner may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the 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, there have been numerous initiatives and referenda approved by the State's voters that have sought to modify laws pertaining to taxation and revenue. Some of these have been ruled to be unconstitutional by the State's Supreme Court. Others have not.

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

LITIGATION

I-776 Litigation

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. However, because Motor Vehicle Tax revenues were expressly pledged to the 1999 Bonds, the State Department of Licensing continued to collect and remit the Motor Vehicle Tax unless and until the courts were to rule that the Department of Licensing should not do so.

In December 2006, in *Pierce County v. State*, 159 Wn.2d 16 (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 reaffirmed Sound Transit's authority to continue collecting the full amount of the Motor Vehicle Tax as long as the 1999 Bonds remain outstanding.

According to the Court's 8-1 opinion: "The purpose of the contract clause is to lend certainty to the reliability of contractual pledges. Such certainty is essential to the ability of state and local governments to obtain credit through the capital markets. We find that [I-776] reduced the Sound Transit bondholder's security. Accordingly, we hold that [I-776] impermissibly impairs the contractual obligations between Sound Transit and the bondholders. Thus, I-776 has no legal effect of preventing Sound Transit from continuing to fulfill its contractual obligation to levy the [Motor Vehicle Tax] for so long as the bonds remain outstanding."

Sheehan v. Sound Transit

In *Sheehan v. Central Puget Sound Regional Transit Authority*, 155 Wn.2d 790 (2005), plaintiffs challenged the constitutionality of the Motor Vehicle Tax. Plaintiffs alleged that the Motor Vehicle Tax is a property tax rather than an excise tax, and therefore exceeds the legislative authority granted to Sound Transit and is otherwise preempted by State laws. Upon losing in King County Superior Court, the plaintiffs appealed directly to the State Supreme Court. In November 2005, the State Supreme Court held, among other things, that the State Constitution allows the State Legislature to grant municipal entities such as Sound Transit the authority to levy and collect excise taxes for local purposes, that the Motor Vehicle Tax was properly authorized and is a valid excise tax rather than a property tax, and that annual collection of the Motor Vehicle Tax is authorized by law.

Other Litigation

On November 21, 2007, Sound Transit received a letter requesting documents related to Sound Transit's financial policies. The request implied that if Sound Transit did not comply with the document request, litigation related to issuance of the 2007A Bonds might follow. Sound Transit intends to comply with all validly filed public disclosure requests consistent with its obligations under law. Sound Transit has received similar letters in the past from the individual that filed the November 21 request and determined that the claims included in the letter are without merit.

In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to personnel, contractual and condemnation matters. Although the ultimate effect, if any, of these matters is not presently determinable, Sound Transit's management believes that, collectively, they will not have a material effect on Sound Transit's ability to pay debt service on the 2007A Bonds.

No Litigation Concerning the 2007A 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 2007A Bonds or in any way contesting the validity of the 2007A Bonds or any proceedings of Sound Transit taken with respect to the issuance or sale thereof, or the power of Sound Transit to collect any of the Pledged Taxes, except as described in this Official Statement.

TAX EXEMPTION

General

Exclusion From Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the 2007A Bonds, interest on the 2007A 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 2007A Bonds in order to maintain the exclusion of the interest on the 2007A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2007A Bond proceeds and the facilities financed or refinanced with 2007A Bond proceeds, limitations on investing gross proceeds of the 2007A Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the 2007A Bonds. Sound Transit has covenanted in the Parity Bond Resolutions to comply with those requirements, but if Sound Transit fails to comply with those requirements, interest on the 2007A Bonds could become taxable retroactive to the date of issuance of the 2007A 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 2007A 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 2007A 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 2007A 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 2007A Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the 2007A 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 2007A 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 2007A Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the 2007A Bonds could adversely affect the market value and liquidity of the 2007A Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the 2007A 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 2007A Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the 2007A Bonds may have other federal tax consequences as to which prospective purchasers of the 2007A Bonds may wish to consult their own tax advisors.

CONTINUING DISCLOSURE

Pursuant to SEC Rule 15c2-12, Sound Transit has undertaken for the benefit of holders of the 2007A 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, 2007 (the "Annual Financial Information"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Financial Information will be filed by or on behalf of Sound Transit with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with the State Information Depository for the State, if any (the "SID"). Notices of material events will be filed by or on behalf of Sound Transit with the NRMSIRs or with the Municipal Securities Rulemaking Board ("MSRB"), and with the SID, if any. Sound Transit's undertaking to provide continuing disclosure is set forth in Appendix B—"FORM OF RESOLUTION NO. R2007-22—Section 27, Continuing Disclosure."

Sound Transit entered into written undertakings to provide continuing disclosure for the 1999 Bonds and the 2005A 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 2007A Bonds by Sound Transit are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. See "ADVISORS AND CONSULTANTS—Bond Counsel." The form of approving opinion of Bond Counsel is set forth in Appendix D. Certain legal matters will be passed upon for Sound Transit by its General Counsel and by Foster Pepper PLLC, which is also serving as Disclosure Counsel. Certain legal matters will be passed upon for Sound Transit by its General Counsel, Desmond Brown. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Seattle, Washington ("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 2007A Bonds.

RATINGS

Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, are expected to assign their municipal bond ratings of "Aaa" and "AAA," respectively, to the Insured 2007A Bonds, based on the insurance policy to be issued concurrently with the delivery of the Insured 2007A Bonds by Financial Security Assurance Inc., and have assigned their underlying municipal bond ratings of "Aa3" and "AAA," respectively, to the 2007A Bonds. No application was made to any other rating agency for the purpose of obtaining an additional rating on the 2007A Bonds. Each rating reflects only the view of the applicable rating organization and an interpretation of such rating may be obtained only from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 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 agencies, circumstances so warrant. Any such revision or withdrawal of either such rating may have an adverse effect on the market price of the 2007A Bonds.

UNDERWRITING

The 2007A Bonds are to be purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of itself, Siebert Brandford Shank & Co., LLC, Banc of America Securities LLC, Citigroup Global Markets Inc., Lehman Brothers Inc. and UBS Securities LLC (collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the 2007A Bonds at a price equal to the principal amount thereof, plus an original issue premium of $17,009,352.10, less an aggregate underwriting discount of $2,180,299.00. The bond purchase contract for the purchase of the 2007A Bonds provides that the Underwriters will purchase all the 2007A Bonds if any 2007A Bonds are purchased. The Underwriters may offer and sell the 2007A Bonds to certain dealers (including dealers depositing 2007A Bonds into investment trusts) and others at prices lower than the initial offering prices corresponding to the yields set forth on the inside cover hereof, 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 2007A Bonds. The State fiscal agency contract is bid out by the State Treasurer on competitive basis for a four-year term. The current contract expires January 31, 2011. The Bank of New York currently serves in this capacity, with Wells Fargo Bank Northwest, N.A., serving as co-fiscal agent. For so long as the 2007A Bonds are held by DTC in the book-entry system, the beneficial owners of the 2007A Bonds must transfer their ownership interests, and will receive payments on the 2007A Bonds, in the manner set forth in Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

Bond Counsel. Foster Pepper PLLC, Seattle, Washington ("Bond Counsel"), was selected to serve as Sound Transit's bond counsel pursuant to a request for proposal process. The term of such appointment is for five years. Foster Pepper PLLC also is serving as disclosure counsel to Sound Transit in connection with the issuance of the 2007A Bonds. Bond Counsel will be compensated from the proceeds of the 2007A Bonds when and if such bonds are issued. Bond Counsel has been retained to provide additional legal services to Sound Transit. Sound Transit does not believe such additional representation of Sound Transit impedes the ability of Bond Counsel to render independent judgment regarding the legality of the 2007A Bonds. From time to time Bond Counsel represents certain of the Underwriters on matters unrelated to Sound Transit or to the 2007A Bonds.

Financial Advisor. Sound Transit selected Public Financial Management, Inc. to serve as its financial advisor in conjunction with the issuance of the 2007A 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, 2006 and 2005, have been audited by KPMG LLP and are set forth in Appendix A—"AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005." 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.

MISCELLANEOUS

The descriptions herein of the Prior Resolution, the Parity 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. The descriptions of the Parity Bond Resolutions and the 2007A Bonds contained in this Official Statement are qualified by reference to bankruptcy laws affecting the remedies for enforcement of the rights and security provided therein and the effect of the exercise of the police power by any governmental entity having jurisdiction.

This Official Statement is not to be construed as a contract or agreement between Sound Transit and the Owners of any of the 2007A 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, 2006 AND 2005

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SOUNDTRANSIT

Central Puget Sound Regional Transit Authority

Financial Statements for the Years Ended December 31, 2006 and 2005 and Independent Auditors' Report

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit) have been prepared from the Agency's accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including estimates and 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 2006 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	Brian McCartan	Kelly A. Priestley
Chief Executive Officer	*Chief Financial Officer*	*Controller*

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006 and 2005

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, 2006 and 2005. 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 implementation of the initial phase of the voter-approved regional transportation system ("*Sound Move*") is scheduled for a 20-year period, ending in 2016. In anticipation of a full funding grant agreement for University Link, this represents an extension of the Ten-Year Regional Transit System Plan previously scheduled to complete in 2009. The agency's activities to date have been concentrated on implementing service in all three transit modes and on the design, environmental review and construction of its capital projects.

Sound Transit's financial statements have reflected a growth in operating revenues and expenses each year, as well as growth in capital projects in progress and property, vehicles and equipment. As the Agency has not reached its full service levels and is in the construction phase on its light rail project, major sources of revenue exceed expenses resulting in a rising net asset position.

Financial Highlights

- Total operating revenues were $21.5 million for 2006, an increase of 8.2% from the prior year. Passenger fares increased by $1.6 million from the prior year as a result of large ridership gains on Sounder and ST Express.
- Total operating expenses, excluding depreciation and gains or losses on disposal of assets, were $107.6 million, an increase of $9.8 million or 10.0% from the prior year.
  - Operations and maintenance expenses increased by $8.0 million. This increase reflects the full year impact of service increases on Sounder, a 4% increase in service levels on ST Express, as well as unit cost increases in the price of fuel and labor.
  - General and administrative expenses, after allocations to capital projects and operations and maintenance, increased by $1.8 million. This reflects a write-off of overhead for the permanent Tukwila Sounder station, the construction of which has been delayed to the next phase of *Sound Move.*
- Non-operating revenues (expenses) were up $38.7 million from the prior year, reflecting higher tax revenues that increased by $23.5 million and higher investment income which increased by $11.2 million, as the economy continues to perform strongly, rising interest rates in 2005 and available cash balances remained high.
- Capital contributions decreased by $14.8 million, with federal, state and local contributions to Sound Transit increasing by $2.1 million and the value of transfers to other governments increasing by $16.9 million.
- Total net assets at December 31, 2006, were $2.6 billion, an increase of $302.6 million or 12.9% from 2005. This increase was up from an increase in 2005 of $285.7 million or 13.9% from 2004. The

higher increase in net assets in 2006 from 2005 is a result of higher net non-operating revenues (expenses) less higher contributions to other governments.

- Total capital assets, net of accumulated depreciation, were $2.9 billion at December 31, 2006, an increase of $593 million or 26.0% from 2005. The increase in total capital assets reflects an increase in capital projects in progress as construction moves forward on the Link light rail projects, additional land acquisitions for light rail and further progress on the Sounder track and facilities projects. In 2006, $227.6 million in rail access right expenditures and completed projects were transferred to depreciable assets or expensed as capital contributions to other governments.

Overview of the Financial Statements

Sound Transit's financial statements are prepared in conformity with United States generally accepted accounting principles ("GAAP") as applied to government units. The 2006 financial statements are presented using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are shown.

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

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

Financial Analysis

Net Assets

Sound Transit's total net assets at December 31, 2006, were $2.6 billion, an increase of $302.6 million or 12.9% from 2005 (see Table A-1). Total assets increased $300.3 million or 8.9% while total liabilities decreased slightly. The increase in total assets reflects capital spending activity. This compares to total net assets of $2.3 billion at December 31, 2005, which was an increase of $285.7 million from 2004 that also related to increased capital spending.

Table A-1

Sound Transit Net Assets

(in millions)	As of December 31,			% Change	
	2006	**2005**	**2004**	**2006-2005**	**2005-2004**
Current assets, excluding restricted assets	$ 587.1	$ 679.5	$ 550.7	(13.6)	23.4
Restricted assets	142.1	335.3	170.1	(57.6)	97.2
Capital assets	2,870.4	2,277.5	1,773.6	26.0	28.4
Other non-current assets	67.9	74.9	67.4	(9.3)	11.1
Total Assets	**3,667.5**	**3,367.2**	**2,561.8**	**8.9**	**31.4**
Current liabilities, excluding interest payable from restricted assets	162.9	155.0	82.6	5.1	87.7
Interest payable from restricted assets	10.5	10.6	7.2	(0.7)	48.0
Long-term debt	779.8	791.2	353.1	(1.4)	124.1
Other long-term liabilties	67.0	65.7	59.9	2.0	9.8
Total Liabilities	**1,020.2**	**1,022.5**	**502.8**	**(0.2)**	**103.3**
Net Assets					
Invested in capital assets, net of related debt	2,085.8	1,674.9	1,422.4	24.5	17.8
Restricted net assets	131.6	131.8	162.9	(0.2)	(19.1)
Unrestricted net assets	429.9	538.0	473.7	(20.1)	13.6
Total Net Assets	**$ 2,647.3**	**$ 2,344.7**	**$ 2,059.0**	**12.9**	**13.9**

Current assets, excluding restricted assets, decreased in 2006 by 13.6% from 2005. This decrease was substantially due to a decrease in investments of $175.8 million and decreased receivables of $18.1 million. Investment balances decreased as the agency funded its construction program. In 2005, current assets increased by 23.4% from 2004, substantially due to increased cash, cash equivalents and investments of $117.4 million and receivables of $9.5 million. The increased cash and investment balances in 2005 reflected additional available cash as bond proceeds from the 2005A Sales Tax bond issue were available to fund construction spending.

Restricted assets decreased in 2006 by 57.6% from 2005, as $201.0 million in proceeds from the 2005 bond issuance were spent in 2006, and payments were made to BNSF for construction out of funds restricted under contractual agreement. In 2005, restricted assets increased by 97.2% from 2004 related to the bond proceeds that were not fully spent down within that year.

Capital assets increased in 2006 by $592.9 million or 26.0% from 2005, reflecting Sound Transit's ongoing capital program activity as construction progressed on projects. This compares to an increase of $503.9 million in 2005 from 2004, also a result of progress in the capital program. In 2006, Sound Transit capitalized $707.2 million ($586.6 million in 2005) in design, construction, acquisition, interest and general and administrative costs allocated to capital projects in progress. The Central Link light rail project is in full construction, representing $530.7 million of amounts capitalized in 2006 or 75.0% of total capital spending, while the Sounder and ST Express programs approach completion of several major program elements. In 2005, $431.2 million for Central Link was capitalized to capital projects in progress or 73.5% of capital spending.

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Transfers out of capital projects in progress were $235.9 million ($165.7 million in 2005) as projects were completed and transferred to property, vehicles and equipment or expensed as follows:

(in millions)	2006	2005
Transferred to property, vehicles and equipment	$ 154.8	$ 103.5
Expensed to contributions to other governments	72.8	55.9
Transferred to recoverable costs or inventory	-	(1.0)
Write-off of overhead, discontinued and impaired project costs and loss on disposal of assets	8.3	7.3
	$ 235.9	**$ 165.7**

There were no discontinued projects in 2006; however, structural cracking related to a design error was identified on the Totem Lake Freeway Station project, and $5.9 million in costs were considered impaired and were written off. Also written off was $2.4 million in overhead of which $1.4 million related to the Tukwila Sounder station, as full build out of the permanent station has been postponed to the second phase of *Sound Move*. In 2005, $6.3 million in costs were included in discontinued projects that did not have continuing value with the change in alignment for North Link in 2005. Management annually reviews costs incurred to date on all projects and those costs not having continuing value are written-off.

