

*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 2009P-1 Prior Bonds, interest on the 2009P-1 Prior Bonds is excluded from gross income for federal income tax purposes and is not subject to the federal alternative minimum tax. However, interest on the 2009P-1 Prior Bonds received by certain S corporations may be subject to tax, and interest on the 2009P-1 Prior Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the 2009P-1 Prior Bonds may have other federal tax consequences for certain taxpayers. See "TAX EXEMPTION—2009P-1 Prior Bonds." Interest on the 2009P-2T Prior Bonds and 2009S-2T Parity Bonds is not excludable from gross income for federal income tax purposes. See "TAX MATTERS—2009P-2T Prior Bonds and 2009S-2T Parity Bonds."*

**THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY**

**\$100,000,000 Sales Tax and Motor Vehicle Excise Tax Bonds**  
**\$23,155,000 Series 2009P-1**

**\$76,845,000 Series 2009P-2T**

(Taxable Build America Bonds—Direct Payment)



**\$300,000,000 Sales Tax Bonds, Series 2009S-2T**  
(Taxable Build America Bonds—Direct Payment)

**Dated:** Date of initial delivery

**Due:** As shown on inside cover page

The Central Puget Sound Regional Transit Authority ("Sound Transit"), a Washington regional transit authority, is issuing its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-1 in the aggregate principal amount of \$23,155,000 (the "2009P-1 Prior Bonds"), its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-2T (Taxable Build America Bonds—Direct Payment) in the aggregate principal amount of \$76,845,000 (the "2009P-2T Prior Bonds" and together with the 2009P-1 Prior Bonds, the "2009 Prior Bonds"), and its Sales Tax Bonds, Series 2009S-2T (Taxable Build America Bonds—Direct Payment) in the aggregate principal amount of \$300,000,000 (the "2009S-2T Parity Bonds" or the "2009 Parity Bonds"). The 2009 Prior Bonds and the 2009 Parity Bonds are collectively referred to as the "2009 Bonds." Interest on the 2009 Prior Bonds is payable on each February 1 and August 1, commencing on February 1, 2010. Interest on the 2009 Parity Bonds is payable on each May 1 and November 1, commencing on May 1, 2010. The 2009 Bonds are being issued under a book-entry system, initially registered to Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as initial securities depository for the 2009 Bonds. Individual purchases of 2009 Bonds are to be made in authorized denominations, in book-entry form only, and purchasers will not receive certificates representing their interest in the 2009 Bonds, except as described herein. Payments of principal of and premium, if any, and interest on the 2009 Bonds are to be made to DTC by the fiscal agent of the State of Washington, currently The Bank of New York Mellon in New York, New York (the "Bond Registrar"). Disbursements of payments to DTC participants is the responsibility of DTC, and disbursement of payments to beneficial owners of the 2009 Bonds is the responsibility of DTC participants. See "THE 2009 BONDS." The 2009 Bonds are subject to redemption prior to maturity upon the terms and conditions and at the prices described herein. See "THE 2009 BONDS—Redemption and Purchase."

The 2009 Bonds are being issued to pay or to reimburse Sound Transit for the payment of costs of constructing a portion of Sound Transit's System Plan, to refund certain outstanding Parity Bonds, to fund a portion of the Prior Reserve Account Requirement and to pay the costs of issuing the 2009 Bonds. See "DEBT CAPACITY AND SOURCES AND USES OF 2009 BOND PROCEEDS—Expected Sources and Uses of 2009 Bond Proceeds."

Sound Transit has designated the 2009P-1 Prior Bonds as Qualified Tax-Exempt Obligations for banks, thrift institutions and other financial institutions. See "TAX EXEMPTION—2009P-1 PRIOR BONDS—Certain Other Federal Tax Consequences."

The 2009 Bonds are special limited obligations of Sound Transit payable from and secured solely by a pledge of the taxes described herein. The 2009 Prior Bonds are secured by a pledge of the proceeds of certain motor vehicle taxes, sales and use taxes and rental car taxes imposed by Sound Transit and amounts, if any, held in certain accounts by Sound Transit, including federal credit payments in respect of the 2009P-2T Prior Bonds. The 2009 Parity Bonds are secured by a pledge of the proceeds of certain sales and use taxes and rental car taxes imposed by Sound Transit and amounts, if any, in certain accounts held by Sound Transit, including federal credit payments in respect of the 2009S-2T Parity Bonds. The pledge for the payment of the 2009 Parity Bonds of certain taxes and certain amounts in certain accounts is subordinate to the pledge thereon securing the Prior Bonds. Sound Transit has reserved the right to issue obligations in the future that are secured by pledges of those taxes and the amounts in those accounts. See "SECURITY FOR THE 2009 BONDS."

The 2009 Bonds are not obligations of the State of Washington or any political subdivision thereof other than Sound Transit. The 2009 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 2009 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. It is expected that the 2009 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 September 29, 2009.*

**Merrill Lynch & Co.**

**Citi\***  
**RBC Capital Markets**

**Goldman, Sachs & Co.\***  
**Siebert Bradford Shank & Co., LLC**

\* Citi is book-runner for the 2009P-1 Prior Bonds and Citi and Goldman, Sachs & Co. are joint book-runners for the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds

**The Central Puget Sound Regional Transit Authority**

**\$23,155,000 Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-1**

<b>Due (February 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP No. 155048*</b>
2015	\$ 5,535,000	4.00%	2.21%	BU4
2016	5,320,000	3.00	2.45	BV2
2016	12,300,000	5.00	2.45	BW0

**\$76,845,000 Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-2T  
(Taxable Build America Bonds—Direct Payment)**

\$39,590,000 4.845% Term Bonds due February 1, 2024 at a price of 100% CUSIP No. 155048BX8\*

\$37,255,000 5.145% Term Bonds due February 1, 2028 at a price of 100% CUSIP No. 155048BY6\*

**\$300,000,000 Sales Tax Bonds, Series 2009S-2T  
(Taxable Build America Bonds—Direct Payment)**

\$300,000,000 5.491% Term Bonds due November 1, 2039 at a price of 100% CUSIP No. 15504RET2\*

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\* ©2009 CUSIP Global Services, CUSIP® is a registered trademark of the American Bankers Association. CUSIP numbers are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers are provided for convenience and reference only, and are subject to change. Neither Sound Transit nor the Underwriters take responsibility for the accuracy of the CUSIP numbers.

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 2009 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 2009 Bonds, by any person in any jurisdiction in which such offer, solicitation or sale is not authorized or in which the person making such offer, solicitation or sale is not qualified to do so or to any person to whom it is unlawful to make such offer, solicitation or sale.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information set forth in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Sound Transit since the date of this Official Statement.

In connection with the offering of the 2009 Bonds, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the 2009 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 2009 Bonds to certain dealers (including dealers depositing 2009 Bonds into investment trusts) and others at prices lower than the initial offering prices or prices corresponding to the yields set forth on the inside cover page hereof, and such initial offering prices may be changed, from time to time, by the Underwriters, without prior notice.

Information on web site addresses set forth in this Official Statement are not part of this Official Statement and should not be relied upon to be accurate as of the date of this Official Statement, nor should it be relied upon in making investment decisions regarding the 2009 Bonds.

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

**Board of Directors**

Name (Board Position)	Entity Representing	Elected/Appointed Position
Greg Nickels (Chair)	City of Seattle	Mayor
Claudia Thomas (Vice Chair)	City of Lakewood	Mayor
Julie Anderson	City of Tacoma	Deputy Mayor
Mary-Alyce Burleigh	City of Kirkland	Councilmember
Fred Butler	City of Issaquah	Deputy Council President
Richard Conlin	City of Seattle	Council President
Dow Constantine	King County	Council Chair
David Enslow	City of Sumner	Mayor
Paula J. Hammond	State of Washington	Secretary of Transportation
John Marchione	City of Redmond	Mayor
Joe Marine	City of Mukilteo	Mayor
Pat McCarthy	Pierce County	County Executive
Julia Patterson	King County	Councilmember
Larry Phillips	King County	Councilmember
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Paul Roberts	City of Everett	Councilmember
Kurt Triplett	King County	County Executive
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Joni Earl	Chief Executive Officer
Ron Tober	Deputy Chief Executive Officer
Brian McCartan	Executive Director, Finance and Information Technology
Desmond Brown	Executive Director, General Counsel
Ahmad Fazel	Executive Director, Link Light Rail
Ric Ilgenfritz	Executive Director, Planning, Environmental and Project Development
Ron Klein	Director, Communications and External Affairs
Bonnie Todd	Director, Operations
Tracy Butler	Treasurer

**Advisors and Consultants**

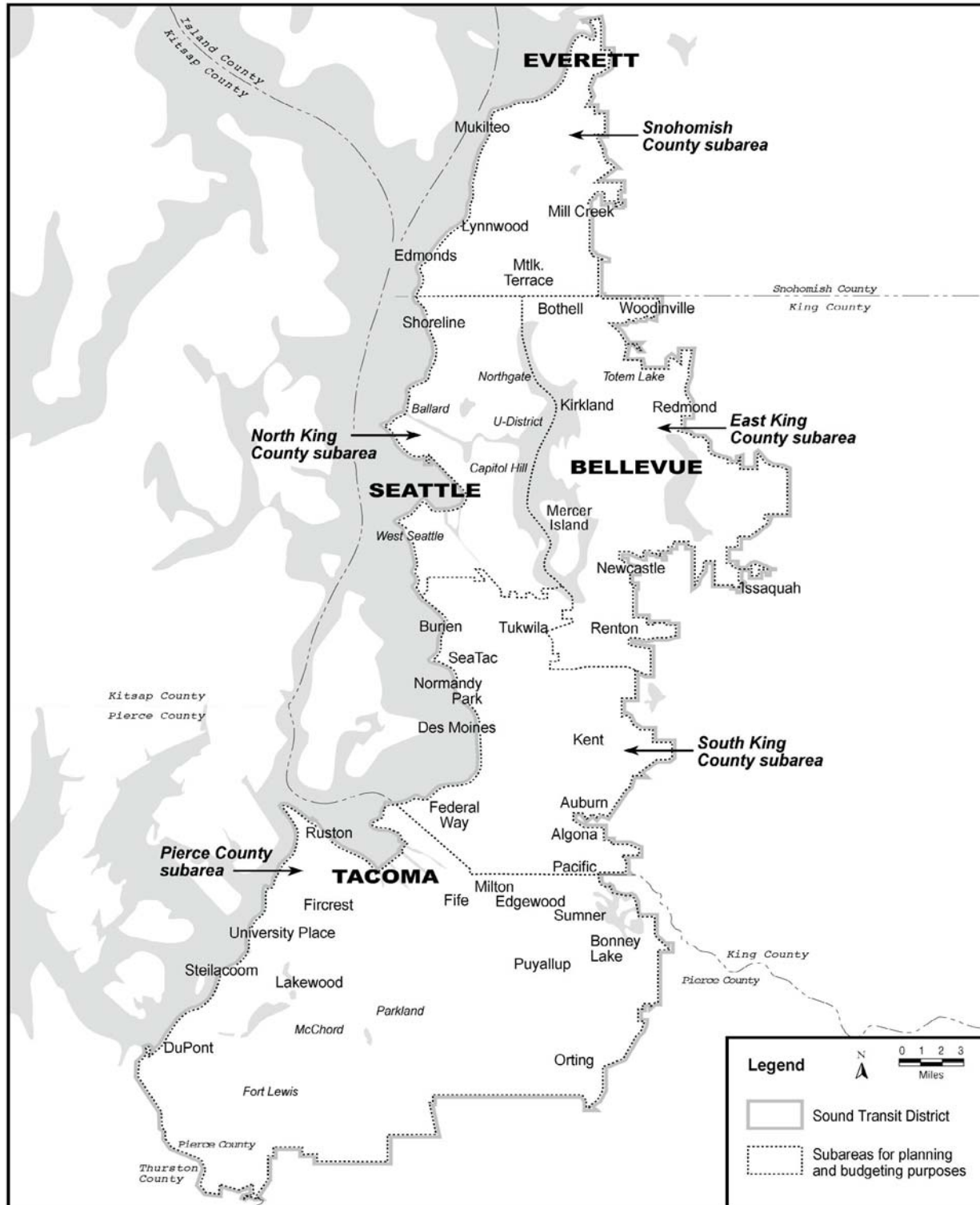
Foster Pepper PLLC	Bond Counsel and Disclosure Counsel
Public Financial Management, Inc.	Financial Advisor