Direct additions to property, vehicles or equipment in 2006 were $2.2 million, which included $1.3 million in transit facilities and equipment, $0.2 million in administrative fleet vehicles, and $0.7 million in furniture and office equipment. Direct additions in 2005 were $15.7 million and included $3.6 million in land contributions from Washington State under the Land Bank agreement, $1.7 million in asset retirement obligations related to Tacoma Link and Sounder stations in South King and Pierce County, delivery to Sound Transit of $6.5 million in buses for ST Express and $1.6 million in regularly scheduled computer and related software replacements and replacement of the Agency's phone system.

The Land Bank agreement provides credits in recognition of projects constructed by Sound Transit that benefit the State and may be used toward future purchases or leases by Sound Transit of state-owned land or airspace. The value of Land Bank credits at December 31, 2006, were $150.3 million and 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 2006 and 2005.

(in millions)	2006	2005
Balance in Land Bank, beginning of year	$ 68.1	$ 72.9
Credits:		
Totem Lake Freeway Station	56.0	-
Federal Way Direct Access	24.6	-
Lynnwood SR-99 and Lynnwood Transit Center	3.7	-
Ashway Park & Ride	1.1	-
Draws:		
Link (Airport, Central and North alignment)	(2.7)	(1.1)
ST Express (Federal Way HOV, S. Everett Freeway Station, Mercer Island Park & Ride, Issaquah and Lynnwood Transit Centers)	(0.5)	(3.7)
Balance in Land Bank, end of year	**$ 150.3**	**$ 68.1**

Offsetting the increase in capital spending, accumulated depreciation increased in 2006 by $33.4 million from 2005 and by $33.7 million in 2005 from 2004. In addition, in 2006 $1.3 million of land cost was transferred to land held for resale for transit-oriented development, and $0.9 million of land cost was capitalized to the Federal Way Transit Center project as a result of a property boundary adjustment by the City of Federal Way. In 2005 $2.5 million in assets were disposed of including $1.7 million in land exchanged with the University of Washington and $0.8 million for the agency's phone system and copiers under capital lease.

Current liabilities, in 2006, excluding interest payable from restricted assets increased by 5.1%, reflecting a significant increase in other liabilities related to increased construction claims, which more than offset decreased accounts payable as several Link construction contracts approach completion. Current liabilities in 2005 increased by 87.7% from 2004, reflecting the award of significant contracts for the Central Link project at the end of 2004 for which most of the construction activity was still in the start up phase.

Long-term debt decreased by 1.4% reflecting the repayment of $4.3 million of the 1999 Bonds and a $6.0 million payment on the BNSF promissory notes. Long-term debt increased 124.1% between 2005 and 2004 reflecting the issuance of the 2005A Sales Tax Bonds ("2005 Bonds") in March, 2005 and a promissory note made to BNSF.

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

Net Assets

(in millions)	As of December 31,			% Total Net Assets		
	2006	2005	2004	2006	2005	2004
Invested in capital assets, net of related debt	$ 2,085.8	$ 1,674.9	$ 1,422.4	78.8	71.4	69.1
Restricted net assets	131.6	131.8	162.9	5.0	5.6	7.9
Unrestricted net assets	429.9	538.0	473.7	16.2	23.0	23.0
Total Net Assets	**$ 2,647.3**	**$ 2,344.7**	**$ 2,059.0**	**100.0**	**100.0**	**100.0**

Invested in capital assets represents the agency's investment in property, construction in progress and depreciable net assets used in its operations, net of any related debt. As a percentage of total net assets, it increased from the prior year by 7.4% in 2006 and 2.3% in 2005 respectively. The increase reflects agency spending on its capital program, however, was more significant in 2006 as the agency did not issue new bonds in in that year for funding for its program.

Restricted net assets represents assets restricted for use by the agency for a specific purpose, the most significant of which include funds restricted by letter of credit to BNSF and unspent bond proceeds. As a percentage of net assets, they decreased from the prior year by 0.6% in 2006 and 2.3% in 2005 as the BNSF Seattle-to-Tacoma segment funded by Sound Transit progressed and bond proceeds from the 2005A bond issue were fully spent.

Unrestricted net assets are the remainder of net assets not invested in capital nor restricted for a specific purpose. As a percentage of total net assets, they decreased from the prior year by 6.8% in 2006 reflecting the agency's spending on its capital program and increase in capital assets, but were comparable between 2005 and 2004 as capital expenditures were partially funded from the 2005A bond proceeds.

Changes in Net Assets

Changes in net assets reflect the excess of revenue over expenditures for a year. In 2006 net assets increased by $302.6, as compared to an increase in 2005 of $285.7 million and $180.2 million in 2004 (see

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Table A-2). The greater increase in 2006 than 2005 reflects Sound Transit's higher non-operating revenues and expenses which increased by $38.7 million while positive net capital contributions decreased by $14.8 million and the agency's loss from operations increased by $7.2 million. The greater increase in net assets in 2005 from 2004 reflects positive net capital contributions which increased by $89.2 million and non-operating revenues and expenses which increased by $36.2 million while loss from operations increased by $19.7 million.

The increase in loss from operations reflects an increase in service with increased operating revenues of 8.2% in 2006 and 19.6% in 2005; however, this was more than offset by total operating expenses, which increased 6.7% in 2006, and 21.0% in 2005.

Table A-2

Changes in Sound Transit Net Assets

(in millions)	For the Year Ended December 31,			% Change	
	2006	**2005**	**2004**	**2006-2005**	**2005-2004**
Operating Revenues					
Passenger fares	$ 18.1	$ 16.5	$ 13.2	9.5	24.8
Other	3.4	3.4	3.4	1.6	(0.8)
Total Operating Revenues	21.5	19.9	16.6	8.2	19.6
Operating Expenses					
Total operating expenses, before depreciation and loss on disposal of assets	107.6	97.8	86.2	10.0	13.4
Depreciation and loss on disposal of assets	33.5	34.5	23.1	(2.9)	49.5
Total operating expenses	141.1	132.3	109.3	6.7	21.1
Loss from operations	(119.6)	(112.4)	(92.7)	6.4	21.3
Non-operating revenues, net of expenses	350.4	311.7	275.5	12.4	13.2
Income before capital contributions	230.8	199.3	182.8	15.8	9.0
Capital contributions	71.8	86.6	(2.6)	(17.1)	3,484.0
Change in Net Assets, before cumulative effect adjustment	302.6	285.9	180.2	5.8	58.6
Cumulative effect adjustment	-	(0.2)	-	-	-
Change in Net Assets	302.6	285.7	180.2	5.9	58.5
Total net assets, beginning	2,344.7	2,059.0	1,878.8	13.9	9.6
Total Net Assets, ending	$ 2,647.3	$ 2,344.7	$ 2,059.0	12.9	13.9

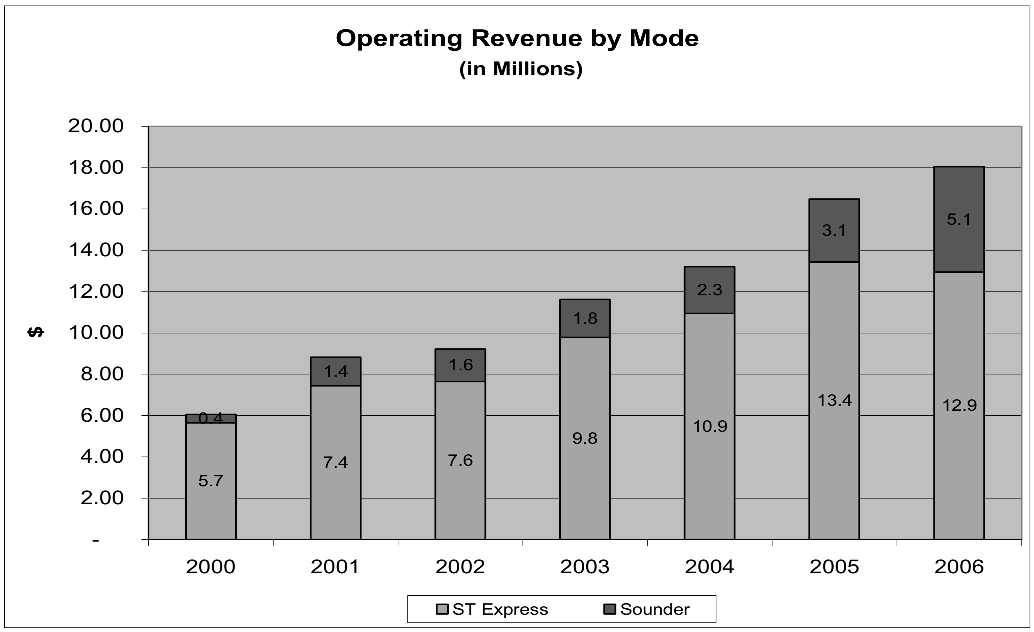
Operating Revenues

Operating revenues are composed of passenger fares and other revenue related to operations.

Passenger Fare Revenue

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

The following chart displays revenue by mode from 2000 to 2006:



Sounder rail passenger revenue increased $2.0 million or 67.5% from 2005 and by $0.8 million or 35.0% in 2005 over 2004. Ridership for the same periods increased by 425 thousand boardings or 33.5% in 2006 and 313 thousand boardings or 32.7% in 2005. The increase in revenue from 2005 is attributable to the increase in boardings and an increase in the average fare per boarding ("AFB"). The change in the AFB reflects changes to the regional Puget Pass program and a change in the agency's methodology to calculate the AFB between modes whereby greater pass revenue is now attributed to Sounder commuter rail. The AFB on Sounder in 2006 was $3.02, while it was $2.41 in 2005 and $2.39 in 2004. The ridership increase on Sounder in 2006 and 2005 reflects both higher per train ridership and additional round-trip service between Everett-to-Seattle beginning in June 2005 and between Tacoma-to-Seattle in September 2005, as well as the initial Everett-to-Seattle service in December 2003, which was provided at no cost until February, 2004.

ST Express bus passenger revenue decreased by $0.5 million or 3.6% from 2005 and increased by $2.5 million or 22.7% in 2005 over 2004. Ridership for the same period increased by 862 thousand boardings or 9.8% in 2006 and 422 thousand boardings or 5.0% in 2005. The decline in revenues earned in 2006 while boardings increased is due to the change in the agency's methodology used to calculate the AFB by mode, which decreased by $0.18. Given the large ridership base on this service, increased ridership was not sufficient to offset the lower AFB in 2006. The AFB on ST Express was $1.34 in 2006, $1.52 in 2005 and $1.30 in 2004. In 2005 ST Express fare prices were increased by $0.25, effective in June of that year.

Ridership on ST Express throughout the system was favorably impacted both in 2006 and 2005 by the impact of rising cost of fuel and increased congestion in the region, which has made public transportation a more attractive alternative. In addition, a service route was added between the new Federal Way Transit Center and downtown Seattle, beginning in February 2006. In 2006 and 2005 service hours increased by approximately 3.0%.

Service on Tacoma Link, a free fare service, was at essentially the same level as in 2005. The first full year of service for Tacoma Link was in 2004.

Ridership numbers by year and mode of transportation are as follows:

Ridership

(in thousands)				% Increase	
	2006	**2005**	**2004**	**2006-2005**	**2005-2004**
Sounder	1,693.0	1,268.0	955.3	33.5	32.7
Link	885.6	884.9	794.6	0.1	11.4
ST Express	9,677.6	8,815.8	8,394.3	9.8	5.0
Total	**12,256.2**	**10,968.7**	**10,144.2**	**11.7**	**8.1**

Other Operating Revenues

Other operating revenues consist of vehicle advertising, rental of equipment and facilities and other miscellaneous revenue. Other revenues of $3.4 million were comparable to 2005 and 2004.

Operating Expenses

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

Operations and Maintenance

Operations and maintenance, which increased in 2006 by $8.0 million or 9.9% from 2005 and by $10.2 million or 14.4% between 2005 and 2004, includes costs associated with the operation of the Sounder commuter rail, Link light rail in Tacoma and ST Express bus services. Major expense categories are services, materials, supplies, utilities, insurance, taxes, purchased transportation, allocated overhead from staff divisions and operating leases and rentals. Purchased transportation represents amounts paid to BNSF, Community Transit, King County Department of Transportation and Pierce Transit who operate Sound Transit's commuter rail and express bus service, accounting for 69% of this category (68% in 2005 and 70% in 2004). Services are the next largest expenditure in this category and include the Sounder vehicle maintenance contracted to Amtrak and various contracts for facilities maintenance at Sound Transit-owned facilities.

Operations and maintenance costs by mode are as follows:

Operations and Maintenance

(in millions)				% Increase	
	2006	**2005**	**2004**	**2006-2005**	**2005-2004**
Sounder	$ 22.7	$ 21.1	$ 15.9	7.8	32.1
Link	2.9	2.8	2.6	3.4	6.0
ST Express	63.5	57.2	52.4	11.0	9.3
Total	**89.1**	**81.1**	**70.9**	**9.9**	**14.4**

Sounder's costs increased in 2006 by $1.6 million or 7.8%, while in 2005 costs increased by $5.2 million or 32.1%. These cost increases reflect additional train service with a second round-trip service added on the North Line in June 2005 and a fourth round-trip service on the South Line in September 2005. Also impacting the increase from 2004 to 2005, the hourly rate for service paid to purchased transportation providers for the second round-trip added in the North was double the rate that was paid for the first round-trip. This increased service contributed to ridership increases of 33.5% and 32.7% in 2006 and 2005 respectively. Another factor in cost increases in 2006 was a spike in fuel costs, with per gallon increases of more than 27% over rates in 2005.

Link costs for operating the free fare Tacoma light rail service remain relatively constant, only increasing by $0.1 million in 2006 or 3.4% and by $0.2 million or 6.0% in 2005. Ridership increased by 0.1% and 11.4% for those same periods.

ST Express costs increased in 2006 by $6.3 million or 11.0% while in 2005 costs increased by $4.8 million or 9.3%. Major service additions in 2006 on ST Express included the new Route 577 between Federal Way and Seattle. Major service improvement initiated in 2004 between East Redmond and Seattle and along the SR-167 corridor resulted in a continued increase in 2005 of overall service hours provided of 3.1%. Finally, increases in fuel costs contributed to increased costs in both years.

General and Administrative

General and administrative expenses are comprised of Agency staff and administrative costs not allocated to operations and maintenance or to capital projects. Major expense categories include wages, benefits, services, materials, supplies, utilities, insurance, taxes, miscellaneous, lease and rental expenses. In 2006, net general and administrative expenses increased by $1.8 million or 10.7% and in 2005 by $1.4 million or 8.8%.

General and Administration

(in millions)				% Increase	
	2006	**2005**	**2004**	**2006-2005**	**2005-2004**
Total General and Administrative cost before allocations	$ 46.0	$ 46.2	$ 45.0	(0.5)	2.8
Allocations to Operations	(6.5)	(5.9)	(5.4)	10.5	8.9
Allocations to Capital Projects	(23.4)	(24.2)	(24.6)	(3.3)	(1.6)
Project overhead written off	2.4	0.6	0.3	296.0	81.0
Net General and Administrative	**18.5**	**16.7**	**15.3**	**10.7**	**8.8**

Before allocation to capital projects and operations, total agency staff and administrative costs for 2006 were comparable to 2005. In 2005, general and administrative costs before allocations increased from 2004 by $1.2 million or 2.8%, primarily in the area of salaries and advertising as vacant positions from 2004 were filled and advertising efforts were increased to promote public transportation.

General and administrative costs allocated to capital projects and transit operations include staff-related costs of those divisions and an allocation of agency overhead based on activity drivers and relative level of effort. Total general and administrative costs allocated to capital projects and transportation services have remained relatively constant and were $29.9 million in 2006, $30.1 million in 2005 and $30.0 million in 2004. Over time, the relative proportion of overhead allocated to transportation services has increased slightly each year, and decreased for capital projects, as service increases and capital program activity for commuter rail and express bus service approaches completion for Phase 1.

As projects approach completion, allocated overhead costs are reviewed, and any excess costs are written off. In 2006, $2.4 million in overhead costs with no continuing value were written off, primarily related to postponement of construction of the Tukwila Sounder Station project. In 2005, $0.6 million of costs were written off and $0.3 million in 2004.

Depreciation

Depreciation expense decreased in 2006 by $1.0 million or 2.9% from 2005 ($11.4 million or 49.5% in 2005 from 2004). The reduction is largely due to certain assets that are continuing to be left in service for a few additional years.

Non-Operating Revenues (Expenses)

Non-operating revenues (expenses) are substantially comprised of tax revenues, investment income and certain expenses not related to operation of the agency's three modes of operations. Net non-operating revenues increased in 2006 by $38.7 million or 12.4% from 2005, with non-operating revenues increasing by $34.7 million or 10.4% and non-operating expenses decreasing by $4.0 million or 17.5%, as presented in the following table:

Non-operating Revenues and Expenses

(in millions)	2006	2005	2004	% Increase 2006-2005	% Increase 2005-2004
Non-operating revenues					
Sales tax	$ 259.2	$ 239.8	$ 219.0	8.1	9.5
Motor vehicle excise tax	70.2	66.3	64.7	5.9	2.5
Rental car tax	2.4	2.2	2.2	8.1	3.7
Investment income	37.3	26.1	10.6	42.9	145.5
Other revenues	0.0	0.0	0.0	-	-
Total	**$ 369.1**	**$ 334.4**	**$ 296.5**	**10.4**	**12.8**
Non-operating Expenses					
Non-operating expense	12.4	15.8	15.2	(21.7)	3.8
Interest expense	0.4	0.2	0.1	186.2	105.2
Discontinued/impaired projects	5.9	6.3	0.2	(6.1)	3,164.5
Loss on change in interlocal	-	-	4.6	-	(100.0)
Loss on disposal of assets	-	0.4	0.9	(100.0)	(61.6)
Total	**18.7**	**22.7**	**21.0**	**(17.5)**	**8.3**
Non-operating Revenues and Expenses	**350.4**	**311.7**	**275.5**	**12.4**	**13.2**

The most significant impact on non-operating revenues has been stronger tax revenues that improved by $23.5 million over the prior year and $22.4 million in 2005 over 2004. This performance reflects the continued strengthening of the regional economy from prior years. In addition, investment earnings increased by $11.2 million in 2006 and $15.5 million in 2005 as rising interest rates peaked toward the end of 2005, together with higher average investment balances in 2005 and a more favorable impact of measuring the agency's investments at fair market, as required under generally accepted accounting principles, than in 2005.

Other non-operating expenses include supplemental mitigation in the Rainier Valley, Phase II planning, costs not eligible to be capitalized, fare integration subsidies to other transit agencies, discontinued and impaired project costs and losses not related to operations. In 2006, there were fewer Phase II planning costs than anticipated due to the delay in the ballot measure for the next phase of the agency's capital plan which was postponed to 2007. Also, fare integration payments have been significantly reduced under the amended agreement for regional pass products.

Capital Contributions

Net capital contributions decreased in 2006 by $14.8 million from 2005 and increased in 2005 by $89.3 million from 2004. Capital contributions include federal grant funding, state and local contributions to Sound Transit, as well as contributions from Sound Transit to state and local governments pursuant to capital improvement or funding agreements. The following table summarizes capital contributions by major category:

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Capital Contributions

(in millions)	2006	2005	2004	% Increase 2006-2005	2005-2004
Federal	$ 130.5	$ 135.4	$ 68.9	(3.6)	96.4
State and local governments	14.1	7.1	27.6	98.5	(74.3)
To other goverments	(72.8)	(55.9)	(99.1)	30.2	(43.6)
Total	**$ 71.8**	**$ 86.6**	**$ (2.6)**	**(17.1)**	**(3,484.0)**

Federal contributions for 2006 remained strong, but decreased by $4.9 million from 2005. Grant funding reimbursements for the Central Link project increased by $14.4 million and ST Express project reimbursements also increased by $8.8 million; however, Sounder project and agency operations and planning reimbursements decreased by $20.8 million and $7.3 million, respectively. In 2005 there was $24.4 million in grant funding for the Everett-to-Seattle Corridor projects and $6.8 million of grant funding related to the procurement of hybrid buses. Federal contributions increased by $66.6 million in 2005 from 2004 reflecting increased grant reimbursements for the Central Link project which went into full construction in 2005, as well as the Sounder reimbursement for cost incurred in the Everett-to-Seattle corridor and hybrid buses. Central Link reimbursements represent 69.2 % of federal funds earned in 2006, 56.0% in 2005 and 67.7% in 2004. The Central Link grant reimbursements are pursuant to a $500 million full funding grant agreement for which annual appropriations are designated within the federal budget. To date spending on the project is sufficient that the agency can fully draw down each year.

State and local government contributions increased by $7.0 million in 2006 from 2005 and decreased by $20.5 million in 2005 from 2004. In 2006 contributions included $8.8 million from the Port of Tacoma and the City of Tacoma related to the D Street to M Street project, $1.0 from the City of Issaquah for the Issaquah Transit Center project and $3.2 million in State Land Bank contributions. In 2005 state and local contributions included $2.0 million from King County Metro for the Kent Station garage and $4.8 million in acquisitions through the Land Bank with the State of Washington. In 2004 contributions from the state under the Land Bank Agreement were $26.7 million, substantially for the North light rail alignment.

Sound Transit contributions to other governments increased by $16.9 million from 2005. In 2006 project funding provided or projects completed for other governments included: Federal Way HOV Access/317th; Eastgate Transit Access/142; and Sammamish Park and Ride/228th SE. In 2005 funding provided and projects completed and transferred to other governments included: the Ash Way Transit Access/164th St SW; the SR900 Park-and-Ride Arterial Improvements; and the Issaquah Highlands Park and Ride. The $43.2 million decrease in contributions to other governments in 2005 from 2004 relates to the completion of two very significant projects in 2004, Bellevue and Lynnwood HOV. As contributions are dependent upon the timing and scope of project activities there may be significant fluctuations from year to year.

Capital Assets

At December 31, 2006, Sound Transit had invested $2.9 billion in capital assets, net of accumulated depreciation, which included $700.5 million of depreciable assets in service ($656.4 million in 2005 and $598.4 million in 2004). This represents a net increase in depreciable assets of $44.1 million, or 6.7%, over 2005 ($58.0 million or 9.7% in 2005 over 2004).

Table A-3

Sound Transit Capital Assets *(net of depreciation)*

(in millions)	As of December 31, 2006	2005	2004	% Change 2006-2005	2005-2004
Land	$ 290.9	$ 269.1	$ 247.1	8.1	8.9
Permanent easements	216.7	161.0	158.1	34.6	1.8
Capital projects in progress					
Sound Transit	1,558.5	1,071.1	690.3	45.5	55.2
Other governments	103.8	119.9	79.7	(13.4)	50.4
Total Non-Depreciable Assets	2,169.9	1,621.1	1,175.2	33.9	37.9
Buildings, transit facilities & rail	236.2	206.9	209.3	14.1	(1.1)
Rail access rights	288.9	262.6	198.5	10.0	32.3
Revenue vehicles	172.1	182.8	186.5	(5.9)	(1.9)
Equipment, vehicles & other	3.3	4.1	4.1	(19.6)	(0.5)
Total Depreciable Assets	700.5	656.4	598.4	6.7	9.7
Total Net Capital Assets	**$ 2,870.4**	**$ 2,277.5**	**$ 1,773.6**	**26.0**	**28.4**

Land increased by $21.8 million in 2006 from 2005, which included transfers or purchases of $17.8 million for Sounder stations, $6.1 million in properties along the Central Link segment less $1.3 million classified to land held for resale for transit-oriented development and the capitalization of $0.9 million in costs related to the Federal Way Transit Center project. These transfers were pursuant to agreements entered into with the City and a property boundary adjustment, respectively. The significant additions for Sounder include a transfer from capital projects in progress of the balance of the cost of the Nisqually to Lakewood South Line and land for the South Tacoma Station. In 2005, land increased by $22.0 million from 2004, which included $6.5 million in acquisitions for the Central Link segment, $13.7 million for Sounder and $3.6 million for ST Express for Tukwila and Lakewood commuter stations and the Mercer Island Park & Ride and Issaquah Transit Center.

Permanent easements increased by $55.7 million in 2006 and included the acquisition of the third easement from BNSF in the Everett-to-Seattle corridor for $50.0 million and a permanent easement from the Port of Seattle for the Airport Link project for $5.7 million. In 2005, permanent easements of $2.9 million were acquired and related to easements acquired from the University of Washington for the Central Link light rail line and from the City of Everett for Everett Station.

Activity on capital projects in progress is summarized in the following table:

Table A-4
Major capital project activities from 2006 and 2005:

	Sounder	Link	ST Express
2006	▪ Track and signal projects on Everett to Seattle; Seattle to Auburn; Auburn to Tacoma; and D street to M Street	▪ Central Line (CPS to 126th; Downtown & Beacon Hill tunnels; Martin Luther King Way; 126th to 154th) ▪ Tukwila Alignment ▪ Airport Link (154th to 160th; and 160th to 170th) ▪ North Link (UW to Brooklyn) ▪ Beacon Hill & McClellan Stations ▪ E3 Busway ▪ Traction Power System ▪ Operations and Maintenance Base ▪ Light Rail Vehicles	▪ Totem Lake Freeway Station ▪ Eastgate Transit Access ▪ Issaquah Transit Center ▪ Mercer Island Park and Ride.
2005	▪ Track and signal projects on all segments ▪ Lakewood Right of Way ▪ Lakewood Station ▪ Reservation to Freighthouse Square	▪ Central Line (45th to CPS; CPS to 154th; Downtown & Beacon Hill tunnels; Martin Luther King Way; 154th to 200th) ▪ Tukwila Alignment ▪ Beacon Hill & McClellan Stations ▪ E-3 Busway ▪ Traction Power System ▪ Operations and Maintenance Base ▪ Light Rail Vehicles	▪ Federal Way Transit Center ▪ HOV Access (Federal Way; and Eastgate) ▪ Totem Lake Freeway Station ▪ Issaquah Highlands Park & Ride

Buildings, transit facilities, and rail increased by $29.3 million from 2005. Assets capitalized during the year include the Federal Way Transit Center and the Sammamish Park and Ride. In 2005, buildings and transit facilities decreased by $2.4 million, reflecting depreciation charges in excess of additions. Additions in 2005 included the temporary Sounder platform at Tukwila Station, as well as asset retirement costs for the Sounder stations in South King County and Pierce County.

Rail access rights increased by $26.3 million from 2005 which increased by $64.1 million from 2004. Rail access costs reflect the cost of acquiring rights from BNSF for the Tacoma-to-Seattle and Everett-to-Seattle segments. In the Tacoma-to-Seattle corridor, these rights are acquired in an amount equal to the funding of necessary track and signal improvements on the line. In addition, these costs include Sound Transit's direct and indirect costs related to the planning and design, environmental management and permitting. As the agency is utilizing the rail, these costs are capitalized as charges are incurred.

Revenue vehicles decreased by $10.7 million and equipment, vehicles and other decreased by $0.8 million. Both categories reflect depreciation charges in excess of additions. In 2005, revenue vehicles decreased by $3.7 million from 2004 also reflecting depreciation charges in excess of additions. There were no significant fleet additions in 2006 or 2005. Equipment, vehicles and other includes office furniture and equipment, as well as administrative vehicles.

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

Management's Discussion and Analysis, continued

Long-Term Debt

In March, 2005, the agency issued sales tax bonds with a par value of $422.8 million at a net premium of $20.8 million for net proceeds before bond issue costs of $443.6 million. Total bond issue costs were $4.1 million. The agency also has outstanding sales and motor vehicle excise tax bonds issued in 1999, with a par value of $345.7 million, for a total par value issued and outstanding at December 31, 2006, of $768.5 million ($772.8 million in 2005). Sound Transit made its first principal payment in 2006 for the 1999 Bonds in the amount of $4.3 million. The 1999 Bonds have been rated as Aa3 by Moody's Investor Services, Inc. and AAA by Standard & Poor's (upgraded from AA in 2006) and the 2005 Bonds Aa3 and AA+ (upgraded from AA- in 2006), respectively.

Under state law, issuance of bonds payable from any type of taxes is subject to statutory debt limitations. Sound Transit is currently authorized to incur debt in an amount equal to 1-1/2 percent of the value of taxable property within the service area, without securing voter approval for bonds. With the approval of 60 percent of the region's voters, Sound Transit may incur aggregate indebtedness of up to 5 percent of the value of taxable property within the service area. Based on the 2005 assessed valuations for collection of 2006 taxes, Sound Transit's non-voter approved remaining debt capacity is $4.2 billion and its voter approved remaining debt capacity is $15.8 billion.

Economic Conditions

Sound Transit has experienced, and will continue to be exposed to the risks of, price increases in labor and key construction commodities. A number of key inputs for capital project construction have seen significant price increases over the past three years. Overall, materials and components for construction have risen an average of 4.4% per year from 1970-2006, but almost twice that level at 7.5% per year from 2003-2006. Factors most frequently cited for these price increases include strong worldwide economic growth, particularly in China and India, secondary impacts of rising oil prices on other commodities, relatively low U.S. dollar, low or disrupted supplies, and lack of adequate worldwide shipping. In addition, the high level of construction activity in the Puget Sound region has also reduced the supply of construction labor as well as the availability of construction firms to submit bids for public construction contracts. These price and supply pressures significantly impacted Sound Transit construction bids in 2006, with several key projects coming over initial engineering estimates. In particular, the agency received only a single bid, significantly over the engineer's estimate, for the Airport Station for Link light rail. The agency will continue to be subject to these market forces in the years ahead.