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

## TABLE OF CONTENTS

	Page		Page
INTRODUCTION .....	1	No Lien.....	29
Sound Transit.....	1	No Acceleration Upon Default.....	29
System Plan.....	2	SOUND TRANSIT .....	29
Purpose of the 2009 Bonds .....	2	Introduction .....	29
Authority for Issuance.....	2	Corporate Powers .....	30
Local Option Taxes and Pledged Taxes.....	3	District Boundaries and Service Area.....	30
Security for the Prior Bonds.....	3	Governance and Organizational Structure.....	30
Security for the Parity Bonds .....	4	Key Staff Biographies .....	31
Additional Bonds .....	4	System Plan .....	32
DEBT CAPACITY AND SOURCES AND USES OF 2009		Transit Operations .....	35
BOND PROCEEDS.....	4	Financial Policies.....	37
Borrowing Authority.....	4	Labor Relations .....	37
Debt Capacity.....	5	Pension Plans.....	37
Expected Sources and Uses of 2009 Bond Proceeds.....	5	Other Post-Employment Benefits.....	38
Plan of Refunding .....	6	Risk Management.....	38
THE 2009 BONDS .....	6	Budgeting and Capital Planning Process .....	38
General.....	6	Accounting and Auditing.....	39
Payment of the 2009 Bonds .....	7	Investments.....	39
Redemption and Purchase.....	7	Payment Agreements.....	40
Registration and Transfer or Exchange of 2009		Capital Leases.....	41
Bonds .....	11	Debt Service Requirements .....	41
Designation of 2009P-2T Prior Bonds and 2009S-2T		Historical Financial Results.....	43
Parity Bonds as “Build America Bonds”.....	11	INITIATIVES AND REFERENDA.....	45
Federal Credit Payments for “Build America Bonds”..	11	LITIGATION .....	46
SOUND TRANSIT TAXES .....	13	TAX EXEMPTION—2009P-1 PRIOR BONDS .....	46
Introduction.....	13	General .....	46
Sales Tax.....	13	Certain Other Federal Tax Consequences.....	47
Rental Car Tax .....	14	TAX MATTERS—2009P-2T PRIOR BONDS AND	
Historical Sales Tax and Rental Car Tax Revenues .....	15	2009S-2T PARITY BONDS.....	48
Motor Vehicle Tax .....	15	ERISA CONSIDERATIONS .....	49
Historical Motor Vehicle Tax Revenues .....	16	CONTINUING DISCLOSURE .....	50
Recent Developments .....	17	LEGAL MATTERS .....	50
SECURITY FOR THE 2009 BONDS.....	17	LIMITATIONS ON REMEDIES.....	50
Limited Obligations .....	17	RATINGS.....	51
Flow of Funds .....	17	UNDERWRITING .....	51
Security for the 2009 Prior Bonds.....	18	ADVISORS AND CONSULTANTS.....	52
Security for the 2009 Parity Bonds .....	22	MISCELLANEOUS .....	52
Junior Obligations and Other Obligations.....	28		
Defeasance .....	28		
Other Covenants.....	29		
Appendix A:	AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007		
Appendix B:	FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION		
Appendix C:	FORM OF CONTINUING DISCLOSURE UNDERTAKINGS		
Appendix D:	DEMOGRAPHIC INFORMATION		
Appendix E:	FORMS OF BOND COUNSEL OPINIONS		
Appendix F:	DTC AND ITS BOOK-ENTRY SYSTEM		

# SOUND TRANSIT DISTRICT





## OFFICIAL STATEMENT

### THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY (SOUND TRANSIT)

#### **\$100,000,000 SALES TAX AND MOTOR VEHICLE EXCISE TAX BONDS**

**\$23,155,000 Series 2009P-1**

**\$76,845,000 Series 2009P-2T**

**(Taxable Build America Bonds—Direct Payment)**

**And**

#### **\$300,000,000 SALES TAX BONDS**

**\$300,000,000 Series 2009S-2T**

**(Taxable Build America Bonds—Direct Payment)**

### INTRODUCTION

This Official Statement, including the cover, inside cover page and appendices, is being provided by The Central Puget Sound Regional Transit Authority (“Sound Transit”), a Washington State regional transit authority, to furnish information in connection with the issuance by Sound Transit of its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-1, in the aggregate principal amount of \$23,155,000 (the “2009P-1 Prior Bonds”), its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-2T (Taxable Build America Bonds—Direct Payment), in the aggregate principal amount of \$76,845,000 (the “2009P-2T Prior Bonds” and together with the 2009P-1 Prior Bonds, the “2009 Prior Bonds”), and its Sales Tax Bonds, Series 2009S-2T (Taxable Build America Bonds—Direct Payment), in the aggregate principal amount of \$300,000,000 (the “2009S-2T Parity Bonds” or the “2009 Parity Bonds”). The 2009 Prior Bonds and the 2009 Parity Bonds are referred to collectively as the “2009 Bonds.”

The 2009 Prior Bonds, together with the outstanding Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (the “1999 Prior Bonds”) and any obligations issued in the future secured by a pledge of the Local Option Taxes (defined herein) on a parity with the pledge securing the 1999 Prior Bonds and the 2009 Prior Bonds (the “Future Prior Bonds”), are referred to collectively as the “Prior Bonds.” The 2009 Parity Bonds, together with the outstanding Sales Tax Bonds, Series 2005A (the “2005A Parity Bonds”) and Sales Tax Bonds, Series 2007A (the “2007A Parity Bonds”), and any obligations issued in the future secured by a pledge of the Pledged Taxes (defined herein) on a parity with the pledge securing the 2005A Parity Bonds, the 2007A Parity Bonds and the 2009 Parity Bonds (the “Future Parity Bonds”), are referred to collectively as the “Parity Bonds.”

This Introduction does not purport to be complete, and reference is made to the entire Official Statement, including the cover, inside cover page and appendices, for more complete statements with respect to the matters summarized herein. Unless otherwise defined in this Official Statement, capitalized terms used herein have the meanings set forth in Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Definitions” and “—2009 Parity Bond Resolution—Definitions.”

#### **Sound Transit**

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

Sound Transit’s boundaries generally conform to the “urban growth boundaries” designated by the Counties pursuant to the State’s Growth Management Act, with certain minor adjustments. The area within Sound Transit’s boundaries (the “District”) has a 2008 estimated population of approximately 2.86 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 also may include any lands, interests in land, air rights over lands, and improvements thereto including vessel terminals, and any equipment, vehicles, vessels, and other components necessary to support the system. See “SOUND TRANSIT.”

### **System Plan**

Sound Transit has adopted its “System Plan,” which incorporates commuter rail, light rail, express bus, community connections (such as transit centers, park-and-ride lots and transit access improvements) and high occupancy vehicle facilities and other improvements. The three primary programs are regional express buses (“ST Express”); commuter rail (“Sounder”); and electric light rail (“Link”). The implementation of the initial phase of the System Plan (“Sound Move”), which was approved by voters in 1996, is scheduled for a 20-year period ending in 2016. In 2008, voters approved “Sound Transit 2” as a second phase of the System Plan to finance the expansion of the existing light rail system, commuter rail and express bus service over the next 15 years. See “SOUND TRANSIT.” At the 1996 and 2008 elections, approximately 57% of voters approved the propositions. The System Plan is estimated to cost \$20.8 billion (in year of expenditure dollars) and is expected to be financed with a combination of Local Option Taxes, federal, State and local grants, bond proceeds (including 2009 Bond proceeds), fares and other operating revenues, as well as interest earnings on money from such sources.

### **Purpose of the 2009 Bonds**

The 2009 Bonds are being issued to provide funds necessary to pay or to 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 facilities, as set forth in the System Plan. Proceeds of the 2009 Bonds also will be used to refund a portion of the outstanding 2005A Parity Bonds, to fund a portion of the Prior Reserve Account, which secures the 1999 Prior Bonds and the 2009 Prior Bonds, and to pay the costs of issuing the 2009 Bonds. See “DEBT CAPACITY AND SOURCES AND USES OF BOND PROCEEDS.”

### **Authority for Issuance**

The 2009 Bonds are authorized to be issued pursuant to chapters 81.104 and 81.112 RCW (the “Act”) and chapter 39.46 RCW. By Resolution No. R98-47, adopted on November 12, 1998, as amended by Resolution No. R99-4, adopted on February 11, 1999 (together, the “Original Master Resolution”), Sound Transit authorized the issuance of the 1999 Prior Bonds and Future Prior Bonds to finance a portion of the Sound Move Plan. In connection with the issuance of the 2009 Bonds, Sound Transit has amended and restated the Original Master Resolution by Resolution No. R2009-15, adopted on September 10, 2009 (the “Master Prior Bond Resolution”). The 2009 Prior Bonds are being issued pursuant to the Master Prior Bond Resolution and Resolution No. R2009-17, adopted on September 16, 2009 (collectively, the “2009 Prior Bond Resolutions”). The 2009 Parity Bonds are being issued pursuant to Resolution No. R2009-16, adopted on September 10, 2009 (the “2009 Parity Bond Resolution”) and Resolution No. R2009-18, adopted on September 16, 2009 (collectively, the “2009 Parity Bond Resolutions”). The 2009 Parity Bond Resolutions, together with Resolution No. R2005-02, adopted on February 10, 2005, and Resolution No. R2005-07, adopted on March 2, 2005, which together authorized the issuance of the 2005A Parity Bonds, and Resolution No. R2007-22, adopted on November 8, 2007 and Resolution No. R2007-27, adopted on November 29, 2007, which together authorized the issuance of the 2007A Parity Bonds, are referred to collectively as the “Parity Bond Resolutions.” The 2009 Prior Bond Resolutions and the 2009 Parity Bond Resolutions are referred to collectively as the “2009 Bond Resolutions.”

The forms of the Master Prior Bond Resolution and the 2009 Parity Bond Resolution are set forth in their entirety in Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION.”



## **Local Option Taxes and Pledged Taxes**

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

The Sales Tax, the Motor Vehicle Tax and the Rental Car Tax are referred to collectively as the “Local Option Taxes.” The Local Option Taxes are pledged to the payment of the Prior Bonds.

The Sales Tax and the Rental Car Tax (together with other taxes if pledged in the future to the payment of the Parity Bonds) are referred to collectively as “Pledged Taxes.” The Pledged Taxes are pledged to the payment of the Parity Bonds. The pledge of the Sales Tax and the Rental Car Tax to the payment of the Parity Bonds is subordinate to the pledge thereof to the payment of the Prior Bonds.

The Motor Vehicle Tax is a component of the Local Option Taxes pledged to the payment of the Prior Bonds, but the Motor Vehicle Tax is not a component of the Pledged Taxes pledged to the payment of the Parity Bonds. Under current law, Sound Transit does not have clear authority to impose the Motor Vehicle Tax after the 1999 Prior Bonds are retired or provision is made therefor. The last scheduled maturity of the 1999 Prior Bonds is 2028. Sound Transit has covenanted in the Master Prior Bond Resolution to use the proceeds from all Local Option Taxes (including the Motor Vehicle Tax) for the purposes and in the priorities described in “SECURITY FOR THE 2009 BONDS—Flow of Funds,” including for payment of debt service on Parity Bonds.

See “SECURITY FOR THE 2009 BONDS—Security for the 2009 Prior Bonds” and “—Security for the 2009 Parity Bonds.”

## **Security for the Prior Bonds**

The 2009 Prior Bonds are payable from and secured by a pledge of the Local Option Taxes (the Sales Tax, the Motor Vehicle Tax and the Rental Car Tax), which are required to be deposited into the Local Option Tax Accounts. The 2009 Prior Bonds are also secured by amounts, if any, in the Local Option Tax Accounts, the Prior Bond Account, the Prior Reserve Account and any project account created for the deposit of Prior Bond proceeds. The pledge for the payment of the Prior Bonds of the Local Option Taxes and amounts in the Local Option Tax Accounts, the Prior Bond Account, the Prior Reserve Account and any project account created for the deposit of Prior Bond proceeds is a prior charge upon the Local Option Taxes and such accounts superior to all other charges of any kind or nature (including the payment of Parity Bonds and the payment of costs of operating and maintaining Sound Transit and its facilities). The 2009 Prior Bond Resolutions require that the federal credit payments received in respect of the 2009P-2T Prior Bonds also be deposited into the Prior Bond Account.

A Prior Reserve Account was created pursuant to the Master Prior Bond Resolution to secure the payment of the principal of, premium, if any, and interest on the Prior Bonds. A portion of the proceeds from the 2009 Prior Bonds will be deposited into the Prior Reserve Account.

The Master Prior Bond Resolution contains various amendments to which the Owners of the 2009 Prior Bonds will be deemed to have consented. See “SECURITY FOR THE 2009 BONDS—Security for the 2009 Prior Bonds—Special Amendments.”

As of August 31, 2009, the 1999 Prior Bonds were outstanding in the aggregate principal amount of \$331,855,000.

See “SECURITY FOR THE 2009 BONDS—Security for the 2009 Prior Bonds.”

## **Security for the Parity Bonds**

The 2009 Parity Bonds are “Subordinate Obligations,” as that term is defined in the Master Prior Bond Resolution. The 2009 Parity Bonds are payable from and secured by a pledge of the Pledged Taxes (currently, the Sales Tax and the Rental Car Tax). The Sales Tax and the Rental Car Tax are required to be deposited into the Local Option Tax Accounts. The 2009 Parity Bonds are also secured by amounts, if any, in the Parity Bond Account, the Local Option Tax Accounts, the Additional Taxes Accounts, the Tax Stabilization Subaccount and any project account created for the deposit of Parity Bond proceeds, subject to the prior pledge of money in the Local Option Tax Accounts and the Tax Stabilization Subaccount that has been created in favor of the Prior Bonds.

The pledge for the payment of the 2009 Parity Bonds of amounts in the Parity Bond Account, the Additional Taxes Accounts and proceeds of the 2009 Parity Bonds deposited in any account created for the deposit of 2009 Parity Bond proceeds is a charge equal to the charge of any other Parity Bonds and superior to all other charges of any kind or nature (including the payment of costs of operating and maintaining Sound Transit and its facilities). The pledge for the payment of the 2009 Parity Bonds of the Pledged Taxes and amounts in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount and earnings thereon, to the extent amounts and earnings in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount represent revenues from Pledged Taxes, is a prior charge superior to all other charges of any kind or nature (including the payment of costs of operating and maintaining Sound Transit and its facilities), except the charge of the Prior Bonds on Local Option Taxes, and equal to the charge of any other Parity Bonds. The 2009 Parity Bond Resolution requires that the federal credit payments received in respect of the 2009S-2T Parity Bonds be deposited into the Parity Bond Account.

A Parity Reserve Account was created pursuant to Resolution No. R2005-02 adopted 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 Parity Reserve Account Requirement has not been established. The 2007A Parity Bonds and the 2009 Parity Bonds have a separate Parity Reserve Account Requirement of zero and have no claim on the money in the Parity Reserve Account.

The 2009 Parity Bond Resolution contains various amendments to which the Owners of the 2009 Parity Bonds will be deemed to have consented. See “SECURITY FOR THE 2009 BONDS—Security for the 2009 Parity Bonds—Special Amendments.”

As of August 31, 2009, the 2005A Parity Bonds and 2007A Parity Bonds were outstanding in the aggregate principal amount of \$858,260,000.

See “SECURITY FOR THE 2009 BONDS—Security for the 2009 Parity Bonds.”

## **Additional Bonds**

Sound Transit expects to issue additional series of bonds. Sound Transit has reserved the right to issue Future Prior Bonds, Future Parity Bonds and Junior Obligations as described in “SECURITY FOR THE 2009 BONDS.”

## **DEBT CAPACITY AND SOURCES AND USES OF 2009 BOND PROCEEDS**

### **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 2009 Bonds, are considered general obligation bonds for purposes of determining the source of authority for issuance and limits on the amount of debt that may be issued.

**Debt Capacity**

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, the issuance of bonds payable from any type of taxes, such as the 2009 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 Prior Bonds, the 2005A Parity Bonds and the 2007A Parity Bonds were issued and the 2009 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 1 sets forth the legal debt capacity for Sound Transit after giving effect to the issuance of the 2009 Bonds and the refunding of the 2005A Bonds refunded by proceeds of the 2009P-1 Prior Bonds.

**TABLE 1  
LEGAL DEBT CAPACITY <sup>(1)</sup>  
(\$000s)**

Assessed valuation in 2008 for collection of taxes in 2009.....	\$ 373,129,881
Maximum nonvoted debt (1½% of assessed valuation) .....	5,596,948
Less: Outstanding 1999 Prior Bonds.....	(331,855)
Less: Outstanding 2005A Parity Bonds and 2007A Parity Bonds .....	(833,260)
Less: 2009 Prior Bonds .....	(100,000)
Less: 2009 Parity Bonds.....	(300,000)
Nonvoted debt capacity remaining.....	\$ 4,031,833
Maximum voted debt (5% of assessed valuation).....	\$ 18,656,494
Less: Aggregate outstanding nonvoted debt.....	(1,165,115)
Less: 2009 Prior Bonds .....	(100,000)
Less: 2009 Parity Bonds.....	(300,000)
Less: Outstanding voted debt .....	-
Voted debt capacity remaining.....	\$ 17,091,379

(1) Other than assessed valuation, as of August 31, 2009 after giving effect to the issuance of the 2009 Bonds and the refunding of the 2005A Bonds refunded by proceeds of the 2009P-1 Prior Bonds. Excludes capital leases. See “SOUND TRANSIT—Capital Leases.”

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

**Expected Sources and Uses of 2009 Bond Proceeds**

The 2009 Bonds are being issued to provide funds necessary to pay or to 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 facilities as set forth in the System Plan. See “SOUND TRANSIT—System Plan.” Proceeds of the 2009 Bonds also will be used to refund a portion of the outstanding

2005A Parity Bonds, to fund a portion of the Prior Reserve Account Requirement and to pay the costs of issuing the 2009 Bonds.

Table 2 sets forth the expected sources and uses of the 2009 Bond proceeds, rounded to the nearest dollar.

**TABLE 2**  
**EXPECTED SOURCES AND USES OF 2009 BOND PROCEEDS**

<b>Sources of 2009 Bond Proceeds</b>	<b>2009 Prior Bonds</b>	<b>2009 Parity Bonds</b>
Principal of the 2009 Bonds	\$ 100,000,000	\$ 300,000,000
Original Issue Premium	2,497,664	—
<b>Total Sources</b>	<b>\$ 102,497,664</b>	<b>\$ 300,000,000</b>
<b>Uses of 2009 Bond Proceeds</b>		
2009 Bond Proceeds Account	\$ 68,488,473	\$ 297,424,605
2005A Parity Bonds Refunding Account	25,493,750	—
Prior Reserve Account	7,888,953	—
Issuance Costs <sup>(1)</sup>	626,488	2,575,395
<b>Total Uses</b>	<b>\$ 102,497,664</b>	<b>\$ 300,000,000</b>

(1) Includes rating agency fees, financial advisor and legal fees, Underwriters' discount and other costs of issuing the 2009 Bonds.

### **Plan of Refunding**

A portion of the proceeds from the sale of the 2009P-1 Prior Bonds will be used to redeem on November 1, 2009, at a price of par plus accrued interest to the date fixed for redemption, the \$25,000,000 principal amount of 2005A Parity Bonds maturing on November 1, 2016 with CUSIP No. 15504RAL3.\*

## **THE 2009 BONDS**

### **General**

The 2009 Bonds are dated their date of initial delivery, bear interest from their dated date and mature on the dates, in the years and in the amounts and at the rates set forth on the inside cover page of this Official Statement, subject to prior redemption as described in "Redemption and Purchase" under this heading.

The 2009P-1 Prior Bonds are being issued in the aggregate principal amount of \$23,155,000, and the 2009P-2T Prior Bonds are being issued in the aggregate principal amount of \$76,845,000. The 2009S-2T Parity Bonds are being issued in the aggregate principal amount of \$300,000,000. The 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds are being issued as Build America Bonds. See "Designation of 2009P-2T Prior Bonds and 2009S-2T Parity Bonds as 'Build America Bonds'" under this heading.

The 2009 Bonds are being issued in denominations of \$5,000 and any integral multiple thereof within a single maturity and series. Interest on the 2009 Bonds is calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the 2009 Prior Bonds is payable on each February 1 and August 1, commencing on February 1, 2010. Interest on the 2009 Parity Bonds is payable on each May 1 and November 1, commencing on May 1, 2010.

\* CUSIP data herein are provided by the CUSIP Service Bureau, which is operated by Standard & Poor's.

## **Payment of the 2009 Bonds**

The fiscal agent of the State (currently The Bank of New York Mellon in New York, New York) will serve as initial paying agent, authenticating agent, transfer agent and registrar for the 2009 Bonds (the “Bond Registrar”).

The 2009 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 2009 Bonds. Individual purchases of 2009 Bonds are to be made in authorized denominations in book-entry form only. Purchasers will not receive certificates representing their interest in the 2009 Bonds, except as described in Appendix F—“DTC AND ITS BOOK-ENTRY SYSTEM.”

Payments of principal of and premium, if any, and interest on the 2009 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 2009 Bonds is the responsibility of DTC participants, all as described in Appendix F—“DTC AND ITS BOOK-ENTRY SYSTEM.”