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Independent Auditors' Report

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

We have audited the accompanying basic financial statements of Central Puget Sound Regional Transit Authority (a public corporation acting under the service name of Sound Transit), as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of Sound Transit's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2006 and 2005, and its changes in financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 15, 2007, on our consideration of the Sound Transit's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

The Management's Discussion and Analysis on pages 1 through 15 is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP

June 15, 2007

BALANCE SHEETS

(in thousands)	December 31	
	2006	**2005**
ASSETS		
Current Assets		
Cash and cash equivalents *(Note 3)*	$ 215,768	$ 116,466
Restricted assets *(Note 3)*	7,919	8,817
Investments *(Note 3)*	280,095	455,856
Taxes and other receivables *(Notes 4 and 7)*	79,231	97,344
Other	12,055	9,820
Total Current Assets	**595,068**	**688,303**
Non-Current Assets		
Capital assets, net of accumulated depreciation *(Note 5)*	2,870,397	2,277,570
Restricted assets *(Note 3)*	134,190	326,463
Investment held to pay capital lease obligation *(Note 6)*	59,925	59,083
Long-term receivables *(Note 7)*	36	4,577
Unamortized bond issuance costs	6,015	6,446
Prepaid expense and deposits	1,910	4,771
Total Non-Current Assets	**3,072,473**	**2,678,910**
Total Assets	**$ 3,667,541**	**$ 3,367,213**
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities *(Note 8)*	$ 100,544	$ 121,841
Deferred receipts	3,594	3,471
Interest payable from restricted assets	10,511	10,582
Current portion, long-term debt *(Note 9)*	10,246	10,116
Current portion, capital lease obligation *(Note 6)*	191	177
Other	48,310	19,380
Total Current Liabilities	**173,396**	**165,567**
Non-Current Liabilities		
Long-term debt *(Note 9)*	779,828	791,198
Capital lease obligations *(Note 6)*	60,270	59,588
Other long-term obligations *(Note 10)*	6,767	6,138
Total Non-Current Liabilities	**846,865**	**856,924**
Total Liabilities	**1,020,261**	**1,022,491**
Commitments and Contingencies *(Notes 6, 10, 12, 13)*		
Net Assets		
Invested in capital assets, net of related debt	2,085,802	1,674,918
Restricted for contractual arrangements and other *(Note 11)*	131,599	131,799
Unrestricted	429,879	538,005
Total Net Assets	**2,647,280**	**2,344,722**
Total Liabilities and Net Assets	**$ 3,667,541**	**$ 3,367,213**

See Notes to Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(in thousands)	December 31 2006	2005
Operating Revenues		
Passenger fares	$ 18,052	$ 16,483
Other operating revenue	3,431	3,376
Total Operating Revenues	**21,483**	**19,859**
Operating Expenses		
Operations and maintenance	89,134	81,103
General and administrative	18,471	16,690
Loss on disposal of assets	3	8
Depreciation, amortization and accretion	33,486	34,477
Total Operating Expenses	**141,094**	**132,278**
Loss from Operations	**(119,611)**	**(112,419)**
Non-Operating Revenues (Expenses)		
Sales tax	259,164	239,785
Motor vehicle excise tax	70,202	66,308
Rental car tax	2,427	2,245
Investment income	37,277	26,090
Other revenues	62	5
Non-operating expenses	(12,358)	(15,789)
Interest expense	(436)	(252)
Discontinued and impaired projects	(5,944)	(6,330)
Loss on disposal of assets	-	(353)
Total Non-Operating Revenues, Net	**350,394**	**311,709**
Income Before Capital Contributions	**230,783**	**199,290**
Capital contributions to other governments	(72,750)	(55,888)
Federal capital contributions	130,445	135,393
Other capital contributions	14,080	7,092
Net Capital Contributions	**71,775**	**86,597**
Change in Net Assets Before Cumulative Effect Adjustment	**302,558**	**285,887**
Cumulative effect of accretion expense (Note 10)	-	211
Change in Net Assets	302,558	285,676
Total Net Assets, Beginning of Year	**2,344,722**	**2,059,046**
Total Net Assets, End of Year	**$ 2,647,280**	**$ 2,344,722**

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

(in thousands)	December 31 2006	2005
Cash Flows from Operating Activities		
Cash receipts from fares	$ 24,969	$ 12,538
Cash receipts from other operating revenue	3,328	3,709
Payments to suppliers	(25,446)	(14,487)
Payments to transportation service providers	(57,679)	(51,098)
Payments to employees for wages and benefits	(23,002)	(21,744)
Net Cash Used by Operating Activities	**(77,830)**	**(71,082)**
Cash Flows from Non-Capital Financing Activities		
Taxes received	328,959	303,825
Net Cash Provided by Non-Capital Financing Activities	**328,959**	**303,825**
Cash Flows from Capital and Related Financing Activities		
Capital contributions from grants	163,424	136,188
Proceeds on issuance of bonds	-	439,977
Proceeds from insurance settlement	-	5,550
Purchase of properties, vehicles and equipment	(923)	(8,726)
Payments in respect of capital projects in progress	(651,701)	(483,154)
Payments to employees capitalized to capital projects in progress	(11,335)	(11,854)
Payments for bond principal and promissory notes	(10,270)	-
Cash paid for interest	(37,690)	(29,262)
Payments to suppliers for non-operating expenses	(12,358)	(15,789)
Payments for betterments and recoverable cost, net of repayments	2,643	(5,755)
Other	68	(460)
Net Cash (Used) Provided by Capital and Related Financing Activities	**(558,142)**	**26,715**
Cash Flows from Investing Activities		
Purchases of investments	(322,461)	(578,998)
Proceeds from sales or maturities of investments	673,772	267,413
Investment income	31,354	24,629
Net Cash Provided (Used) by Investing Activities	**382,665**	**(286,956)**
Net Increase (Decrease) in Cash and Cash Equivalents	**75,652**	**(27,498)**
Cash and Cash Equivalents		
Beginning of year	228,975	256,473
End of Year	**$ 304,627**	**$ 228,975**
Cash and Cash Equivalents *(Note 3)*		
Unrestricted	$ 215,768	$ 116,466
Current restricted	2,665	2,445
Non-current restricted	86,194	110,064
	$ 304,627	**$ 228,975**

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS, continued

(in thousands)	December 31	
	2006	**2005**
Loss from Operations	**$ (119,611)**	**$ (112,419)**
Adjustments to Reconcile Loss from Operations to Net Cash Used by Operating Activities		
Depreciation amortization and accretion	33,486	34,477
Loss on disposal of capital assets	3	8
Changes in Operating Assets and Liabilities		
Decrease in accounts receivable	43	38
Decrease (increase) in due from other governments	661	(1,471)
Increase in materials, parts and supplies	(85)	(28)
Decrease (increase) in prepaid expenses	50	(148)
(Decrease) increase in accounts payable, accrued and other liabilities	(2,817)	5,481
(Decrease) increase in salaries, wages and benefits	(192)	329
Increase (decrease) in deferred fare pass revenue	1,872	(1,223)
Increase in due to other governments	7,642	3,447
Decrease in loss fund	1,118	427
Net Cash Used by Operating Activities	**$ (77,830)**	**$ (71,082)**

(in thousands)	December 31	
	2006	**2005**
Supplemental Disclosures of Non-Cash Operating, Investing and Financing Activities		
Capital contributions to other governments	$ (72,750)	$ (55,888)
Capital contributions from Land Bank	3,275	4,750
Exchange of land or easements with other governments	-	1,696
Capital asset acquisitions in accounts payable and accrued liabilities	116,271	113,187
Promissory note taken back on acquisition of land	-	5,437
Interest income from investments held to pay capital leases, net	842	1,227
Interest expense on capital leases, net	(842)	(1,227)
Increase (decrease) in fair value of investments	3,005	1,830

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

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 and state agencies.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Tax revenues include taxes on retail sales of goods and services, rental car revenue and a motor vehicle excise tax. These taxes are levied within the district at a rate of 0.4% for sales and use, 0.8% on rental car revenue and 0.3% for motor vehicle excise. These taxes are collected on Sound Transit's behalf by the Department of Revenue and the Department of Licensing of the State of Washington and are recorded in the period when the underlying transaction occurs on which the tax is imposed.

Operating revenues consist primarily of passenger fares, 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 of capital assets and amortization of deferred revenue is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

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

	Estimated Useful Life
Rail access costs	37 years
Buildings	8–30 years
Transit facilities, rail, and equipment	7–30 years
Park-and-ride lots and shelters	10 years
Revenue vehicles—Cab cars and coach cars	40 years
Revenue vehicles—Locomotives	29 years
Revenue vehicles—Light rail	25 years
Revenue vehicles—Buses	7-12 years
Furniture and equipment	3–7 years
Administrative vehicles and leasehold improvements	5 years

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 reported at the lower of carrying value or fair value. 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.

Rail access costs reflect the cost of acquiring rights from BNSF for the Tacoma-to-Seattle and Everett-to-Seattle segments. In the Tacoma-to-Seattle corridor these rights were acquired in an amount equal to the funding of necessary track and signal improvements on the line and in the Everett-to-Seattle corridor through the direct acquisition of easements. In addition, these costs include Sound Transit's direct and indirect costs related to the planning and design, environmental management and permitting. The rail access rights for additional round trip service are acquired incrementally, as certain requirements are met under their respective agreements, and accordingly ongoing costs are capitalized to the depreciable asset on a quarterly basis.

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

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

Compensated Absences—Vacation leave that has been earned but not paid has been accrued in the accompanying financial statements. Similarly, sick leave is accrued as the benefits are earned but only to the extent that Sound Transit will compensate the employees through cash payments conditional on the employee's termination, retirement or death. Vacation pay, which may be accumulated up to 50 days, is payable upon termination, retirement or death. Sick leave is payable at the rate of 50% upon resignation, retirement or death for employees hired before January 1, 2004, and 25% thereafter and is limited to 120 days for termination other than for retirement or death.

Environmental Reserves—Environmental liabilities are evaluated at the time of purchase of land and are factored into the purchase price. The estimated cost of remediation is accrued at the time of purchase and relieved as remediation costs are incurred or at the time of discovery. Revisions to those estimates are accounted for as a project cost or expensed depending on the nature of the remediation required.

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

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

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

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

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

Reclassifications—Certain reclassifications have been made to the 2005 Financial Statements to conform to the current year's presentation.

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

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

3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

Sound Transit's bank deposits are covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission ("PDPC"). All deposits not covered by the FDIC are covered by the PDPC. Cash held in the Local Government Investment Pool and the King County Investment Pool are managed by the Washington State Treasurer's Office and the King County Finance Division, respectively. These pools represent an interest in a group of securities and have no specific security subject to custodial risk.

All surplus cash is invested in compliance with state law and in accordance with an investment policy approved by Sound Transit's Board and certified by the Municipal Treasurer's Association. Qualifying investments under this policy include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit, commercial paper and repurchase agreements. Sound Transit's investment policy addresses common deposit and investment risks as described below.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Sound Transit manages its exposure to fair value losses by matching its investments to cash flow requirements and by comparing the modified duration of fixed income securities in its investment portfolios to established benchmarks. Deviation from the established benchmark within 25% is considered acceptable. Modified duration estimates the sensitivity of a bond's price to interest rate changes. At December 31, 2006, benchmark duration for Sound Transit's unrestricted portfolio was 0.61 and its restricted portfolio was 0.47. Actual modified duration by investment type is presented in the table on the following page.

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 10% for certificates of deposit, bankers' acceptances, repurchase agreements, general obligation bonds and A1/P1 commercial paper. Treasury securities may comprise up to 100% of the portfolio, as well as participation in the Washington State Treasurer's Local Government Investment Pool. Agency securities (combined) may comprise up to 75% of the portfolio. Participation in the King County Investment Pool is limited to 50% of the portfolio. The table on the following page provides the percentage invested in each type of investment as of December 31, 2006.

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. All Agency securities in our portfolios are rated AAA, and the Certificate of Deposit is covered by the PDPC. The King County Investment Pool is rated AAAf. The Washington State Treasurer's Local Government Investment Pool 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 Department or safekeeping department of a financial institution, as established by a written third party safekeeping agreement between Sound Transit and the financial institution.

Cash, cash equivalents, investments and restricted assets are as follows (modified duration in years):

(in thousands)	2006			2005		
	Fair Value	Modified Duration	% of Portfolio	Fair Value	Modified Duration	% of Portfolio
Deposits and Investments						
US agency securities:						
Federal Farm Credit Bank	$ 62,694	0.581	16.52%	$ 59,626	0.833	8.45%
Federal Home Loan Bank	110,049	0.444	29.00%	222,913	0.815	31.60%
Federal Home Loan Mortgage Corporation (FHLMC)	80,192	0.527	21.13%	135,805	0.712	19.25%
Federal National Mortgage Association	10,079	0.213	2.66%	87,660	0.554	12.43%
US treasury securities	64,581	0.524	17.02%	165,198	0.634	23.42%
Certificate of deposit	8,000	1.100	2.11%	8,000	0.160	1.13%
Repurchase agreement	-	0.000	0.00%	250	0.000	0.04%
FDIC or PDPC insured bank deposits	43,890	0.000	11.57%	25,927	0.000	3.68%
	379,485	0.454	100.00%	705,379	0.684	100.00%
Cash and Cash Equivalents						
Investment Pools:						
King County Investment Pool	26,775	0.400		54,540	0.510	
Washington State Local Government Investment Pool	225,449			140,471		
US discount note: FHLMC	410	0.011		-		
Cash on hand	103			38		
	252,737			195,049		
Other Restricted Assets						
Deductible liability protection policy	5,254			6,372		
Interest receivable on restricted investments	496			802		
	5,750			7,174		
Total Cash, Cash Equivalents, Investments and other Restricted Assets	$ 637,972			$ 907,602		

(in thousands)	December 31 2006	December 31 2005
Balance Sheet Classifications		
Cash and cash equivalents	$ 215,768	$ 116,466
Current restricted assets:		
Cash equivalents	2,665	2,445
Deductible liability protection policy	5,254	6,372
	7,919	8,817
Investments	280,095	455,856
Non-current restricted assets:		
Cash Equivalents	86,194	110,064
Investments	47,500	215,596
Other assets	496	803
	134,190	326,463
	$ 637,972	**$ 907,602**

4. RECEIVABLES

Receivables consist of the following:

(in thousands)	December 31 2006	December 31 2005
Taxes receivable	$ 54,149	$ 51,315
Grants receivable	5,357	27,530
Accounts receivable, net	595	195
Due from Other Governments	15,614	13,728
Interest receivable	3,514	4,544
Current portion supplemental mitigation advances	2	32
	$ 79,231	**$ 97,344**

Amounts due from other governments include amounts due under the Puget Pass regional fare 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.