Interest on certificated 2009 Bonds is payable by checks or drafts of the Bond Registrar, or, if requested in writing prior to the Record Date (the 15th day of the month preceding an interest payment date for the 2009 Bonds) by the Owner of \$1,000,000 or more in principal amount of 2009 Bonds, by wire, mailed or transferred on the applicable interest payment date to Owners of the 2009 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 2009 Bonds is payable on the maturity date or date fixed for redemption upon presentation and surrender of the 2009 Bonds by the Owners at the principal corporate trust office or offices of the Bond Registrar.

If any 2009 Bond is not paid when properly presented at its maturity or date fixed for redemption, Sound Transit is obligated to pay interest on that 2009 Bond at the same rate provided in that 2009 Bond from and after its maturity or date fixed for redemption until that 2009 Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Prior Bond Account or Parity Bond Account, as applicable.

## **Redemption and Purchase**

***No Redemption of 2009P-1 Prior Bonds.*** The 2009P-1 Prior Bonds are not subject to redemption prior to their stated maturity dates.

***Optional Redemption of 2009P-2T Prior Bonds With Make-Whole Payment.*** The 2009P-2T Prior Bonds are subject to optional redemption by Sound Transit prior to their stated maturity dates, in whole or in part, on any business day, at the “Make-Whole Redemption Price,” plus accrued and unpaid interest on the 2009P-2T Prior Bonds to be redeemed on the date fixed for redemption.

***Optional Redemption of 2009S-2T Parity Bonds With Make-Whole Payment.*** The 2009S-2T Parity Bonds are subject to optional redemption by Sound Transit prior to their stated maturity dates, in whole or in part, on any business day, at the “Make-Whole Redemption Price,” plus accrued and unpaid interest on the 2009S-2T Parity Bonds to be redeemed on the date fixed for redemption.

The “Make-Whole Redemption Price” is the greater of (i) 100% of the principal amount of the 2009 Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the 2009 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2009 Bonds are to be redeemed, discounted to the date on which the 2009 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” (defined below) plus 20 basis points.

“Treasury Rate” means, with respect to any redemption date for a particular 2009 Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased

on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular 2009 Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the 2009 Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the 2009 Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular 2009 Bond:

- (1) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m. New York City time, on the Valuation Date; or
- (2) if the yield described in (1) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by Sound Transit.

“Reference Treasury Dealer” means each of four firms, specified by Sound Transit from time to time, that are primary United States Government securities dealers in the City of New York (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, Sound Transit will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular 2009 Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

“Valuation Date” means the third business day preceding the redemption date.

***Extraordinary Optional Redemption of 2009P-2T Prior Bonds.*** The 2009P-2T Prior Bonds are subject to optional redemption by Sound Transit prior to their stated maturity dates, in whole or in part, upon the occurrence of an Extraordinary Event, at the “Extraordinary Optional Redemption Price.”

***Extraordinary Optional Redemption of 2009S-2T Parity Bonds.*** The 2009S-2T Parity Bonds are subject to optional redemption by Sound Transit prior to their stated maturity dates, in whole or in part, upon the occurrence of an Extraordinary Event, at the “Extraordinary Optional Redemption Price.”

“Extraordinary Optional Redemption Price” means the greater of (i) 100% of the principal amount of the 2009 Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal of and interest on the 2009 Bonds to be redeemed, discounted to the date on which such 2009 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (defined above) plus 100 basis points, plus, in each case, accrued interest on the 2009 Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if Sound Transit determines that a material adverse change has occurred to Section 54AA or Section 6431 of the Code or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by



Sound Transit to satisfy the requirements to qualify to receive the 35% cash subsidy payment from the United States Treasury, pursuant to which Sound Transit's 35% cash subsidy payment from the United States Treasury is reduced or eliminated.

***Mandatory Sinking Fund Redemption.*** The 2009P-2T Prior Bonds stated to mature on February 1, 2024, are Term Prior Bonds and, if not optionally redeemed, purchased or defeased in accordance with the 2009 Prior Bond Resolutions, are subject to mandatory redemption at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, and without premium, on February 1 in the years and principal amounts as follows:

**2009P-2T Prior Bonds Stated to Mature in 2024**

<u>Year</u>	<u>Principal Amount</u>
2020	\$7,390,000
2021	7,665,000
2022	7,890,000
2023	8,175,000
2024*	8,470,000

\* Final maturity.

The 2009P-2T Prior Bonds stated to mature on February 1, 2028, are Term Prior Bonds and, if not optionally redeemed, purchased or defeased in accordance with the 2009 Prior Bond Resolutions, are subject to mandatory redemption at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, and without premium, on February 1 in the years and principal amounts as follows:

**2009P-2T Prior Bonds Stated to Mature in 2028**

<u>Year</u>	<u>Principal Amount</u>
2025	\$8,790,000
2026	9,130,000
2027	9,485,000
2028*	9,850,000

\* Final maturity.

The 2009P-2T Parity Bonds stated to mature on November 1, 2039 are Term Parity Bonds and, if not optionally redeemed, purchased or defeased in accordance with the 2009 Parity Bond Resolutions, are subject to mandatory redemption at a redemption price equal to 100% of 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:

**2009S-2T Parity Bonds Stated to Mature in 2039**

<u>Year</u>	<u>Principal Amount</u>
2029	\$ 4,810,000
2030	4,985,000
2031	5,170,000
2032	5,360,000
2033	5,555,000
2034	5,760,000
2035	5,970,000
2036	6,185,000
2037	82,355,000
2038	85,365,000
2039*	88,485,000

\* Final maturity.

***Selection for Redemption of 2009P-2T Prior Bonds and 2009S-2T Parity Bonds.*** If fewer than all of the Outstanding 2009P-2T Prior Bonds or 2009S-2T Parity Bonds are to be redeemed prior to maturity, then (i) if the 2009P-2T Prior Bonds or 2009S-2T Parity Bonds are in book-entry form at the time of such redemption, the Bond Registrar is required to instruct DTC to instruct the DTC Participants to select the specific 2009P-2T Prior Bonds or 2009S-2T Parity Bonds for redemption *pro rata*, and neither Sound Transit nor the Bond Registrar will have any responsibility to ensure that DTC or the DTC Participants properly select such 2009P-2T Prior Bonds or 2009S-2T Parity Bonds for redemption, and (ii) if the 2009P-2T Prior Bonds or 2009S-2T Parity Bonds are not then in book-entry form at the time of such redemption, on each redemption date, the Bond Registrar is required to select the specific 2009P-2T Prior Bonds or 2009S-2T Parity Bonds for redemption *pro rata*. The portion of any registered 2009P-2T Prior Bonds or 2009S-2T Parity Bonds of a denomination more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof. The Bond Registrar is required to select such portions of 2009P-2T Prior Bonds or 2009S-2T Parity Bonds to be redeemed in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

***Notice of Redemption.*** Notice of redemption of any 2009 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 2009 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 2009 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 2009 Bonds subject to a rescinded notice of redemption shall remain Outstanding, and the rescission will not constitute a Default under the 2009 Bond Resolutions.

***Effect of Notice of Redemption.*** If notice of redemption has been duly given, then on the date fixed for redemption each 2009 Bond or portion thereof so called for redemption shall become due and payable at the redemption price specified in such notice unless that 2009 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

2009 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 2009 Bond or portion thereof shall cease to be Outstanding and to be entitled to any benefit, protection or security under the 2009 Bond Resolutions, and the Owner of such 2009 Bond or portion thereof will have no rights in respect thereof except to receive payment of the redemption price upon delivery of such 2009 Bond to the Bond Registrar.

**Purchase.** Sound Transit has reserved the right and option to purchase any or all of the 2009 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 2009 Bonds**

The 2009 Bonds initially are to be registered in the name of Cede & Co., as the nominee of DTC. The 2009 Bonds so registered initially are to be held by DTC as securities depository in the book-entry system in accordance with the provisions of the Letter of Representations, all as described in Appendix F—“DTC AND ITS BOOK-ENTRY SYSTEM.”

Neither Sound Transit nor the Bond Registrar shall have any responsibility or obligation to DTC participants or to the persons for whom they act as nominees with respect to the 2009 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 2009 Bonds, or any notice which is permitted or required to be given to Owners under the 2009 Bond Resolutions (except such notice as is required to be given by the Bond Registrar to DTC).

For as long as any 2009 Bonds are held by DTC in the book-entry system, DTC or its nominee shall be deemed to be the Owner for all purposes under the 2009 Bond Resolutions and all references to Owners shall mean DTC or its nominee and shall not mean the owners of beneficial interests in the 2009 Bonds.

2009 Bonds surrendered to the Bond Registrar may be exchanged for 2009 Bonds in any authorized denomination of an equal aggregate principal amount and of the same series, interest rate and maturity. 2009 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 2009 Bond during the period beginning on the date the Bond Registrar receives direction to send notice of redemption of that 2009 Bond and ending on the date the Bond Registrar sends such notice.

### **Designation of 2009P-2T Prior Bonds and 2009S-2T Parity Bonds as “Build America Bonds”**

Sound Transit has made irrevocable elections (i) to have Section 54AA of the Code apply to the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds so that the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds are treated as “Build America Bonds,” and (ii) to have Subsection 54AA(g) of the Code apply to the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds so that the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds are treated as “qualified bonds” with respect to which Sound Transit will be allowed a credit payable by the United States Treasury to Sound Transit pursuant to Section 6431 of the Code in an amount equal to 35% of the interest payable on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds on each interest payment date. As a result of these elections, interest on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds is not excludable from gross income of Owners of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds for federal income tax purposes, and Owners of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds. See “TAX MATTERS—2009P-2T PRIOR BONDS AND 2009S-2T PARITY BONDS.” The obligation of the United States Treasury under Section 6431 of the Code to make direct payments to Sound Transit in respect of interest payments on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds does not constitute a full faith and credit guarantee of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds by the United States of America.

### **Federal Credit Payments for “Build America Bonds”**

The Master Prior Bond Resolution requires that the federal credit payments expected to be received by Sound Transit in respect of the 2009P-2T Prior Bonds be deposited in the Prior Bond Account (which reduces the amount of Local Option Taxes required to be deposited into the Prior Bond Account) and to be taken into account as

“Receipts” under a “Prior Payment Agreement” in calculating Annual Prior Bond Debt Service (which reduces the amount of Annual Prior Bond Debt Service taken into account when calculating the Prior Reserve Account Requirement and satisfying the Sufficiency Test for reducing the Sales Tax rate and certain conditions for issuing Future Prior Bonds). See “SECURITY FOR THE 2009 BONDS—Security for the 2009 Prior Bonds.”

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

Sound Transit has authorized its Designated Authority Representative to take such actions as are necessary or appropriate for Sound Transit to receive from the United States Treasury the applicable federal credit payments in respect of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds, such as the timely filing with the Internal Revenue Service of Form 8038-CP—“Return for Credit Payments to Issuers of Qualified Bonds” in the manner prescribed by Internal Revenue Service Notice 2009-26.

The Code establishes certain ongoing requirements that must be met subsequent to the delivery of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds in order for Sound Transit to continue to receive federal credit payments. Many of these requirements are identical to those applicable to tax-exempt bonds, such as the 2009P-1 Prior Bonds, including requirements relating to the use and expenditure of the available proceeds of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds and yield and other restrictions on investments of available proceeds.