5. CAPITAL ASSETS

Capital assets are summarized as follows:

(in thousands)	December 31 2004	Additions	Transfers and Retirements	December 31 2005	Transfers In and Additions	Transfers Out and Retirements	December 31 2006
Non-Depreciable Assets							
Land	$ 247,102	$ 23,730	$ (1,696)	$ 269,136	$ 23,910	$ (2,170)	$ 290,876
Permanent easements	158,098	2,869	-	160,967	55,718	-	216,685
Capital Projects in Progress							
Sound Transit	690,340	511,613	(130,827)	1,071,126	645,278	(157,842)	1,558,562
Other Governments	79,714	75,033	(34,895)	119,852	61,953	(78,027)	103,778
Total Non-Depreciable Assets	**1,175,254**	**613,245**	**(167,418)**	**1,621,081**	**786,859**	**(238,039)**	**2,169,901**
Depreciable Assets							
Transit facilities, rail and heavy equipment	213,428	10,379	-	223,807	41,838	-	265,645
Rail access rights	198,958	71,940	-	270,898	34,047	-	304,945
Buildings and leasehold improvements	22,899	300	(31)	23,168	-	-	23,168
Revenue vehicles	222,986	8,153	-	231,139	578	-	231,717
Furniture, equipment and vehicles	12,790	1,654	(469)	13,975	895	(23)	14,847
Equipment under capital lease	957	205	(299)	863	38	-	901
Total Depreciable Assets	**672,018**	**92,631**	**(799)**	**763,850**	**77,396**	**(23)**	**841,223**
Accumulated Depreciation							
Transit facilities and heavy equipment	(22,200)	(12,044)	-	(34,244)	(11,764)	-	(46,008)
Rail access rights	(456)	(7,826)	-	(8,282)	(7,765)	-	(16,047)
Buildings and leasehold improvements	(4,876)	(928)	19	(5,785)	(770)	-	(6,555)
Revenue vehicles	(36,521)	(11,788)	-	(48,309)	(11,356)	-	(59,665)
Furniture, equipment and vehicles	(9,374)	(1,594)	418	(10,550)	(1,533)	20	(12,063)
Equipment under capital lease	(254)	(202)	265	(191)	(198)	-	(389)
Total Accumulated Depreciation	**(73,681)**	**(34,382)**	**702**	**(107,361)**	**(33,386)**	**20**	**(140,727)**
Depreciable Assets, Net	**598,337**	**58,249**	**(97)**	**656,489**	**44,010**	**(3)**	**700,496**
Total Capital Assets, Net	**$ 1,773,591**	**$ 671,494**	**$ (167,515)**	**$ 2,277,570**	**$ 830,869**	**$ (238,042)**	**$ 2,870,397**

During 2006, Sound Transit relieved $235.9 million of costs from capital projects in progress of which $72.8 million relate to completed projects and payments to other governments pursuant to capital related governmental agreements. Completed projects included Federal Way HOV Access/317th, Eastgate Transit Access/142nd, Sammamish Park & Ride/228th SE and contributions to other governments for projects not constructed by Sound Transit included SR522 HOV Enhancements, Kirkland Transit Enhancements and to the City of Federal Way for transit-oriented development. The costs of these completed projects are included in contributions to other governments in the Statement of Revenues, Expenses and Changes in Net Assets.

During 2005, Sound Transit relieved $165.7 million of costs from capital projects in progress of which $55.9 million relate to completed projects and payments to other governments pursuant to capital related governmental agreements. Completed projects and payments included Ash Way Transit Access/164th SW, SR900 Park & Ride Arterial improvements, Issaquah Highlands Park & Ride, City of Everett contribution – Everett Station, Redondo Heights Park & Ride/SR99, Smart Card partner agency contributions and Woodinville Arterial enhancements. The costs of these completed projects are included in contributions to other governments in the Statements of Revenues, Expenses and Changes in Net Assets.

During 2006, Sound Transit capitalized $36.6 million of interest costs, ($32.0 million in 2005), representing all of the interest , net of premium, discounts and bond issue costs, incurred on its bonds outstanding (see Note 9).

6. CAPITAL AND OPERATING LEASES

Capital leases are comprised of the following:

(in thousands)	2006	2005
Lease/leaseback	$ 59,925	$ 59,083
Copier leases	536	682
	60,461	59,765
Less current portion	(191)	(177)
	$ 60,270	**$ 59,588**

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 in the year ended December 31, 2001.

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

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

(in thousands)	2006	2005
Net sublease, January 1	$ 59,083	$ 57,856
Accrued interest	4,422	4,330
Less payment	(3,580)	(3,103)
Net Sublease, December 31	**$ 59,925**	**$ 59,083**

Copier Leases—Sound Transit has entered into various agreements for the acquisition or rental of copiers. Certain of the equipment covered by these agreements is classified as a capital lease for accounting purposes and has been recorded as a capital asset with a corresponding long-term liability equal to the present value of future lease payments. Sound Transit records lease payments as reductions of the long-term liability and as interest expense over the life of the lease.

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

(in thousands)	December 31 2006
2007	$ 213
2008	201
2009	144
2010	16
Total minimum lease payments	574
Amounts representing interest	38
Present value of lease obligations	536
Less current portion	(191)
Long-term portion	**$ 345**

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

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

Operating Rentals—Sound Transit leases office space, parking, land and storage at various locations including space adjacent to Union Station, in Seattle's Rainier Valley district and in Tacoma under non-cancelable operating leases in excess of one year with lease terms expiring in 2007 through 2011. Effective July 1, 2005, the annual base rate decreased for the major lease from $25.25 sf to $14.25 sf. This amended lease includes a three-tier base rent structure for the next five years which is equal to 95% of the annual market rate for comparable space. The lease arrangements also include an allowance of $5.00 sf for costs incurred by Sound Transit to refurbish the premises, and there is an option to extend the lease for another five-year term, beyond June 30, 2010.

Minimum lease payments through 2011 are as follows:

Operating Rentals, commitments next 5 years:

(in thousands)	
2007	$ 1,806
2008	1,249
2009	1,145
2010	618
2011	70
	$ 4,888

Total rental costs for 2006, which include non-cancelable leases as well as other month-to-month rentals, were $2.2 million of which $529 thousand was for capital projects in progress. Total rental costs for 2005 were $1.9 million, of which $127 thousand was for capital projects in progress.

7. LONG-TERM RECEIVABLES:

Long-term receivables consist of the following:

(in thousands)	**2006**	**2005**
City of Seattle	$ 3,956	$ 9,221
Supplemental mitigation advances	38	251
	$ 3,994	**$ 9,472**
Less current portion included in due from other governments	(3,958)	(4,895)
	$ 36	**$ 4,577**

Amounts owed by the City of Seattle relate to the Downtown Seattle Traffic and Street Improvements Agreement and the Memorandum of Agreement for Undergrounding of Overhead Utilities along Martin Luther King, Jr. Way South. Under those agreements, or as modified in writing, Sound Transit has accepted repayment of the amounts to be funded by the City through December, 2007. The balance due under these agreements is all due within one year and included in Due from Other Governments.

Supplemental mitigation advances are advances for working capital, tenant improvements and equipment purchases to qualifying Rainier Valley businesses and property owners to mitigate the effects of light rail construction. In 2006, all but one advance were sold to a third party. The remaining advance bears interest and must be repaid in full over the 7-year life of the agreement.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

(in thousands)	2006	2005
Accounts payable	$ 31,164	$ 38,522
Accrued liabilities	22,422	39,431
Due to other governments	45,346	42,118
Accrued salaries, wages and benefits	1,550	1,695
Retainage payable	62	75
	$ 100,544	**$ 121,841**

9. LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	2006 Beginning Balance	Additions	Reductions	2006 Ending Balance	Amounts Due within One Year
Bonds payable:					
Series 1999 Bonds, at par	$ 350,000	$ -	$ (4,270)	$ 345,730	$ 4,445
Series 2005A Bonds, at par	422,815	-	-	422,815	-
	772,815	-	(4,270)	768,545	4,445
Plus unamortized premium	24,221	-	(1,761)	22,460	-
Less unamortized discount	(7,117)	-	385	(6,732)	-
Total bonds payable	789,919	-	(5,646)	784,273	4,445
Promissory notes:					
Lakeview North Line, replacement	3,000	-	(3,000)	-	-
Lakeview South Line	9,000	-	(3,000)	6,000	6,000
	12,000	-	(6,000)	6,000	6,000
Plus (minus) imputed interest	(605)	-	406	(199)	(199)
Total promissory notes payable	11,395	-	(5,594)	5,801	5,801
Total Long-Term Debt	**$ 801,314**	**$ -**	**$ (11,240)**	**$ 790,074**	**$ 10,246**

(in thousands)	2005 Beginning Balance	Additions	Reductions	2005 Ending Balance	Amounts Due within One Year
Bonds payable:					
Series 1999 Bonds, at par	$ 350,000	$ -	$ -	$ 350,000	$ 4,270
Series 2005A Bonds, at par	-	422,815	-	422,815	-
	350,000	422,815	-	772,815	4,270
Plus unamortized premium	4,764	20,888	(1,431)	24,221	-
Less unamortized discount	(7,433)	(67)	383	(7,117)	-
Total bonds payable	347,331	443,636	(1,048)	789,919	4,270
Promissory notes:					
Lakeview North Line, replacement	-	3,000	-	3,000	3,000
Lakeview South Line	-	9,000	-	9,000	3,000
Lakeview North Line	6,000	-	(6,000)	-	-
	6,000	12,000	(6,000)	12,000	6,000
Plus (minus) imputed interest	(260)	(712)	367	(605)	(154)
Total promissory notes payable	5,740	11,288	(5,633)	11,395	5,846
Total Long-Term Debt	**$ 353,071**	**$ 454,924**	**$ (6,681)**	**$ 801,314**	**$ 10,116**

Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999—On January 6, 1999, Sound Transit issued tax-exempt Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 dated December 1, 1998, in the amount of $350 million. The average life of these bonds is 22.5 years with an average coupon rate of 4.88% and an effective rate of 5.03%. The bonds are special limited obligations of Sound Transit payable from and secured solely by a pledge of Sound Transit's sales and use tax, motor vehicle excise tax and rental car tax imposed at the rates of 0.4%, 0.3%, and 0.8% respectively.

Sound Transit is required to maintain certain minimum deposits as defined in the bond resolution to meet debt service requirements. At December 31, 2006 and 2005, cash restricted for debt service totaled $11.5 million and $11.4 million respectively. Principal payments are due February 1 of each year starting in 2006. Proceeds from this bond issue have been used for the Agency's capital projects. These bonds were upgraded from a rating of A1 to Aa3 (Moody's Investor Services) in 2005 and were upgraded in 2006 from AA to AAA by Standard & Poors.

The fair value of the Series 1999 bonds was $361.9 million and $366.1 million as of December 31, 2006, and 2005, respectively. This fair value was estimated using quoted market prices.

Sales Tax Bonds, Series 2005A —On March 31, 2005, Sound Transit issued tax-exempt Sales Tax Bonds, Series 2005A dated March 31, 2005, in the amount of $422.8 million. These bonds were issued on a subordinate basis to the Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999. The average life of these bonds is 18.5 years with an average coupon rate of 4.95% and an effective rate of 4.60%. These bonds are special limited obligations of Sound Transit payable from and secured solely by a pledge of Sound Transit's sales and use tax and rental car tax imposed at the rates of 0.4% and 0.8% respectively.

Sound Transit is required to maintain certain minimum deposits as defined in the bond resolution to meet debt service requirements. Cash restricted for debt service totaled $3.4 million at December 31, 2006 and 2005. Principal payments are due November 1 of each year starting in 2011. In addition, the Agency established a $39.5 million reserve for the bonds, consistent with the Parity Bond Resolution. Proceeds from this bond issue are being used for the Agency's capital projects. The bonds received underlying ratings of Aa3 (Moody's Investor Services) and AA- (Standard and Poor's). In 2006, Standard and Poor's upgraded their rating of these bonds to AA+.

The fair value of the Series 2005A bonds was $447.4 million and $443.5 million as of December 31, 2006 and 2005, respectively. This fair value was estimated using quoted market prices.

Debt service requirements to maturity for bonds payable.

Year Ending December 31	Principal	*(in thousands)* Interest	Total
2007	$ 4,445	$ 37,485	$ 41,930
2008	4,620	37,301	41,921
2009	4,810	37,205	42,015
2010	5,065	36,951	42,016
2011	11,130	36,685	47,815
2012-2016	97,370	173,956	271,326
2017-2021	180,985	140,843	321,828
2022-2026	247,160	86,255	333,415
2027-2030	212,960	23,933	236,893
	$ 768,545	**$ 610,614**	**$ 1,379,159**

Lakeview North and South Line Promissory Notes — On September 28, 2004, Sound Transit acquired a section of the Lakeview Subdivision between Lakewood and Nisqually called the North Line in exchange for a payment of $6 million and a $6 million promissory note payable to BNSF in September of 2006. In November 2004, a replacement note was agreed upon whereby if the south parcels were acquired (the "South Line") then $3 million of the note became due on September 28, 2005, with the balance of $3 million due at maturity on September 28, 2006.

The South Line acquisition closed on October 3, 2005, resulting in the change in the terms of the North Line note as described. In addition, Sound Transit paid $3 million and assumed a promissory note payable of $9 million to BNSF with a payment due of $3 million on September 28, 2006, and $6 million on September 28, 2007. These promissory notes were non-interest bearing and, in accordance with generally accepted accounting principles, have been discounted to reflect the imputed interest cost to the Agency.

10. 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:

(in thousands)	2006 Beginning Balance	Additions and accretion	Reductions	2006 Ending Balance	Amounts Due within One Year
Asset retirement obligations					
Sounder station platforms	$ 823	$ 132	$ -	$ 955	$ -
Tacoma Link surface rail	1,192	415	-	1,607	-
Total asset retirement obligations	2,015	547	-	2,562	-
Uninsured Losses					
Owner Controlled Insurance Program	2,283	1,725	(1,500)	2,508	518
Transit operations	322	92	-	414	81
Total uninsured losses	2,605	1,817	(1,500)	2,922	599
Compensated absences	3,007	3,254	(3,406)	2,855	973
Total other long-term obligations	**$ 7,627**	**$ 5,618**	**$ (4,906)**	**$ 8,339**	**$ 1,572**

(in thousands)	2005 Beginning Balance	Additions and accretion	Reductions	2005 Ending Balance	Amounts Due within One Year
Asset retirement obligations					
Sounder station platforms	$ -	$ 823	$ -	$ 823	$ -
Tacoma Link surface rail	-	1,192	-	1,192	-
Total asset retirement obligations	-	2,015	-	2,015	-
Uninsured Losses					
Owner Controlled Insurance Program	930	1,906	(553)	2,283	451
Transit operations	74	248	-	322	56
Total uninsured losses	1,004	2,154	(553)	2,605	507
Compensated absences	2,599	2,700	(2,292)	3,007	982
Total other long-term obligations	**$ 3,603**	**$ 6,869**	**$ (2,845)**	**$ 7,627**	**$ 1,489**

Asset Retirement Obligations—In the course of entering into agreements with other governments and rail providers to construct the Agency's capital assets used in providing transportation services, certain of those agreements contain clauses that impose a legal burden on the Agency to remove all or a portion of those constructed assets at the termination of those agreements. FASB 143 and FASB Interpretation 47, effective for financial statements issued after June 15, 2002, and December 18, 2005, respectively, require that these costs and related obligations be recognized where they exist. Sound Transit implemented these standards in 2005, and, in accordance with the pronouncement, this change was treated as a change in accounting principle with any asset retirement costs being measured as of the date the asset retirement obligation was incurred, with the cumulative effect of changing to this new principle being included in net income in 2005.

Additions and accretion include the impact of change in estimate of the future cash flows, accretion and the cumulative effect of the change in accounting treatment as follows:

(in thousands)	2006	2005
Additions or changes in cash flow estimate	$ 446	$ 1,709
Accretion	101	95
Cumulative effect of change in accounting policy	-	211
	$ 547	**$ 2,015**

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

Sound Transit also established an Owner-Controlled Insurance Program ("OCIP") for all general liability claims by third-party injuries and/or property damage related to project construction activities carried out by third-party contractors. This commercially procured insurance program includes a self-insured retention level of $500 thousand per claim. This program originally covered construction projects from January 1, 2001, through December 31, 2006, and all premium payments under the policies had been prepaid. During the year, a policy extension was negotiated through December 31, 2009, with the exception of the professional liability and contractor's pollution policy, which was extended to December 31, 2016.

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

Claim amounts estimated to be paid within the next year are included in other current liabilities.

Compensated Balances—Amounts estimated to be paid within the next year are included in accrued salaries, wages and benefits (see Note 8).