The Internal Revenue Service has advised that in general, the federal credit payments made in respect of Build America Bonds such as the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds are payments that are treated as overpayment of tax. Accordingly, rules relating to overpayments of tax, such as credits against liabilities in respect of an internal revenue tax and offsets, interest on overpayments of tax and limitations on credits or refunds of overpayments of tax also apply to the federal credit payments made in respect of Build America Bonds.

Noncompliance by Sound Transit with any of the provisions required to claim the federal credit payments, or an internal revenue tax liability of Sound Transit (such as a federal payroll tax liability) against which federal credit payments may be offset could result in Sound Transit not receiving expected federal credit payments. As described above, Sound Transit has taken federal credit payments into account in calculating Annual Prior Bond Debt Service and Annual Parity Bond Debt Service.

Sound Transit has covenanted in the 2009 Bond Resolutions that it will not take or permit to be taken on its behalf any action that would adversely affect the entitlement to receive from the United States Treasury the applicable federal credit payments in respect of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds. Sound Transit has also covenanted to comply with the provisions of the Code compliance with which would result in the interest on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds being excluded from gross income for federal tax purposes but for an irrevocable election to have Section 54AA of the Code apply to the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds.

## SOUND TRANSIT TAXES

### Introduction

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

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

### Sales Tax

**General.** The State first levied a retail sales tax and a corresponding use tax on taxable retail sales and uses of personal property in 1935. Cities, counties and other municipal corporations are authorized to levy various sales and use taxes to generate revenues to carry out essential governmental purposes. Neither the State nor the local governments collect an income tax.

The State currently imposes a sales and use tax of 6.5%. Local taxing entities, including cities and the Counties, are authorized to impose incremental sales and use taxes. Sales and use taxes in the District currently are imposed by the State and local taxing entities at aggregate rates ranging from 8.6% to 9.5%. These rates include Sound Transit's 0.9% Sales Tax.

In 1992, the State Legislature authorized regional transit authorities to impose an incremental sales and use tax upon voter approval. Voters within the District approved imposition of the Sales Tax at a rate of up to 0.4% at an election held on November 5, 1996. Sound Transit imposed the Sales Tax at the rate of 0.4%, effective April 1, 1997. In 2008, Sound Transit received or accrued \$265.4 million on account of the Sales Tax. See Table 3—"Historical Sales Tax and Rental Car Tax Revenues" under this heading for historical information regarding Sound Transit's Sales Tax receipts. On November 4, 2008, voters within the District approved an increase in the Sales Tax of 0.5%, and Sound Transit increased the rate of the Sales Tax to 0.9% effective April 1, 2009. Sound Transit has reserved the right to reduce the rate of the Sales Tax to as low as 0.8% upon satisfaction of the conditions set forth in the Master Prior Bond Resolution and the 2009 Parity Bond Resolution. See "SECURITY FOR THE 2009 BONDS—Security for the 2009 Prior Bonds—Covenant to Levy Local Option Taxes" and "—Security for the 2009 Parity Bonds—Covenant to Impose Pledged Taxes" and Appendix B—"FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Covenants—Tax Levy Covenant" and "—2009 Parity Bond Resolution—Covenants—Pledged Taxes."

Sound Transit is authorized by statute to submit a proposition to voters within the District to increase the rate of the Sales Tax to up to 1.0% if none of the Counties then is imposing a sales and use tax for criminal justice purposes. All of the Counties currently impose a sales and use tax for criminal justice purposes at the authorized maximum rate of 0.1%.

**Method of Collection.** The Sales Tax consists of a sales tax and a use tax. The sales tax currently is applied to a broad base of tangible personal property and selected services purchased by consumers, including construction (labor and materials), machinery and supplies used by businesses, 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 tax and the use tax on occasion. This may occur again in the future. See "INITIATIVES AND REFERENDA." Among the various items not currently subject to the Sales Tax are most personal services, motor vehicle fuel, most food for off-premises consumption, trade-ins and purchases for resale. Most lodging is not subject to the Sales Tax because the State Legislature has limited the total sales taxes that may be imposed on lodging.

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

Sound Transit entered into an agreement with the DOR for State administration of regional transit authority sales, use and rental car taxes. Under this agreement, the DOR administers and collects the regional transit authority taxes from retailers, taxpayers and the County auditors on account of the Sales Tax and the Rental Car Tax and disburses the proceeds to Sound Transit on a monthly basis. The DOR currently charges no ongoing administrative fee for this service; however the agreement does provide for the reimbursement of DOR costs for modifications or changes to the administration of Sound Transit taxes as well as refunds not in the ordinary course of administering the taxes.

***Streamlined Sales Tax Legislation.*** In 2003, the State Legislature approved legislation authorizing the State’s membership in the Streamlined Sales and Use Tax Agreement (the “SSTA”), in an effort to make sales and use taxes in the State more uniform with those of other states. Congress has required that state sales taxes be more uniform before Congress will permit taxation of interstate mail-order and Internet sales imposed by jurisdictions in states in which the selling entities have no physical presence. The 2003 legislation implemented most of the SSTA’s provisions, with the exception of the provisions for determining where a sale is deemed to occur for local sales tax purposes (the so-called “sourcing” provisions). The sourcing provisions shift local sales tax revenue from the jurisdiction of the location from which a product is shipped or delivered to the jurisdiction in which the destination of the shipment or delivery is located.

In 2007, the State Legislature enacted the sourcing provisions, which became effective in July 2008. As a result, there was a shift in sales tax revenues among Washington jurisdictions. The State Legislature established a mitigation account to mitigate certain effects of the sourcing provisions. However, because the bulk of the shifting affecting sales in Sound Transit’s area involved changes from one community to another within Sound Transit’s boundaries, the overall impact of the legislation on Sound Transit was modest and was offset by streamlined mitigation payments from the State.

## **Rental Car Tax**

***General.*** In 1992, the State Legislature authorized regional transit authorities to impose an incremental sales and use tax if such authorities also have imposed the Motor Vehicle Tax, upon retail car rentals that are otherwise taxable by the State pursuant to chapters 82.08 and 82.12 RCW. Sound Transit imposed the Rental Car Tax upon car rentals in the District at the rate of 0.8% of the rental value, effective April 1, 1997, 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 2008, Sound Transit received or accrued \$2.5 million on account of the Rental Car Tax. See Table 3—“Historical Sales Tax and Rental Car 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 District by the State and local taxing entities at aggregate rates ranging from 5.9% to 9.7%. These rates include Sound Transit’s 0.8% Rental Car Tax.

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



## Historical Sales Tax and Rental Car Tax Revenues

Table 3 sets forth historical Sales Tax and Rental Car Tax revenues as reported in Sound Transit’s audited financial statements for the years 1998 through 2008. The Sales Tax and the Rental Car Tax (but not the Motor Vehicle Tax) are currently the only components of the Pledged Taxes pledged to the payment of the Parity Bonds.

**TABLE 3**  
**HISTORICAL SALES TAX AND RENTAL CAR TAX REVENUES**  
**(\$000s)**

Year	Sales Tax Revenue <sup>(1)(2)</sup>	Growth Rate	Rental Car Tax Revenue <sup>(2)</sup>	Growth Rate	Total <sup>(2)</sup>	Growth Rate
2008	\$265,358	(5.3)%	\$2,498	(1.3)%	\$267,856	(5.3)%
2007	280,263	8.1	2,531	4.3	282,794	8.1
2006	259,164	8.1	2,427	8.1	261,591	8.1
2005	239,785	9.5	2,245	3.6	242,030	9.4
2004	219,020	6.0	2,166	(0.7)	221,186	5.9
2003	206,665	1.0	2,182	1.4	208,847	1.0
2002	204,566	(2.5)	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	–

(1) Based on rate of 0.4%. The rate was increased to 0.9% effective April 1, 2009.

(2) On an accrual basis.

Source: Sound Transit.

## Motor Vehicle Tax

**Pledge of Motor Vehicle Tax.** The Motor Vehicle Tax is a component of the Local Option Taxes pledged to the payment of the Prior Bonds, but the Motor Vehicle Tax is not a component of the Pledged Taxes pledged to the payment of the Parity Bonds. Under current law, Sound Transit does not have clear authority to impose the Motor Vehicle Tax after the 1999 Prior Bonds are retired or provision is made therefor. The last scheduled maturity of the 1999 Prior Bonds is 2028. Sound Transit has covenanted in the Master Prior Bond Resolution to use the proceeds from all Local Option Taxes (including the Motor Vehicle Tax) for the purposes and in the priorities described in “SECURITY FOR THE 2009 BONDS—Flow of Funds,” including for payment of debt service on Parity Bonds. See “SECURITY FOR THE 2009 BONDS—Security for the 2009 Prior Bonds” and “—Security for the 2009 Parity Bonds.”

**General.** The State first levied a motor vehicle excise tax on vehicles owned by residents in 1937. In 1992, the State Legislature authorized regional transit authorities to impose an incremental motor vehicle excise tax upon voter approval. Voters within the District approved imposition of the Motor Vehicle Tax at the rate of 0.3% at an election held on November 5, 1996. Sound Transit imposed the Motor Vehicle Tax at the rate of 0.3%, effective April 1, 1997. In 2008, Sound Transit received or accrued \$68.6 million on account of the Motor Vehicle Tax. See Table 4—“Historical Motor Vehicle Tax Revenues” under this heading for historical information regarding Sound Transit’s Motor Vehicle Tax receipts. In November 2002, the State’s voters approved Initiative Measure No. 776 (“I-776”). I-776 required all motor-vehicle license tab fees to be limited to a maximum of \$30. The initiative purported to repeal the statutory authority relied upon by Sound Transit to impose the Motor Vehicle Tax. In 2006, the State Supreme Court upheld Sound Transit’s continued collection of the Motor Vehicle Tax. The Court ruled that the State Constitution’s contract clause (Article I, Section 23) prevents an initiative from impairing the contractual obligation between Sound Transit and its bondholders. This decision confirmed Sound Transit’s authority to continue collecting the full amount of the Motor Vehicle Tax so long as the 1999 Prior Bonds remain Outstanding.

**Method of Collection.** The values of motor vehicles are determined by statute. 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 contract with the State Department of Licensing for the collection and disbursement of the Motor Vehicle Tax. Under this contract, the Department of Licensing segregates money received from the County auditors on account of the Motor Vehicle Tax into a separate account of the State Treasury. This money is disbursed to Sound Transit on a monthly basis. Sound Transit reimburses the Department of Licensing for its actual and administrative costs in collecting the Motor Vehicle Tax. Since the expiration of the contract in 2008, the Department of Licensing has consented to successive six-month extensions, which currently extend through December 31, 2009, pending the negotiation and execution of a new contract.

**Historical Motor Vehicle Tax Revenues**

Table 4 sets forth historical Motor Vehicle Tax revenues as reported in Sound Transit’s audited financial statements for the years 1998 through 2008.

**TABLE 4  
HISTORICAL MOTOR VEHICLE TAX REVENUES  
(\$000s)**

Year	Motor Vehicle Tax Revenue <sup>(2)</sup>	Growth Rate
2008 <sup>(1)</sup>	\$68,621	(5.2)%
2007	72,403	3.1
2006	70,202	5.9
2005	66,308	2.5
2004	64,714	5.8
2003	61,189	4.9
2002	58,319	3.9
2001	56,123	(0.2)
2000	56,242	29.3
1999	43,499	(1.8)
1998	44,279	–

(1) Beginning in December 2008, Sound Transit and the Department of Licensing began a process to issue refunds for Motor Vehicle Tax overpayments affecting some vehicle owners who live near but outside the District boundaries. The overpayments affected approximately 1.5% of the vehicles that were assessed the Sound Transit Motor Vehicle Tax. The refunds have all been mailed; payments covering nearly four years were analyzed, and approximately \$3.8 million was refunded. The Department of Licensing revised its process for issuing license renewals in January 2009 to ensure that overpayments do not continue to occur.