11. RESTRICTED NET ASSETS

Restricted net assets consist of the following:

(in thousands)	2006	2005
Contractual arrangements	$ 80,098	$ 110,347
Unspent bond proceeds, net of related obligations	-	8,658
Deductible liability protection policy	5,254	6,372
Debt service, net of related obligations	44,095	4,270
State appropriation	2,152	2,152
	$ 131,599	**$ 131,799**

12. EMPLOYEE BENEFITS

Sound Transit provides a defined contribution money purchase plan and trust (“401(a) Plan”) to its employees. Prior to December 31, 1999, employees had a choice of participating in either the 401(a) Plan or in the Washington Public Employees’ Retirement System (“PERS”). In 1999, the Washington State Legislature amended the laws governing PERS requiring employers either to terminate their participation in PERS or permit all new employees to participate in PERS regardless of their simultaneous participation in a 401(a) plan. Effective December 31, 1999, Sound Transit terminated its status as a PERS employer with regard to all employees hired after that date. Individuals who were active members at that date were eligible to continue their membership in PERS for the duration of their continuous employment with Sound Transit. At December 31, 2006, 2005 and 2004, there was one remaining employee participating in PERS.

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

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

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

Sound Transit’s actual contribution rates, which were the required contribution rates, are expressed as a percentage of covered payrolls. The amount of covered payroll during 2006 and 2005 was $25.9 million and $25.3 million, respectively, and total payroll was $26.3 million and $25.6 million, respectively. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2006, 2005, and 2004 are as follows:

	Contribution Rate			Contributions *(in thousands)*		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Employer	12%	12%	12%	$3,111	$3,038	$2,985
Employee	10%	10%	10%	2,592	2,532	2,488
Total	**22%**	**22%**	**22%**	**$5,703**	**$5,570**	**$5,473**

13. COMMITMENTS AND CONTINGENCIES

Operations and Maintenance Agreements—Sound Transit entered into 40-year agreements in May of 2000 with BNSF and Amtrak for the operations and maintenance of its Sounder commuter rail service. Under the BNSF agreement, Sound Transit pays in accordance with an hourly rate schedule per train mile that is based on the number of trains per day. Under the Amtrak agreement, Sound Transit pays a flat monthly fixed price dependent upon the number of one-way trips. See related agreements described in Note 6: *Amtrak Lease/Sublease*.

In 2004, Sound Transit entered into five-year agreements that expire September 2009 with Community Transit, King County Department of Transportation and Pierce Transit ("purchased transportation providers") to operate its ST Express public transportation service within Sound Transit's service area. Effective January 1, 2005, through the end of the agreement, service is to be compensated based upon a fixed fee agreed to annually, with certain items subject to variable pricing, such as fuel and special services.

Agreements with BNSF for Sounder Commuter Rail Service in the Everett-to-Seattle and Lakewood-to-Tacoma Corridors—On December 18, 2003, Sound Transit entered into a number of agreements with BNSF for, among other things, the purchase of four perpetual easements 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.

The acquisition of the easements and property occurred over a four-year payment period. The first easement in the Everett-to-Seattle corridor closed in December 2003, and the second easement closed in December 2004, each in exchange for a payment of $79.0 million. The third easement closed in December 2006 for a payment of $50 million. The acquisition of the remaining easement (fourth easement) in the Everett-to-Seattle corridor is expected to close in December 2007 in exchange for a payment of $50 million.

Each easement allows the addition by Sound Transit of one round trip commuter train service. Closing by Sound Transit on the fourth easement is conditioned upon the lack of a determination that certain permits for improvements that BNSF is designing to construct are highly unlikely to be issued. If this condition is not met, Sound Transit has the option to not close with no additional payment due and no additional train service beyond that provided by prior accepted easements.

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

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

Also in December of 2003, Sound Transit paid BNSF $3.6 million for the purchase of certain parcels of property that will become part of the Lakeview Station and South Tacoma Station and $4.4 million as a non-refundable deposit for the purchase of railroad right of way on the BNSF's Lakeview Subdivision. In September 2004, Sound Transit closed on the purchase of the section of the Lakeview Subdivision between Lakewood and Tacoma (the "North Line") and in October 2005 the section of the Lakeview Subdivision between Nisqually and Lakewood (the "South Line"). See Note 9 for a description of amounts paid at closing and promissory notes provided to BNSF. Total payments in respect of the Nisqually-to-Tacoma corridor under the agreement to BNSF are $32 million, including interest on the promissory notes.

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 also provides the conditions necessary to be satisfied by Sound Transit (such as the acquisition of certain environmental permits) before it may use its commuter rail easements. 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's and BNSF's responsibilities during the interim period before Sound Transit starts operating on each portion of the corridor. Initially, BNSF will retain all maintenance activities associated with the line. However, as Sound Transit incrementally commences construction of the line, Sound Transit will be responsible for maintenance activities on those sections.

The Everett-to-Seattle Commuter Rail Service Agreement set forth the terms for the actual operation of the commuter trains by BNSF and the compensation paid to BNSF for train crews, maintenance-of-way and other expenses incurred in the operation of the Sounder service between Seattle and Everett. The compensation is structured to provide flat rates for maintenance and crews with inflation adjusters plus performance incentives after the initial pre-construction period. The term of the agreement is for 12 years with an option of 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.

Purchases**—**At December 31, 2006 and 2005, Sound Transit had outstanding construction commitments of approximately $708.3 million and $916.0 million, respectively.

Grants**—**Sound Transit participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Sound Transit has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2006 and 2005 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to non-compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Claims**—**In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Although the ultimate 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 the Agency its best estimate. At December 31, 2006, $46.0 million has been recorded in construction in progress and a corresponding liability accrued ($16.6 million at December 31, 2005); however, as these are estimates, these amounts may be subject to change.

APPENDIX B

FORM OF RESOLUTION NO. 2007-22

The form of Resolution No. R2007-22, which authorizes the issuance of the 2007A Bonds, is set forth in its entirety in this appendix.

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SOUND TRANSIT

RESOLUTION NO. R2007-22

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY AUTHORIZING THE ISSUANCE OF SALES TAX BONDS OF THE AUTHORITY IN THE PRINCIPAL AMOUNT OF NOT TO EXCEED $450,000,000 TO FINANCE A PORTION OF THE AUTHORITY'S REGIONAL TRANSIT SYSTEM PLAN; FIXING CERTAIN PROVISIONS AND COVENANTS OF THE BONDS, INCLUDING PROVISIONS SAFEGUARDING THE PAYMENT OF THE PRINCIPAL THEREOF AND INTEREST THEREON; AND AUTHORIZING AND DIRECTING THE SALE OF SUCH BONDS.

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

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

WHEREAS, by Resolution No. 82, the Board authorized the imposition of the Local Option Taxes (as defined herein) and contracted with the State of Washington Department of Revenue and Department of Licensing to collect and transfer such taxes to the Authority, beginning on April 1, 1997; and

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

WHEREAS, 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 Bonds"), secured by a pledge of the Pledged Taxes (defined herein) to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, the Authority desires to issue additional obligations to finance improvements for the purpose of providing high capacity transportation service, such obligations to be subordinate to the 1999 Bonds but consistent with the resolutions authorizing the issuance of the 1999 Bonds, and secured by a pledge of the Pledged Taxes on a parity with that securing the 2005A 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 Bonds, as of any date of calculation, the sum of the amounts set forth in the Series Resolution as the amounts representing the initial principal amount of such Capital Appreciation Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, as provided in the Series Resolution authorizing the issuance of such Capital Appreciation Bonds.

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 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 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 Debt Service:

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

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

(4) in the case of Capital Appreciation Bonds, the principal and interest portions of the Accreted Value becoming due at maturity, or by virtue of a mandatory

sinking fund deposit, shall be included in the calculation of Annual Debt Service; and

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

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

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

Balloon Maturity 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 Bonds.

Base 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 16(d), or any consecutive 12-month period selected by the Authority out of the 16-month period immediately preceding the date of calculation for purposes of Section 20(a).

Board means the Board of Directors of the Authority.

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

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

Bond Register means the registration books on which are maintained the names and addresses of the Owners of the 2007A Bonds.

Bond Registrar means, unless provided otherwise in the Bond Sale Resolution, the fiscal agent of the State of Washington, or any successor bond registrar selected by the Authority, whose duties include the registration and authentication of the 2007A Bonds, maintenance of the Bond Register, effecting transfer of ownership of the 2007A Bonds, and paying the principal of, premium, if any, and interest on the 2007A Bonds.

Bond Sale Resolution means the resolution of the Board adopted pursuant to this Resolution to specify certain additional provisions of the 2007A Bonds and their sale.

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

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

2007 Bonds means the 2007A Bonds, the 2007B Bonds and the 2007C Bonds.

2007A Bonds means the Authority's Sales Tax Bonds, Series 2007A, authorized by this Resolution.

2007B Bonds means the Authority's Sales Tax Bonds, Series 2007B, authorized by Resolution No. R2007-23.

2007C Bonds means the Authority's Sales Tax Bonds, Series 2007C, authorized by Resolution No. R2007-24.

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

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

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

Default means any of the events specified in Section 25.

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

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

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

Future Parity Bonds means bonds, notes or other obligations of the Authority issued after the issuance of the 2007A Bonds pursuant to a Series Resolution, which are expressly stated to be secured by a pledge of Pledged Taxes on an equal and ratable basis with the Pledged Taxes required to be paid into the Subordinate Bond Account to pay and secure the payment of the principal of and interest on the 2005A Bonds and the 2007 Bonds.

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

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

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

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

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

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

MSRB means the Municipal Securities Rulemaking Board.

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

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

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

Owner means the registered owner of any Parity Bond.

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

Parity Bonds means the 2005A Bonds, the 2007 Bonds and any Future Parity Bonds.

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

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

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

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

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

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

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

Prior Bond Resolution means Authority Resolution R98-47 adopted November 12, 1998, as amended, supplemented or restated from time to time.

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

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

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

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

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

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

Record Date means, unless otherwise specified in the Bond Sale Resolution, the 15th day of the month preceding an interest payment date for the 2007A Bonds.

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

Resolution means this Resolution No. R2007-22.

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

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

SEC means the United States Securities and Exchange Commission.

Series means any separate series of Parity Bonds, including the 2007A Bonds, issued pursuant to a Series Resolution.

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

State means the State of Washington.

Subordinate Bond Account means the special account or accounts of the Authority created by Section 19(a) of Resolution No. R2005-02 for the purpose of paying the principal, sinking fund installments, premium, if any, and interest on any Parity Bonds.

Subordinate Reserve Account means the special reserve account created pursuant to Section 19(b) of Resolution No. R2005-02.

Subordinate Reserve Account Requirement means, for the 2007 Bonds, zero, and for Parity Bonds other than the 2007 Bonds (and except as otherwise permitted under Section 19(b) of Resolution No. R2005-02), the lesser of: (1) Maximum Annual Debt Service or (2) 125% of Average Annual Debt Service; provided, that upon the issuance of any Series of Parity Bonds, the Subordinate Reserve Account Requirement shall not be required to be funded or increased by an amount greater than 10% of the proceeds of that Series. For purposes of calculating the Subordinate Reserve Account Requirement, the initial issue price of Capital Appreciation Bonds shall be deemed to be the sale proceeds of such Bonds.

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

Tax Stabilization Subaccount means the subaccount of that name authorized to be created pursuant to Section 2 of the Prior Bond Resolution, Section 14 of Resolution No. R2005-02, Section 14 of this Resolution, Section 34 of Resolution No. R2007-23 or Section 34 of Resolution No. R2007-24.

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

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

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

Section 2. Authorization and Description of 2007A Bonds. For the purposes of paying part of the costs of carrying out the Plan and the costs of issuing and selling the 2007A Bonds and for other Authority purposes approved by resolution of the Board, the Authority is authorized to borrow money on the credit of the Authority and issue sales tax bonds evidencing indebtedness in the maximum principal amount of not to exceed $450,000,000. Any amount received as original issue premium on the 2007A Bonds shall not reduce the principal amount of 2007A Bonds authorized under this Resolution. The principal amount of the 2007A Bonds, together with the outstanding 1999 Bonds, the outstanding 2005A Bonds, the 2007B Bonds, the 2007C Bonds, and any other existing 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. The 2007A Bonds shall be designated "Sales Tax Bonds, Series 2007A," and shall have such other designation as determined by the Designated Authority Representative or as specified in the Bond Sale Resolution consistent with the provisions of this Resolution; shall be dated as specified by the Bond Sale Resolution; shall be in the denomination of $5,000 or any integral multiple thereof within a single maturity or such other denomination within a maturity as specified by the Bond Sale Resolution; shall be numbered separately, in the manner and with any additional designation as the Bond Registrar deems necessary for the purpose of identification; and shall bear interest payable on the dates as specified by the Bond Sale Resolution at such rate or rates as specified and approved by the Bond Sale Resolution. The 2007A Bonds shall mature on the dates and in years and amounts as specified by the Bond Sale Resolution. All or some of the 2007A Bonds may be Term Bonds, as specified by the Bond Sale Resolution.

Section 3. Bond Sale Resolution. Board may adopt the Bond Sale Resolution and in that resolution may provide for the matters described in this Resolution and such other matters that the Board deems necessary, appropriate, or desirable to carry out the purposes of this Resolution. The terms of the Bond Sale Resolution shall be deemed to be a part of this Resolution as if fully set forth herein.

The Bond Sale Resolution may provide for Bond Insurance, and may provide conditions or covenants relating thereto, including additional terms, conditions, and covenants relating to the 2007A Bonds that are required by a provider of Bond Insurance or by a Qualified Counterparty and are consistent with the provisions of this Resolution, including restrictions on investments and requirements of notice and consent. Notwithstanding any other provision of this Resolution to the contrary, the Bond Sale Resolution may specify a different series designation for the 2007A Bonds. The Bond Sale Resolution may approve and authorize the execution and delivery on behalf of the Authority of any contracts and other documents consistent with the provisions of this Resolution for which the Authority's approval is necessary or to which the Authority is a party and that are related or incidental to the issuance and sale of the 2007A Bonds, the establishment of the initial interest rate or rates on the 2007A Bonds, and any tender, purchase, remarketing, or redemption provisions of the 2007A Bonds, including agreements with Bond Insurance providers, Qualified Counterparties, remarketing agents, purchasers, fiscal agencies, custodians, and the Bond Registrar. The Chair of the Board, the Chief Executive Officer of the Authority and the Chief Financial Officer are each separately authorized to execute and deliver, on behalf of the Authority, any contracts and other documents consistent with the provisions of this Resolution for which the Authority's approval is necessary, or to which the Authority is a party, and that are related or incidental to the issuance and sale of the 2007A Bonds.

Because of the special circumstances regarding (1) the timing of the sale of the 2007A Bonds, (2) the need for the purchasers of the 2007A Bonds to receive prompt confirmation of the sale, and (3) the expected short length of the meeting to consider the Bond Sale Resolution, the Bond Sale Resolution may be adopted at a teleconference meeting of the Board at which meeting any number of Board members may attend by telephone. Pursuant to Section 15 of Resolution 1-1, as amended, Section 8.D of Resolution 1-1, as amended, shall be temporarily suspended for this purpose. Notice of such teleconference meeting shall be given pursuant to law and the teleconference technical connection for the meeting shall allow Board members to hear and to be heard by other Board members and the public.

Section 4. Registration and Transfer or Exchange of the 2007A Bonds. The 2007A 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 2007A Bond and the principal amount and number of each of the 2007A Bonds held by each Owner.