(2) On an accrual basis.

Source: Sound Transit.

## **Recent Developments**

The current recession has significantly affected the collection of Local Option Taxes by Sound Transit. For the first five months of 2009, Sound Transit collected \$97.7 million in Sales Tax revenues, a 9.0% reduction from the first five months of 2008 (\$107.5 million) and a 12.5% reduction from the first five months of 2007 (\$111.6 million). Comparisons are limited to the first five months of 2009 because in June 2009, Sound Transit began receiving the additional 0.5% Sales Tax imposed effective April 1, 2009. Motor Vehicle Tax and Rental Car Tax revenues also have declined. For the first seven months of 2009, Sound Transit collected \$40.6 million in Motor Vehicle Tax revenues, a 6.7% reduction from the first seven months of 2008 (\$43.5 million), and \$1.2 million in Rental Car Tax revenues, a 16.0% reduction for the first seven months of 2008 (\$1.4 million). As set forth in Table 3, Sound Transit's aggregate Sales Tax and Rental Car Tax collections decreased by 5.3% from 2007 to 2008.

Sound Transit has updated its long-range financial plan to reflect this lower revenue base, and as a result Sound Transit has adjusted its revenue forecast for the duration of its capital plan (2009-2023) to reflect approximately a net 20% decline, or \$3.1 billion. Sound Transit expects to update its revenue forecasts from time to time to reflect developing economic conditions. These updated forecasts may be higher or lower than current estimates due to changes in forecasted economic conditions.

In August 2009, Sound Transit also updated the other elements of its long-range financial plan, including forecasts of operating costs, capital replacement reserves, inflation forecasts, farebox revenues, grant revenues and other elements. The updated financial plan reflects a net 15% reduction in projected capital costs for the period from 2009 to 2023 as a result of a decrease in capital project reserves and lower assumed inflation for construction costs due to slower economic growth. The Board is expected to review these updated forecasts and capital cost estimates during its review of the Sound Transit 2010 Budget, and the Board is expected to authorize capital spending consistent with the updated plans in the budget that will be adopted in the Fall of 2009. Consistent with its adopted financial policies, in response to a reduction in revenues, the Board may scale back projects, use other uncommitted funds, extend the time to complete projects or seek legislative or voter approval for additional resources.

The 2009 Bonds are secured by a gross pledge of certain taxes and, therefore, the security for the 2009 Bonds does not depend on implementation of the System Plan.

## **SECURITY FOR THE 2009 BONDS**

### **Limited Obligations**

The 2009 Bonds are not obligations of the State or any political subdivision thereof other than Sound Transit. The 2009 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.

### **Flow of Funds**

Sound Transit holds all accounts created under the Master Prior Bond Resolution and the Parity Bond Resolutions, including the Prior Bond Account, the Prior Reserve Account, the Parity Bond Account and the Parity Reserve Account. Sound Transit maintains Local Option Tax Accounts and has covenanted in the Master Prior Bond Resolution to deposit all Local Option Taxes in the Local Option Tax Accounts promptly upon receipt. Under the Master Prior Bond Resolution, Local Option Taxes deposited in the Local Option Tax Accounts may be used by Sound Transit only for the following purposes and in the following order of priority. Under the Parity Bond Resolutions, amounts received by Sound Transit on account of the Pledged Taxes (and the Motor Vehicle Tax, for so long as the Motor Vehicle Tax is collected and is subject to the requirements of the Master Prior Bond Resolution) and deposited in the Local Option Tax Accounts may be used by Sound Transit only for the following purposes and in the following order of priority.

*First*, to make all payments required to be made into the Prior Bond Account in the following order:

- (1) to pay the interest when due on the Prior Bonds (including regularly scheduled Payments under Prior Payment Agreements); and
- (2) to pay the maturing principal (including sinking fund redemptions) of the Prior Bonds;

**Second**, to make all payments required to be made into the Prior Reserve Account to meet the Prior Reserve Account Requirement and to make all payments required to be made pursuant to a reimbursement obligation in connection with a Qualified Prior Letter of Credit or Qualified Prior Insurance with respect to the Prior Reserve Account Requirement;

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

- (1) to pay the interest when due on the Parity Bonds (including regularly scheduled payment obligations under Parity Payment Agreements for Parity Bonds);
- (2) to pay the maturing principal (including sinking fund redemptions) of Parity Bonds;
- (3) to reimburse the provider of any Bond Insurance (other than Bond Insurance obtained to satisfy all or a part of the Parity Reserve Account Requirement, and other than the provider of a letter of credit, standby bond purchase agreement or other liquidity facility) for payments of the principal and/or interest on Parity Bonds;

**Fourth**, to make all payments required to be made into the Parity Reserve Account required under any resolution authorizing the issuance of Parity Bonds to meet the Parity Reserve Account Requirement and to make all payments required to be made pursuant to a reimbursement obligation in connection with Bond Insurance with respect to the Parity Reserve Account Requirement;

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

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

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

### **Security for the 2009 Prior Bonds**

**Pledge of Local Option Taxes.** The Prior Bonds, including the 2009 Prior Bonds, are special limited obligations of Sound Transit payable from and secured solely by a pledge of Local Option Taxes and amounts, if any, in the Local Option Tax Accounts, the Prior Bond Account, the Prior Reserve Account and any project account created for the deposit of Prior Bond proceeds. See “SOUND TRANSIT TAXES” for information regarding the Local Option Taxes.

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

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

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

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

**Sufficiency Test.** The Sufficiency Test is met when the ratio of Local Option Taxes collected to Annual Prior Bond Debt Service in each Fiscal Year is not less than two to one. The Master Prior Bond Resolution provides that, for purposes of calculating the Sufficiency Test, Sound Transit will add to Local Option Taxes collected in any Fiscal Year any amount withdrawn from the Tax Stabilization Subaccount in that Fiscal Year and deposited into the Local Option Tax Accounts, and will subtract from Local Option Taxes collected in any Fiscal Year any amount withdrawn from the Local Option Tax Accounts and deposited into the Tax Stabilization Subaccount. However, for purposes of the Sufficiency Test the amount withdrawn from the Tax Stabilization Subaccount in any Fiscal Year may not exceed 0.50 times the Annual Prior Bond Debt Service in such Fiscal Year. See the definitions of “Annual Prior Bond Debt Service” and “Sufficiency Test” in Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Definitions.”

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

**Federal Credit Payments.** The Master Prior Bond Resolution requires that the federal credit payments expected to be received by Sound Transit in respect of the 2009P-2T Prior Bonds be deposited in the Prior Bond Account (which reduces the amount of Local Option Taxes required to be deposited into the Prior Bond Account) and to be taken into account as “Receipts” under a “Prior Payment Agreement” in calculating Annual Prior Bond Debt Service (which reduces the amount of Annual Prior Bond Debt Service in calculating the Prior Reserve Account Requirement and satisfying the Sufficiency Test for reducing the Sales Tax rate and certain conditions for issuing Future Prior Bonds). See “THE 2009 BONDS—Federal Credit Payments for ‘Build America Bonds.’”

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

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

Local Option Taxes in the Tax Stabilization Subaccount are pledged in the Master Prior Bond Resolution to secure the payment of the Prior Bonds. Such amounts, to the extent they represent revenues from Pledged Taxes, are also pledged in the Parity Bond Resolutions to secure the payment of the Parity Bonds, subordinate to the pledge thereof securing the Prior Bonds.

There currently is no Tax Stabilization Subaccount, and there is no guarantee that Sound Transit will create or fund the Tax Stabilization Subaccount at any time while the 2009 Bonds are Outstanding.



**Prior Bond Account.** Sound Transit’s “Sales Tax and Motor Vehicle Excise Tax Bond Account” (the “Prior Bond Account”) was created pursuant to the Original Master Resolution and is held by Sound Transit as a trust account for the Owners of the Prior Bonds. Sound Transit is required to make monthly deposits into the Prior Bond Account from Local Option Taxes so that the balance therein will be sufficient to pay (i) the interest, or principal and interest, next coming due on the Prior Bonds and (ii) regularly scheduled Payments under Prior Payment Agreements. The 2009 Prior Bond Resolutions require that the federal credit payments received in respect of the 2009P-2T Prior Bonds be deposited into the Prior Bond Account. See “THE 2009 BONDS—Federal Credit Payments for ‘Build America 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 Original Master Resolution, is used solely to secure the payment of debt service on the Prior Bonds and is held by Sound Transit as a trust account for the Owners of the Prior Bonds. Sound Transit has covenanted in the Master Prior Bond Resolution to maintain on hand in the Prior Reserve Account an amount equal to the lesser of (i) 125% of Average Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds or (ii) the sum of (A) 100% of the Annual Prior Bond Debt Service with respect to the Outstanding 1999 Prior Bonds and (B) 50% of the Annual Prior Bond Debt Service with respect to all other Outstanding Prior Bonds (including the 2009 Prior Bonds), in each case in the Fiscal Year in which Maximum Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds occurs; provided, that at the time of issuance of any Series of Prior Bonds, the Prior Reserve Account Requirement allocable to a Series of Prior Bonds shall not exceed 10% of the initial principal amount of that Series of Prior Bonds. Notwithstanding the foregoing, so long as the municipal bond insurance policy or the municipal bond debt service reserve fund policy for the 1999 Prior Bonds is in effect, if in any Fiscal Year the Local Option Taxes received are less than 2.5 times Maximum Annual Prior Bond Debt Service, the foregoing clause (ii) above shall be adjusted to read “100% of Maximum Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds,” and any additional amount required to be on deposit in the Prior Reserve Account shall be provided within one year by 12 approximately equal monthly installments; and provided further, that the foregoing clause (ii) shall be so adjusted until after two consecutive Fiscal Years in which Local Option Taxes received are not less than 2.5 times Maximum Annual Prior Bond Debt Service (the “Prior Reserve Account Requirement”).

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

The Master Prior Bond Resolution provides that in computing the amount on hand in the Prior Reserve Account, Qualified Prior Insurance and/or a Qualified Prior Letter of Credit are to be valued at the face amount thereof and all other obligations purchased as an investment of money therein are to be valued at market at least annually. Any deficiency created in the Prior Reserve Account must be made up within one year after the deficiency out of Local Option Taxes (after making necessary provision for the payments required to be made into the Prior Bond Account within that year) or by providing Qualified Prior Insurance or a Qualified Prior Letter of Credit.

Upon issuance of the 2009 Bonds, Sound Transit expects the Prior Reserve Account to have a balance of approximately \$39,550,132, consisting of the two municipal bond debt service reserve fund policies described above and \$7,888,953 in 2009P-2T Prior Bond proceeds. See “DEBT CAPACITY AND SOURCES AND USES OF 2009 BOND PROCEEDS—Expected Sources and Uses of 2009 Bond Proceeds.”



**2009 Prior Project Account.** Sound Transit has created the 2009 Prior Project Account to pay costs of Projects and costs incidental thereto, and costs incurred in connection with the issuance and sale of the 2009 Prior Bonds. The 2009 Prior Project Account is held by Sound Transit and is pledged to the payment of the Prior Bonds.

**Future Prior Bonds.** Sound Transit has reserved the right to issue Future Prior Bonds, including Refunding Prior Bonds, secured by a pledge of Local Option Taxes on a parity with the pledge securing the 1999 Prior Bonds and the 2009 Prior Bonds. The issuance of Future Prior Bonds is subject to the following conditions:

- (1) There is no deficiency in the Prior Bond Account, and an amount equal to the Prior Reserve Account Requirement (including for the Future Prior Bonds to be issued) will be on deposit in the Prior Reserve Account.
- (2) No Default has occurred and is continuing. For a description of provisions relating to Defaults and remedies upon Default, see “Defaults and Remedies” below and Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Defaults” and “—Remedies Upon Default.”
- (3) Sound Transit certifies (by an “Authority Prior Bond Certificate”) that Local Option Taxes received during any consecutive 12-month period out of the 18-month period next preceding the date of issuance of the Future Prior Bonds were not less than two times Maximum Annual Prior Bond Debt Service on all Prior Bonds that will be Outstanding upon the issuance of the Future Prior Bonds, taking into account any adopted adjustment in the rate of Local Option Taxes imposed, as if the new rate had been in effect during that 12-month period.

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

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

**Prior Payment Agreements.** Sound Transit has reserved the right to make Payments under Payment Agreements secured by a pledge of Local Option Taxes on a parity with the pledge securing the Prior Bonds (“Prior Payment Agreement”) if the Payment Agreement satisfies the requirements for Future Prior Bonds described above. “Payment Agreement” means a written agreement, for the purpose of managing or reducing Sound Transit’s exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, investment, asset or liability management purposes, entered into on either a current or forward basis by Sound Transit and a Qualified Counterparty, all as authorized by any applicable laws of the State. Such agreement may or may not be characterized by a structure of reciprocity of payment. See Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Prior Payment Agreements.” The Master Prior Bond Resolution requires that the federal credit payments received by Sound Transit in respect of the 2009P-2T Prior Bonds be taken into account as “Receipts” under a “Prior Payment Agreement” in calculating Annual Prior Bond Debt Service. See “THE 2009 BONDS—Federal Credit Payments for ‘Build America Bonds.’”

**Defaults and Remedies.** The following events constitute a Default under the Master Prior Bond Resolution: (1) failure to make required payments into the Prior Bond Account or Prior Reserve Account; (2) failure to pay principal of and premium, if any, or interest when due on the Prior Bonds, or to redeem Term Prior Bonds in the required amounts; or (3) failure to observe or perform any other covenants in the Master Parity Bond Resolution or any resolution authorizing the issuance of Prior Bonds, and such failure has continued for 90 days after discovery by

or notice to Sound Transit, without Sound Transit either remedying the failure within 90 days or taking all action reasonably possible to remedy the failure.

Upon the occurrence of a Default, the Owners of at least 20% in aggregate principal amount of Prior Bonds Outstanding may appoint a Prior Bondowners' Trustee to exercise the rights of the Owners of the Prior Bonds, all as described in the Master Prior Bond Resolution. See "No Acceleration Upon Default" under this heading and Appendix B—"FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Remedies Upon Default." If a Prior Bondowners' Trustee has been appointed, certain of the Owners' remedies may not be exercised individually by the Owners without the consent of the Prior Bondowners' Trustee.

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

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

### **Security for the 2009 Parity Bonds**

***Pledge of Pledged Taxes.*** The Parity Bonds, including the 2009 Parity Bonds, are special limited obligations of Sound Transit payable from and secured by a pledge of the Pledged Taxes. The Sales Tax and the Rental Car Tax (but not the Motor Vehicle Tax) are currently the only components of the Pledged Taxes. See "SOUND TRANSIT TAXES" for more information regarding the Pledged Taxes.

The 2009 Parity Bonds are also secured by amounts, if any, in the Parity Bond Account, the Local Option Tax Accounts, the Additional Taxes Accounts, the Tax Stabilization Subaccount and any project account created for the

deposit of Parity Bond proceeds and earnings thereon (to the extent amounts and earnings in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount represent revenues from Pledged Taxes), subject to the prior pledge of money in the Local Option Tax Accounts and the Tax Stabilization Subaccount that has been created in favor of the Prior Bonds.

The pledge for the payment of the 2009 Parity Bonds of amounts in the Parity Bond Account, the Additional Taxes Accounts and proceeds of the 2009 Parity Bonds deposited in any account created for the deposit of 2009 Parity Bond proceeds is a charge equal to the charge of any other Parity Bonds and superior to all other charges of any kind or nature. The pledge for the payment of the 2009 Parity Bonds of the Pledged Taxes and amounts in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount and earnings thereon, to the extent amounts and earnings in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount represent revenues from Pledged Taxes, is a prior charge superior to all other charges of any kind or nature, except the charge of the Prior Bonds on Local Option Taxes, and equal to the charge of any other Parity Bonds.

***Covenant to Impose Pledged Taxes.*** Sound Transit has covenanted in the 2009 Parity Bond Resolution that so long as any 2009 Parity Bonds remain Outstanding, Sound Transit will impose the Sales Tax at a rate of not less than 0.9% and will impose the Rental Car Tax at a rate of not less than 0.8%, except that Sound Transit may impose the Sales Tax rate at a rate of not less than 0.8% in the manner described below in “Permissive Reduction of Sales Tax Rate.” Sound Transit has further covenanted in the Parity Bond Resolutions (i) to take all reasonable actions necessary to impose and provide for the continued collection of the Pledged Taxes and the application of those taxes for payment of the Parity Bonds in accordance with the Parity Bond Resolutions; (ii) to take all reasonable actions necessary to impose and provide for the continued collection of the Local Option Taxes and the application of those taxes for the payment of the Prior Bonds in accordance with the Master Prior Bond Resolution and the application of those Local Option Taxes in accordance with the Master Prior Bond Resolution and the Parity Bond Resolutions; and (iii) not to take any action that limits, terminates, reduces or otherwise impairs the authority of Sound Transit to impose and collect all Local Option Taxes and Pledged Taxes.

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

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

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

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

- (2) in calculating amounts received during the Base Parity Period, Sound Transit must take into account any Adopted Parity Rate Adjustment, Additional Taxes and Motor Vehicle Tax included as Pledged Taxes and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Parity Period;
- (3) the Sales Tax received during the Base Parity Period is to be adjusted to reflect the reduced rate of less than 0.9%;
- (4) the Motor Vehicle Tax and/or Additional Taxes may not be taken into account to meet the requirements described in clause (iii) above unless Sound Transit receives an opinion of Bond Counsel to the effect that the pledge of such Motor Vehicle Tax and/or Additional Taxes to Parity Bonds is in full force and effect for the period in which they are included as Pledged Taxes; and
- (5) any Adopted Parity Rate Adjustment, Additional Taxes and/or extension of an existing tax may be taken into account only if a certified public accountant, economic consultant or financial advisor experienced with state or local taxation or municipal bonds certifies that it is reasonable to expect that such adjusted, new or extended taxes will be received in the amounts assumed for purposes of the Authority Pledged Taxes Sufficiency Certificate.

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

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

***Pledge of Additional Taxes.*** In the 2009 Parity Bond Resolution, Sound Transit has reserved the right (but is not obligated) to pledge additional taxes to the payment of the Parity Bonds, including the Motor Vehicle Tax. Any taxes other than Local Option Taxes that in the future Sound Transit includes as Pledged Taxes and pledges to the payment of Parity Bonds are referred to collectively as “Additional Taxes.” Sound Transit must use Additional Taxes deposited in Additional Taxes Accounts for the purposes and in the order of priority set forth in the “Flow of Funds” under this heading, beginning with the paragraph “*Third.*”

***Increases in Tax Rates.*** Sound Transit currently is imposing the Sales Tax at a rate of 0.9%, which is the maximum currently permitted under State law. Sound Transit may be authorized to impose the Rental Car Tax at a rate in excess of 0.8%. The additional tax revenue attributable to any increase of such tax rate will not, automatically, be subject to the pledge securing the 2009 Parity Bonds. However, Sound Transit has reserved the right to pledge such additional tax revenue, if any, to the payment of the Parity Bonds.

***Federal Credit Payments.*** The 2009 Parity Bond Resolutions require that the federal credit payments expected to be received by Sound Transit in respect of the 2009S-2T Parity Bonds be deposited in the Parity Bond Account (which reduces the amount of Pledged Taxes required to be deposited into the Parity Bond Account) and to be taken into account as “Receipts” under a “Parity Payment Agreement” in calculating Annual Parity Bond Debt Service (which reduces the amount of Annual Parity Bond Debt Service in satisfying certain conditions for reducing the Sales Tax rate and for issuing Future Parity Bonds). See “THE 2009 BONDS—Federal Credit Payments for ‘Build America Bonds.’”

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

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

Local Option Taxes in the Tax Stabilization Subaccount are pledged in the Master Prior Bond Resolutions to secure the payment of the Prior Bonds. Such amounts, to the extent they represent revenues from Pledged Taxes, are also pledged in the Parity Bond Resolutions to secure the payment of the Parity Bonds, subordinate to the pledge thereof 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 or Additional Taxes Accounts, and there is no guarantee that Sound Transit will create or fund the Tax Stabilization Subaccount at any time while the 2009 Bonds are Outstanding.

***Parity Bond Account.*** The Parity Bond Account was created pursuant to the 2005A Resolution. Sound Transit is required to make monthly deposits into the Parity Bond Account from Pledged Taxes, subject to the “Flow of Funds” described under this heading, so that the balance therein will be sufficient to pay (i) the interest, or principal and interest, next coming due on the Parity Bonds and (ii) regularly scheduled Payments under Parity Payment Agreements. The 2009 Parity Bond Resolutions require that the federal credit payments received in respect of the 2009S-2T Parity Bonds also be deposited into the Parity Bond Account. See “THE 2009 BONDS—Federal Credit Payments for ‘Build America Bonds.’”

***2009 Parity Project Account.*** Sound Transit has created the 2009 Parity Project Account to pay costs of Projects and costs incidental thereto, and costs incurred in connection with the issuance and sale of the 2009 Parity Bonds. The 2009 Parity Project Account is held by Sound Transit and is pledged to the payment of the Parity Bonds.

***Parity Reserve Account.*** The Parity 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 Parity Reserve Account Requirement has not been established. The 2009 Parity Bond Resolution establishes a separate Parity Reserve Account Requirement for the 2009 Parity Bonds of zero. The Parity Reserve Account Requirement for the 2007A Parity Bonds also is zero. **The 2007A Parity Bonds and the 2009 Parity Bonds have no claim on the amounts in the Parity Reserve Account.** Sound Transit 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 Parity Reserve Account will be sufficient to meet the Parity Reserve Account Requirement. The Parity Reserve Account Requirement for the Parity Bonds secured by the Parity Reserve Account is the lesser of (i) Maximum Annual Debt Service and (ii) 125% of Average Annual Debt Service, provided that upon the issuance of any Series of Parity Bonds, the Parity Reserve Account Requirement is not required to be funded or increased by an amount greater than 10% of the proceeds of that Series of Parity Bonds. As provided in the 2005A Resolution, Sound Transit may establish a separate Parity Reserve Account Requirement for any Series of Future Parity Bonds, and amounts or any Bond Insurance to satisfy that separate requirement are then to be held in a separate account or subaccount of Sound Transit for the purpose of securing solely that Series. Such Series of Parity Bonds will not be secured by other amounts in the Parity Reserve Account or by Bond Insurance providing any portion of the Parity Reserve Account Requirement for other Parity Bonds. Upon issuance of the 2009 Bonds, Sound Transit expects the Parity Reserve Account for the 2005A Parity Bonds to have a balance of approximately \$41,050,515.