2007A Bonds surrendered to the Bond Registrar may be exchanged for 2007A Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. 2007A 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 2007A Bond during the period beginning on the date the Bond Registrar receives direction to send notice of redemption of that 2007A Bond and ending on the date the Bond Registrar sends such notice.

The 2007A Bonds initially shall be registered in the name of Cede & Co., as the nominee of DTC. The 2007A 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 2007A 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 2007A 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 2007A Bonds are held in fully immobilized form, except as otherwise provided in the Bond Sale Resolution with respect to the provider of Bond Insurance for the 2007A Bonds, 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 2007A Bonds. Registered ownership of such 2007A 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 2007A 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 2007A Bonds are to be in certificated form, the ownership of 2007A Bonds may be transferred to any person as provided herein and the 2007A Bonds no longer shall be held in fully immobilized form.

Section 5. Payment of 2007A Bonds. Principal of and premium, if any, and interest on the 2007A Bonds shall be payable in lawful money of the United States of America. Interest on the 2007A Bonds shall be paid by checks, drafts, or warrants of the Bond Registrar, or, if requested in writing prior to the Record Date by the Owner of $1,000,000 or more in principal amount of 2007A Bonds, by wire, mailed or transferred on the interest payment date to Owners of the 2007A 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 2007A Bonds shall be payable at maturity or on such date as may be specified for prior redemption upon presentation and surrender of the 2007A Bonds by the Owners at the principal corporate trust office or offices of the Bond Registrar. Notwithstanding the foregoing, payment of any 2007A 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 2007A Bonds.

(a) Optional Redemption. All or some of the 2007A Bonds may be subject to redemption prior to their stated maturity dates at the option of the Authority at the times and on the terms set forth in the Bond Sale Resolution.

(b) Mandatory Redemption. The Authority shall redeem any 2007A Bonds that are Term Bonds ("2007 Term Bonds"), if not redeemed under the optional redemption provisions set forth in the Bond Sale Resolution or purchased under the provisions set forth below, by lot (or in such other manner as the Bond Registrar shall determine) at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption on the dates and in the years and principal amounts as set forth in the Bond Sale Resolution.

If the Authority redeems, purchases or defeases 2007 Term Bonds, the principal amount of the 2007 Term 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 those 2007 Term Bonds. The Designated Authority Representative shall determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of its allocation at least 45 days prior to the earliest mandatory redemption date for that maturity of 2007 Term Bonds for which notice of redemption has not already been given. If no such determination is made, the allocation shall be on a pro rata basis. In no event shall any 2007A Bond be Outstanding in a principal amount that is not an authorized denomination.

(c) Partial Redemption. Whenever fewer than all of the 2007A Bonds of a single maturity are to be redeemed, the Bond Registrar shall select the 2007A Bonds or portions thereof to be redeemed from the 2007A Bonds of that maturity by lot (or in such other manner as the Bond Registrar shall determine), except that, for so long as the 2007A Bonds are registered in the name of DTC or its nominee, DTC shall select the 2007A Bonds or portions thereof to be redeemed in accordance with the Letter of Representations. In no event shall any 2007A Bond be Outstanding in a principal amount that is not an authorized denomination.

Portions of the principal amount of any 2007A Bond, in integral amounts of $5,000, may be redeemed, unless otherwise provided in the Bond Sale Resolution. If less than all of the principal amount of any 2007A Bond is redeemed, upon surrender of that 2007A Bond to the Bond Registrar there shall be issued to the Owner, without charge therefor, a new 2007A Bond (or 2007A Bonds, at the option of the Owner) of the same maturity, and interest rate in any authorized denominations in the aggregate total principal amount remaining unredeemed.

(d) Purchase. The Authority reserves the right and option to purchase any or all of the 2007A Bonds in the open market at any time at any price acceptable to the Authority plus accrued interest to the date of purchase.

(e) Bonds to be Canceled. All 2007A Bonds purchased or redeemed under this Section shall be canceled.

Section 7. Notice and Effect of Redemption. The Authority shall cause notice of any intended redemption of 2007A Bonds to be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Owner of any 2007A 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 addition, the redemption notice shall be mailed by the Bond Registrar within the same period, postage prepaid, to each of the Rating Agencies at their offices in New York, New York, to any provider of Bond Insurance for the 2007A Bonds, and to such other persons and with such additional information as the Designated Authority Representative shall determine or as specified in the Bond Sale Resolution, but these additional mailings shall not be a condition precedent to the redemption of 2007A Bonds.

In the case of an optional redemption, the notice may state that the Authority 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 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 2007A Bonds subject to a rescinded notice of redemption shall remain Outstanding, and the rescission shall not constitute a Default.

Notwithstanding the foregoing, notice of redemption of any 2007A Bonds registered in the name of DTC or its nominee shall be made in accordance with the Letter of Representations.

If notice of redemption has been duly given, then on the date fixed for redemption each 2007A Bond or portion thereof so called for redemption shall become payable at the redemption price specified in such notice unless that 2007A Bond or portion thereof is subject to a rescinded notice of redemption. From and after the date fixed for redemption, if money for the payment of the redemption price of any 2007A 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 2007A 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 2007A Bond or portion thereof shall have no rights in respect thereof except to receive payment of the redemption price upon delivery of such 2007A Bond to the Bond Registrar.

Section 8. Failure to Pay 2007A Bonds. If any 2007A 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 2007A Bond at the same rate provided in that 2007A Bond from and after its maturity or date fixed for redemption until that 2007A Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Subordinate Bond Account.

Section 9. Form and Execution of 2007A Bonds. The 2007A Bonds shall be typed, printed, photocopied, or lithographed on good bond paper in a form consistent with the provisions of this Resolution, the Bond Sale Resolution, and State law; shall be signed by the Chair of the Board and the Chief Executive Officer, either or both of whose signatures may be manual or in facsimile; and the seal of the Authority or a facsimile reproduction thereof shall be impressed or printed thereon.

Only 2007A Bonds bearing a Certificate of Authentication in substantially the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Resolution:

CERTIFICATE OF AUTHENTICATION

This bond is one of the fully registered The Central Puget Sound Regional Transit Authority Sales Tax Bonds, Series 2007A, described in the Bond Resolution.

WASHINGTON STATE FISCAL AGENT
Bond Registrar

By__________________________________
Authorized Signer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the 2007A Bond so authenticated has been duly executed, authenticated, and delivered and is entitled to the benefits of this Resolution.

If any officer whose manual or facsimile signature appears on a 2007A Bond ceases to be an officer of the Authority authorized to sign bonds before that 2007A Bond is authenticated or delivered by the Bond Registrar or issued by the Authority, that 2007A Bond nevertheless may be authenticated, delivered, and issued and, when authenticated, issued, and delivered, shall be as binding on the Authority as though that person had continued to be an officer of the Authority authorized to sign bonds. Any 2007A Bond also may be signed on behalf of the Authority by any person who, on the actual date of signing of that 2007A 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 that 2007A Bond.

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 2007A 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 2007A Bonds transferred or exchanged in accordance with the provisions of the 2007A Bonds and this Resolution, to serve as the Authority's paying agent for the 2007A 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 2007A 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 2007A 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 2007A Bonds, but, to the extent practicable, shall be mailed no later than the Record Date for any principal payment or redemption date of any 2007A Bond.

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on the 2007A Bonds. The Bond Registrar may become the Owner of 2007A 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 2007A 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 2007A Bonds. The Designated Authority Representative shall provide for the sale of the 2007A Bonds by a negotiated sale with purchasers, as identified in the Bond Sale Resolution, that have been chosen through a competitive selection process by the Chief Financial Officer after the evaluation of responses to the requests for proposals. The Chief Financial Officer is authorized to specify a date and time of sale of the 2007A Bonds, to prepare and deem final a preliminary official statement for the 2007A Bonds, to negotiate the terms of a proposed purchase contract with the purchasers of the 2007A Bonds, and to specify other matters in his or her determination necessary, appropriate, or desirable to carry out the sale of the 2007A Bonds. The terms of that sale shall be consistent with this Resolution and the Bond Sale Resolution and shall be confirmed by the Bond Sale Resolution. The 2007A Bonds shall be delivered to the purchasers as provided in the Bond Sale Resolution immediately upon payment to the Authority of the purchase price plus any accrued interest to the date of closing in immediately available federal funds.

Section 12. Preservation of Tax Exemption for Interest on 2007A Bonds. The Authority covenants that it will take all actions necessary to prevent interest on the 2007A Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the 2007A Bonds or other funds of the Authority treated as proceeds of the 2007A Bonds at any time during the term of the 2007A Bonds which will cause interest on the 2007A 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 2007A Bonds, take all actions necessary to comply (or to be treated as having complied) with that requirement in connection with the 2007A 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 2007A Bonds from being included in gross income for federal income tax purposes.

Section 13. Deposit, Use and Investment of Proceeds. Unless provided otherwise in the Bond Sale Resolution, the principal proceeds and premium, if any, received from the sale and delivery of the 2007A Bonds shall be paid into or allocated to the "2007 Bond Proceeds Account" of the Authority or such other accounts or subaccounts of the Authority as the Chief Financial Officer may designate, and used to pay all or part of the costs of carrying out the Plan, issuing and selling the 2007A Bonds and for other Authority purposes approved by resolution.

The Chief Financial Officer may establish and may transfer, record, allocate or restrict proceeds of the 2007A Bonds among such accounts or subaccounts of the Authority and make such transfers, recordings, allocations, restrictions or deposits on terms he or she may deem necessary, appropriate or desirable to carry out the purposes of this Resolution and consistent with the Bond Sale Resolution.

Accrued interest on the 2007A Bonds received from the sale and delivery of the 2007A Bonds, if any, shall be paid into or allocated to the Subordinate Bond Account prior to the first debt service payment date with respect to those 2007A Bonds. Until needed to pay the costs described herein, the Authority may invest principal proceeds of the 2007A Bonds temporarily in any legal investment, and the investment earnings shall be deposited in such accounts as may be designated by the Chief Financial Officer. Earnings subject to a federal tax or rebate requirement may be withdrawn from any such account and used for those tax or rebate purposes.

Any proceeds of 2007A Bonds remaining after paying the costs of carrying out the Plan, issuing and selling the 2007A Bonds and for other Authority purposes approved by resolution, may be used to pay principal of and interest on the 2007A Bonds consistent with applicable law.

All Pledged Taxes allocated to the payment of the principal of and interest on the 2007A Bonds shall be deposited in the Subordinate Bond Account.

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

(a) Local Option Tax Accounts and Additional Taxes Accounts. The Authority maintains Local Option Tax Accounts into which it promptly deposits Pledged Taxes upon the receipt thereof. The Authority may create a Tax Stabilization Subaccount in the Local Option Tax Accounts and deposit Pledged Taxes collected in any Fiscal Year into that subaccount or withdraw Pledged Taxes deposited therein from such subaccount and use amounts in such subaccount for any lawful purposes in accordance with the flow of funds set forth in Section 14(b), including for the purposes set forth in Section 20(a), and subject to the requirements set forth in the Prior Bond Resolution and in Resolution No. R2005-02. The Tax Stabilization Subaccount may be the same subaccount of that name established under Section 2(a) of the Prior Bond Resolution. Notwithstanding the foregoing, the Authority may provide that Additional Taxes shall be deposited into Additional Taxes Accounts, including a separate tax stabilization subaccount therein.

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

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

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

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

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

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

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

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

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

under all reimbursement agreements the payments will be made to the providers on a pro rata basis;

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

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

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

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

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

Section 15. Pledge of Pledged Taxes. From and after the issuance and delivery of the 2007A Bonds and so long as any of the 2007A Bonds remain Outstanding, the Authority irrevocably obligates and binds itself to impose, collect and deposit all Pledged Taxes into the Local Option Tax Accounts and the Additional Taxes Accounts, as applicable, and to set aside and pay into the Subordinate Bond Account, from Pledged Taxes, on or prior to the date on which the interest on, principal of, premium, if any, and sinking fund requirements for the 2007A Bonds shall become due, the amounts necessary to pay that interest, principal, sinking fund requirements and premium coming due on 2007A Bonds. 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 repayment of Parity Bonds or to make the deposits required hereunder. The Authority expressly reserves the right (but is not obligated) to include and pledge Additional Taxes, the MVET, and/or receipts resulting from an Adopted Rate Adjustment, as "Pledged Taxes." The Board hereby determines that the future inclusion of such Additional Taxes or the MVET as Pledged Taxes will benefit the Authority and the Owners of Parity Bonds. The inclusion of Additional Taxes as Pledged Taxes will not constitute a pledge of those Additional Taxes to the payment of Prior Bonds unless the Authority expressly provides therefor.

All Parity Bonds are special limited obligations of the Authority payable from and secured solely by Pledged Taxes and amounts, if any, in the Subordinate Bond Account, the Subordinate Reserve Account (except as otherwise provided in Section 19(b) of Resolution No. R2005-02), 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 2007A Bonds are "Subordinate Lien Obligations" as that term is defined by and under the Prior Bond Resolution.

There is hereby pledged for the payment of the 2007A Bonds (a) amounts in the Subordinate Bond Account, the Additional Taxes Accounts and proceeds of the 2007A Bonds deposited in any account created for the deposit of 2007A 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 16. Issuance of Future Parity Bonds and Prior Lien Bonds. Following the issuance of the 2007A Bonds, except as provided in Section 17 the Authority may issue various Series of Future Parity Bonds only upon compliance with the following conditions as certified by a Designated Authority Representative:

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

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

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

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

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

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

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

In preparing such certificate: (A) the Local Option Taxes and/or Pledged Taxes during the Base Period may be only those shown in audited or unaudited financial statements of the Authority; (B) the Designated Authority Representative shall take into account in calculating amounts received during the Base Period any Adopted Rate Adjustment, Additional Taxes and MVET included as Pledged Taxes pursuant to Section 15, and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Period; (C) MVET and/or Additional Taxes may not be taken into account to meet the requirements of clause (iii) above unless the Authority receives an opinion of Bond Counsel to the effect that the pledge of such MVET and/or Additional Taxes to such Future Parity Bonds is in full force and effect for the period in which they are included as Pledged Taxes; (D) any Adopted Rate Adjustment, Additional Taxes and/or extension of an existing tax shall be taken into account only if a certified public accountant, economic consultant or financial advisor experienced with state or local taxation or municipal bonds certifies that it is reasonable to expect that such adjusted, new or extended taxes will be received in the amounts assumed for purposes of the Authority Certificate; and (E) deposits into and withdrawals from the Tax Stabilization Subaccount during the Base 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 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 17. Refunding Bonds. The Authority, by means of a Series Resolution and in compliance with the provisions of Section 16 (except as otherwise provided below), may issue Refunding Bonds as follows:

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

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

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

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

Section 19. Subordinate Bond Account and Subordinate Reserve Account.

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

Subject to the requirements of Section 14(b), the Authority hereby irrevocably obligates and binds itself for so long as any 2007A Bonds remain Outstanding to set aside or cause to be set aside into the Subordinate Bond Account from Pledged Taxes:

(i) on or before each interest payment date with respect to 2007A Bonds, an amount that is sufficient to pay the interest scheduled to become due on Outstanding 2007A Bonds on such date;

(ii) on or before each principal payment date with respect to 2007A Bonds, an amount that is sufficient to pay the principal of all 2007A Bonds maturing on such date;

(iii) on or before each redemption date selected or scheduled for 2007A Bonds (including any scheduled mandatory redemption date for Term Bonds), an amount that is sufficient to pay the principal of and any premium on all 2007A Bonds to be redeemed on such date and, to the extent such date is not a scheduled interest payment date, the interest payable on all 2007A Bonds to be redeemed on such date; and

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

(b) Subordinate Reserve Account. The Subordinate Reserve Account has been heretofore created as a special account of the Authority for the purpose of securing the payment of the principal of, premium, if any, and interest on the Parity Bonds. The 2007 Bonds shall not be secured by amounts in the Subordinate Reserve Account or by Bond Insurance providing any portion of the Subordinate 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 2007 Bonds shall not be included in the calculation of the Subordinate 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 Subordinate Bond Account shall be invested by the Authority in any legal investment for funds of regional transit authorities of the State.

Section 20. Covenants. Authority makes the following covenants with the Owners of the 2007A Bonds for as long as any of the same remain Outstanding:

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

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

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

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

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

Bonds Outstanding on the date the Authority Certificate is given.

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

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

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

The Authority shall take all reasonable actions necessary to impose and provide for the continued collection of the Pledged Taxes and the application of those taxes for repayment of the 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 repayment of the Prior Bonds in accordance with the Prior Bond Resolution and the application of those Local Option Taxes in accordance with the Prior Bond Resolution and this Resolution. Except as expressly permitted under this 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 21. 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 2007A Bonds if the Payment Agreement satisfies the requirements for issuing Future Parity Bonds described in Section 16, taking into consideration regularly scheduled Payments and Receipts (if any) under the Payment Agreement. The following shall be conditions precedent to the use of any Payment Agreement on a parity with the 2007A Bonds:

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

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

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

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

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

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

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

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

Section 22. Defeasance. 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 2007A 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 calls the Defeased Bonds for redemption on the scheduled 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. That escrow agent shall hold that money, Government Obligations and earnings in trust exclusively for those Owners, 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) 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 and (b) an opinion of Bond Counsel to the effect that the defeasance is permitted under the laws of the State and this Resolution and will not, in and of itself, adversely affect the exclusion of interest on the Defeased Bonds from gross income for federal income tax purposes. The Defeased Bonds shall no longer be secured by or entitled to the benefits of this Resolution, except for the purposes of any payment from the money or Government Obligations deposited with that escrow agent and except for the provisions of this Resolution relating to the execution, authentication, registration, exchange, transfer and cancellation of the 2007A Bonds.

Section 23. Lost, Stolen, Mutilated or Destroyed 2007A Bonds. In case any 2007A Bond shall be lost, stolen, mutilated or destroyed, the Bond Registrar may execute and deliver a new 2007A 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 2007A Bond was actually lost, stolen or destroyed (including the presentation of a mutilated 2007A Bond) and of ownership thereof, and upon furnishing the Authority with indemnity satisfactory to the Authority.

Section 24. Supplements and Amendments.

(a) <u>Without Owners' Consent</u>. 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 21;

(ii) To add covenants and agreements of the Authority for the purpose of further securing the payment of the 2007A Bonds; <u>provided</u>, 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, MVET, income or revenues to the pledge of this Resolution or confirm as further assurance any pledge or provision for payment of the 2007A 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 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;

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

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

(ix) To modify any of the provisions of this Resolution in any other respect that does not materially and adversely affect the security for the payment of the Prior Bonds or any Parity Bonds and will not cause any Rating Agency to lower a rating on any Parity 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 Parity Bonds then Outstanding. So long as the payment of principal of and interest on the 2007A Bonds is guaranteed by Bond Insurance, the provider of that Bond Insurance may exercise approval on behalf of all the Owners of the 2007A Bonds so guaranteed. 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 or provider of Bond Insurance for the 2007A Bonds without its written consent.

(c) 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(h) Remedies Granted in Resolution not Exclusive. No remedy granted in this Resolution to the Bondowners' Trustee or the Owners of the 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 27. Continuing Disclosure.

(a) This Section constitutes the written undertaking (the "Undertaking") for the benefit of the holders of the 2007A Bonds as required by the Rule. For purposes of this Undertaking, the term "holders of the 2007A Bonds" shall have the meaning intended for such term under the Rule.

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

(i) To each NRMSIR, and to a state information depository, if one is established in the State and recognized by the SEC (the "SID"), annual financial information and operating data regarding the Authority of the type included in the Official Statement for the 2007A Bonds as follows: (i) audited financial statements prepared in accordance with generally accepted accounting principles applicable to Washington municipalities and consistent with requirements of the Washington State Auditor, except that if any audited financial statements are not available by nine months after the end of any Fiscal Year, the annual financial information filing shall contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the Authority, and the Authority's audited financial statements shall be filed in the same manner as the annual financial information filing when and if they become available; (ii) operating and financial information consisting of (A) aggregate principal amount of Prior Bonds and Parity Bonds Outstanding; (B) amount of Local Option Taxes and Pledged Taxes levied and collected by type; (C) any change by type in the rate or in the total amount of Local Option Taxes or Pledged Taxes the Authority is authorized to levy; and (D) a sufficiency calculation of the type set forth in Section 20(a) if the Authority is required to provide an Authority Certificate under that Section.

Except as otherwise provided above, the annual financial information described above will be provided to each NRMSIR and the SID not later than the last day of the ninth month after the end of each Fiscal Year of the Authority, commencing with the Authority's fiscal year ending December 31, 2007. The annual financial information may be provided in a single or in multiple documents, and may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Authority is an obligated person as defined by the Rule, which documents have been filed with each NRMSIR and the SID. If the document incorporated by reference is a "final official statement" it must be available from the MSRB.

(ii) To each NRMSIR or to the MSRB, and to the SID, timely notice of the occurrence of any of the following events with respect to the 2007A Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the 2007A Bonds; (vii) modifications to the rights of the holders of the 2007A Bonds; (viii) 2007A Bond calls (other than scheduled mandatory redemptions of Term Bonds); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the 2007A Bonds; and (xi) rating changes.

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

(c) This Undertaking may be amended without the consent of any holder of any 2007A Bond, any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID or the MSRB, under the circumstances and in the manner permitted by the Rule. The Authority will give notice to each NRMSIR or the MSRB, and to the SID, of the substance (or provide a copy) of any amendment to this Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information being provided.

(d) If the Authority fails to comply with this Undertaking, the Authority will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the Authority learns of that failure. No failure by the Authority or other obligated person to comply with this Undertaking shall constitute a default with respect to the Parity Bonds. The sole remedy of any holder of a 2007A Bond will be to take such actions as that holder deems necessary and appropriate to compel the Authority or other obligated person to comply with this Undertaking.

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

(f) The Authority's obligations under this Undertaking shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the 2007A Bonds then Outstanding. In addition, this Undertaking, or any provision thereof, will be null and void if the Authority (i) obtains an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws to the effect that those portions of the Rule which require the Authority to comply with this Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the 2007A

Bonds; and (ii) notifies the SID and either the MSRB or each then existing NRMSIR of such termination.

Section 28. Resolution a Contract. This Resolution shall constitute a contract with the Owners of the 2007A Bonds.

Section 29. Severability. If any one or more of the provisions of this Resolution shall be declared by any court of competent jurisdiction to be contrary to law, then such provision or provisions shall be deemed separable from, and shall in no way affect the validity of, any of the other provisions of this Resolution or of the 2007A Bonds issued pursuant to the terms hereof.

Section 30. Ratification of Prior Acts. Any action taken consistent with the Authority but prior to the effective date of this Resolution, including but not limited to issuing requests for proposals for financing or underwriting services, executing engagement letters for financing or underwriting services based on responses to such requests, preparing and issuing disclosure materials relating to the 2007A 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 8th day of November, 2007.

/s/ John W. Ladenburg
Board Chair

ATTEST:

/s/ Marcia Walker
Board Administrator

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APPENDIX C

DEMOGRAPHIC INFORMATION

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

The population of the District is estimated to be 2,667,000 as of April 1, 2007, which is approximately 80% of the population of the Counties (87% of King County's population, 82% of Pierce County's population and 58% of Snohomish County's population), and 41% of the State's population of 6.5 million.

As of 2005, the Seattle-Bellevue-Everett-Tacoma metropolitan areas (approximately but not necessarily coextensive with the District boundaries) accounted for approximately 57% 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 C-1
POPULATION IN THE COUNTIES

Year	King County	Pierce County	Snohomish County	Total
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
2001	1,758,300	713,400	618,600	3,090,300
2000	1,737,046	700,818	606,024	3,043,888
1990	1,507,305	586,203	465,628	2,559,136
1980	1,269,898	485,667	337,720	2,093,285

Sources: 2001 through 2007, State Office of Financial Management; 1980, 1990 and 2000, U.S. Department of Commerce, Bureau of Census.

TABLE C-2
ANNUAL AVERAGE NONAGRICULTURAL EMPLOYMENT IN THE COUNTIES

	2006	2005	2004	2003	2002
Total [1]	1,687,300	1,635,500	1,594,600	1,572,000	1,582,800
Natural Resources and Mining	1,500	1,500	1,760	1,800	1,700
Construction	114,200	103,200	95,900	92,900	93,000
Manufacturing	180,900	171,100	163,150	169,170	184,400
Trade, Transportation and Utilities	319,200	314,300	309,500	305,700	308,500
Information	81,300	77,600	75,500	75,000	75,900
Financial Activities	105,200	103,600	105,400	103,400	99,800
Professional and Business Services	226,800	215,000	206,100	199,000	198,600
Education and Health Services	186,100	182,400	175,900	171,800	170,800
Leisure and Hospitality	156,900	152,700	149,300	143,700	140,900
Other Services	62,400	62,000	60,800	60,300	59,800
Government	253,000	252,100	251,000	249,100	249,000

(1) Totals may not foot due to rounding.

Source: State Employment Security Department.

TABLE C-3
ANNUAL AVERAGE UNEMPLOYMENT IN THE COUNTIES

	King County		Pierce County		Snohomish County	
Year	Labor Force	% Unemployed	Labor Force	% Unemployed	Labor Force	% Unemployed
2006	1,044,300	4.2%	373,630	5.2%	357,480	4.6%
2005	1,010,950	4.7	370,550	5.9	346,070	5.1
2004	1,040,600	5.4	367,300	6.4	352,600	6.2
2003	1,018,500	6.8	355,700	7.8	346,800	8.0
2002	1,023,400	6.5	347,300	7.5	348,100	7.7
2001	1,013,700	5.1	331,700	6.4	337,200	5.4

Source: State Employment Security Department.

TABLE C-4
MAJOR PRIVATE EMPLOYERS IN THE COUNTIES

Employer	Business Activity
The Boeing Company	Aerospace manufacturer
Microsoft Corporation	Software developer
Providence Health System	Health-care services
Fred Meyer Stores	Retail grocery chain
Alaska Air Group Inc.	Airline
Costco Inc.	Membership warehouses
Weyerhaeuser Co.	Forest products
Washington Mutual Inc.	Banking and financial services
Group Health Cooperative	Health-care services
Bank of America	Banking and financial services
Macy's Northwest	Department stores

Employer	Business Activity
Nordstrom Inc.	Department stores
Quality Food Centers	Retail grocery chain
Swedish Health Services	Health-care services
Safeway Inc.	Retail food stores
Starbucks Corp.	Coffee Retailer
Cingular Wireless	Telecommunications
Quest Communications	Telecommunications
Safeco Corporation	Insurance and financial services
MultiCare Health System	Health-care services
Virginia Mason Medical Center	Health-care services
Franciscan Health System	Health-care services
Key Bank of Washington	Banking and financial services
Paccar Inc.	Heavy duty truck manufacturer
Seattle Times Company	Newspaper publisher
Eddie Bauer Inc.	Casual apparel and home furnishings
Verizon Communications	Telecommunications
Goodrich Corp.	Commercial aircraft repair
Lowes	Home improvement retailer

Sources: August 10-16, 2007 Supplement to *Puget Sound Business Journal* Washington's Best Workplaces; Snohomish County Economic Development Council; Economic Development Board for Tacoma-Pierce County.

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

Year	King County	Pierce County	Snohomish County
2005	$86,747,000	$24,440,000	$22,289,000
2004	87,418,000	23,253,000	21,143,000
2003	79,199,000	22,234,000	20,192,000
2002	77,941,000	21,503,000	19,900,000
2001	76,883,000	20,702,000	19,416,000
2000	77,271,000	19,416,000	18,514,000

Source: U.S. Bureau of Economic Analysis.

TABLE C-6
PER CAPITA INCOME IN THE COUNTIES

Year	King County	Pierce County	Snohomish County
2005	$48,216	$32,448	$33,999
2004	49,118	31,200	32,825
2003	44,821	30,059	31,718
2002	44,250	29,405	31,480
2001	43,800	28,817	31,165
2000	44,429	27,577	30,388

Source: U.S. Bureau of Economic Analysis.

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APPENDIX D

FORM OF BOND COUNSEL OPINION

[Closing Date]

The Central Puget Sound Regional Transit Authority

Re: $450,000,000 The Central Puget Sound Regional Transit Authority Sales Tax Bonds, Series 2007A

We have served as bond counsel to The Central Puget Sound Regional Transit Authority (the "Authority") in connection with the issuance of the above-referenced bonds (the "2007A 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 2007A Bonds are issued by the Authority pursuant to Resolutions Nos. R2007-22 and R2007-27 (collectively, the "2007A Bond Resolutions") to provide funds to finance part of the cost of the Authority's regional transit system plan, to pay certain costs of issuance and sale of the 2007A Bonds and for other Authority purposes, all as set forth in the 2007A Bond Resolutions. Reference is made to the 2007A Bond Resolutions for the definitions of capitalized terms used and not otherwise defined herein.

The 2007A Bonds are payable solely out of the Authority's Subordinate Bond Account, into which account the Authority irrevocably has pledged and bound itself to deposit Pledged Taxes in an amount sufficient to pay principal of and interest on the 2007A Bonds as they respectively become due, all at the times and in the manner set forth in the 2007A Bond Resolutions.

The Pledged Taxes have been pledged to the payment of the 2007A Bonds, and this pledge constitutes a charge upon the Pledged Taxes and amounts in certain accounts specified in the 2007A Bond Resolutions 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.

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 2007A Bonds or otherwise used in connection with the 2007A 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 2007A Bonds in order to maintain the exclusion of the interest on the 2007A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2007A Bond proceeds and the facilities financed or refinanced with 2007A Bond proceeds, limitations on investing gross proceeds of the 2007A Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2007A Bonds. The Authority has covenanted in the 2007A Bond Resolutions to comply with those requirements, but if the Authority fails to comply with those requirements, interest on the 2007A Bonds could become taxable retroactive to the date of issuance of the 2007A 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 2007A 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 2007A 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 2007A Bonds constitute valid and binding special limited obligations of the Authority payable solely out of the Pledged Taxes to be paid into the Subordinate Bond Account, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases; and

4. Assuming compliance by the Authority after the date of issuance of the 2007A Bonds with applicable requirements of the Code, the interest on the 2007A 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 2007A Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2007A 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 2007A Bonds received by certain S corporations may be subject to tax, and interest on the 2007A 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 2007A 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 E

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 2007A Bonds. The 2007A 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 2007A Bond certificate will be issued for each maturity of the 2007A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2007A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2007A 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 2007A 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 2007A Bonds, except in the event that use of the book-entry system for the 2007A Bonds is discontinued.

To facilitate subsequent transfers, all 2007A 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 2007A 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 Owners of the 2007A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007A 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 2007A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2007A 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 2007A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the 2007A 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) is 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 2007A 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, 2007A 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, 2007A 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.

APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ____________________ By ____________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
31 West 52nd Street, New York, N.Y. 10019

Form 500NY (5/90)

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