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

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

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

- (1) the Local Option Taxes and/or Pledged Taxes during the Base Parity Period may be only those shown in audited or unaudited financial statements of Sound Transit;
- (2) in calculating amounts received during the Base Parity Period, Sound Transit must take into account any Adopted Parity Rate Adjustment, Additional Taxes and Motor Vehicle Tax included as Pledged Taxes and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Parity Period;
- (3) the Motor Vehicle Tax and/or Additional Taxes may not be taken into account to meet the requirements described in clause 4(iii) above unless Sound Transit receives an opinion of Bond Counsel to the effect that the pledge of such Motor Vehicle Tax and/or Additional Taxes to such Future Parity Bonds is in full force and effect for the period in which they are included as Pledged Taxes;
- (4) any Adopted Parity Rate Adjustment, Additional Taxes and/or extension of an existing tax may be taken into account only if a certified public accountant, economic consultant or financial advisor experienced with state or local taxation or municipal bonds certifies that it is reasonable to expect



that such adjusted, new or extended taxes will be received in the amounts assumed for purposes of the Authority Parity Bond Certificate; and

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

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

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

***Parity Payment Agreements.*** Sound Transit has reserved the right to make Payments under Payment Agreements secured by a pledge of Pledged Taxes equal to the pledge securing the Parity Bonds (“Parity Payment Agreements”) if the Payment Agreement satisfies the requirements for issuing Future Parity Bonds described above. “Payment Agreement” means a written agreement, for the purpose of managing or reducing Sound Transit’s exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, investment, asset or liability management purposes, entered into on either a current or forward basis by Sound Transit and a Qualified Counterparty, all as authorized by any applicable laws of the State. Such agreement may or may not be characterized by a structure of reciprocity of payment. See Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—2009 Parity Bond Resolution—Parity Payment Agreements.” The 2009 Parity Bond Resolutions require that the federal credit payments received by Sound Transit in respect of the 2009S-2T Parity Bonds be taken into account as “Receipts” under a “Parity Payment Agreement” in calculating Annual Parity Bond Debt Service. See “THE 2009 BONDS—Federal Credit Payments for ‘Build America Bonds.’”

***Defaults and Remedies.*** The following events constitute a Default under the Parity Bond Resolutions: (1) a “Default” has occurred and is continuing under the Master Prior Bond Resolution; (2) failure to make required payments into the Parity Bond Account or Parity Reserve Account and such default is not remedied; (3) failure to pay principal, premium, if any, or interest when due, or to purchaser or redeem Term Parity Bonds in the required amounts; or (4) material failure to observe and perform any other covenants in the Parity Bond Resolutions, and such failure has continued for 90 days after discovery by or notice to Sound Transit, without Sound Transit either remedying the failure within 90 days or, if such failure can be remedied, but not within such 90 day period, taking all action reasonably possible to remedy the failure. See “Security for the 2009 Prior Bonds—Defaults and Remedies” under this heading for a summary of events that constitute a “Default” under the Master Prior Bond Resolution. See also Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Defaults” and “—Remedies Upon Default” and “—2009 Parity Bond Resolution—Defaults” and “—Remedies Upon Default.”

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

Upon the occurrence of a Default, the Owners of at least 50% in aggregate principal amount of Parity Bonds Outstanding may appoint a Parity Bondowners’ Trustee to exercise the rights of the Owners of the Parity Bonds, all as described in the Parity Bond Resolutions. See “No Acceleration Upon Default” under this heading and Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—2009 Parity Bond Resolution—Remedies Upon Default.” If a Parity Bondowners’ Trustee has been appointed, certain of the

Owners' remedies may not be exercised individually by the Owners without the consent of the Parity Bondowners' Trustee.

**Special Amendments.** The Owners from time to time of the Outstanding 2009 Parity Bonds and any Future Parity Bonds will be deemed to have consented to the adoption by Sound Transit of a resolution supplementing or amending the 2009 Parity Bond Resolution for any one or more of the following purposes:

- (1) To delete from the 2009 Parity Bond Resolution and any Parity Bond Authorizing Resolution the Default described in clause (2) in "Defaults and Remedies" above;
- (2) To permit federal credit payments received in respect of Outstanding Build America Parity Bonds (other than federal credit payments received under a Payment Agreement) to be deposited into the Parity Bond Account and credited against the Pledged Taxes otherwise required to be deposited into the Parity Bond Account;
- (3) To permit federal credit payments scheduled to be received in any Fiscal Year in respect of Outstanding Build America Parity Bonds (other than federal credit payments received under a Payment Agreement) to be credited against Parity Bond Debt Service in calculating Annual Parity Bond Debt Service for that Fiscal Year; or
- (4) In satisfying the conditions to the issuance of Future Parity Bonds that will not be secured by the Parity Reserve Account, to disregard the requirement that an amount equal to the Parity Reserve Account Requirement (including for the Future Parity Bonds to be issued) be on deposit or otherwise provided for in the Parity Reserve Account on or prior to the date of issuance of such Future Parity Bonds.

#### **Junior Obligations and Other Obligations**

Sound Transit has reserved the right to issue obligations secured by a pledge of the Pledged Taxes subordinate to that of the Prior Bonds and the Parity Bonds ("Junior Obligations") for any lawful purpose of Sound Transit. The maturity date of Junior Obligations may not be accelerated (not including any indirect acceleration of the maturity thereof through reimbursement obligations to the provider of a credit facility occurring as a result of the mandatory tender for purchase of Junior Obligations). Following the occurrence of a Default under the Master Prior Bond Resolution and Parity Bond Resolutions, Local Option Taxes may not be used to pay the principal of or interest on Junior Obligations unless all deposits and payments required to be made with respect to the Prior Bonds and the Parity Bonds have been fully made or paid. Sound Transit has also reserved the right to issue obligations payable from revenues of Sound Transit other than Pledged Taxes. See Appendix B—"FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—2009 Prior Bond Resolution—Junior Obligations; Obligations with Pledge of Revenues."

#### **Defeasance**

Sound Transit has reserved the right to defease any of the 2009 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 2009 Bonds or portions thereof (the "Defeased Bonds") as the same shall become due, together with all interest accruing thereon to the maturity date or scheduled redemption date, and, in the case of Defeased Bonds to be redeemed prior to maturity, irrevocably calling the Defeased Bonds for redemption on the scheduled redemption date, and paying or making provision for payment of all fees, costs and expenses of that escrow agent due or to become due with respect to the Defeased Bonds.

In connection with a defeasance, Sound Transit is required to cause to be delivered an opinion of nationally recognized tax counsel. Depending on the opinion delivered, upon defeasance, either (i) the Defeased Bonds may be deemed not to be Outstanding, and the Owners of the Defeased Bonds will be restricted exclusively to the money or Government Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature

with respect to the Defeased Bonds or (ii) Sound Transit may terminate its obligations under any of its covenants under the Master Prior Bond Resolution or the 2009 Parity Bond Resolutions, other than its covenants to maintain its existence and to make payments when due on the Prior Bonds or the Parity Bonds, as the case may be. See Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Defeasance” and “—2009 Prior Bond Resolution—Defeasance.”

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

### **Other Covenants**

Sound Transit has made various covenants in the 2009 Bond Resolutions. These include, among others, covenants to maintain insurance or institute a self-insurance program, if such insurance is obtainable at reasonable rates and upon reasonable conditions, against such risks as the Board of Directors deems prudent for the protection of Sound Transit; and to keep books of account and accurate records of all of its revenue and its expenses that are in accordance with applicable accounting principles as in effect from time to time. See Appendix B—“FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION—Master Prior Bond Resolution—Covenants” and “—2009 Parity Bond Resolution—Covenants.”

### **No Lien**

The Owners of the 2009 Bonds do not have a lien on money in any account held by Sound Transit. Sound Transit may be able to file for bankruptcy under Chapter 9 of the Bankruptcy Code. Filing for bankruptcy does not constitute a Default under the Master Prior Bond Resolution or under the Parity Bond Resolutions. Legal proceedings necessary to resolve the status of post-bankruptcy money in the accounts contractually pledged in favor of the Owners of the 2009 Bonds could be time consuming. Substantial delays or reductions in payments to the Owners of the 2009 Bonds could result. Even if a court determines that post-bankruptcy money in such accounts is payable to the Owners of the Prior Bonds or the Parity Bonds, the court may permit Sound Transit to spend such money in such accounts to pay operation and maintenance costs of Sound Transit or to pay general creditors, notwithstanding any provision of the 2009 Bond Resolutions to the contrary.

### **No Acceleration Upon Default**

Upon the occurrence and continuance of a Default under the 2009 Bond Resolutions, payment of the principal amount of the Prior Bonds and the Parity Bonds is not subject to acceleration. Sound Transit thus would be liable only for principal and interest payments as they became due, and the Owners (or their trustee) would be required to seek a separate judgment for each payment, if any, not made. Any such action for money damages would be subject to any limitations on legal claims and remedies against public bodies under State law. Amounts recovered would be applied to unpaid installments of interest prior to being applied to unpaid principal and premium, if any, which had become due.

## **SOUND TRANSIT**

### **Introduction**

Sound Transit is a regional transit authority created under chapter 81.112 RCW on September 17, 1993. Sound Transit is not a general purpose municipal government. The primary statutory purpose of Sound Transit is to

develop and operate a “high capacity transportation system” within its boundaries. State law defines a “high capacity transportation system” to be “a system of public transportation services within an urbanized region operating principally on exclusive rights of way, and the supporting services and facilities necessary to implement such a system, including interim express services and 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 shown on page iii of this Official Statement.

### **Corporate Powers**

Sound Transit’s corporate powers include the ability to hire and remove employees, retain consultants and contractors, receive gifts and grants, contract with governmental and private entities, acquire and dispose of property, equipment and facilities, exercise the power of eminent domain, issue debt, impose specified taxes and fix rates and charges. Sound Transit’s corporate powers are, for the most part, set forth in the Act.

### **District Boundaries and Service Area**

The District boundaries generally conform to the “urban growth boundaries” designated by each County pursuant to the State Growth Management Act, with certain minor adjustments to account for voter precinct boundaries and city limit lines. A map of the District is set forth on page iv of this Official Statement. The District includes, among other cities, Seattle, Tacoma, Bellevue and Everett. The estimated 2008 population within the District was 2.86 million. (The City of Covington, with an estimated 2008 population of 17,360, 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.

### **Governance and Organizational Structure**

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

None of the Board members or other officers of Sound Transit has any interest in the issuance of the 2009 Bonds that is prohibited by law.

## Key Staff Biographies

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

**Ron Tober, Deputy Chief Executive Officer.** Mr. Tober joined Sound Transit in February 2009, bringing more than 35 years of experience managing transit operations. For the previous eight years, Mr. Tober was CEO of the Charlotte Area Transit System, during which time he oversaw the opening of North Carolina's first light rail line. Mr. Tober served as Director of Transit for the Municipality of Metropolitan Seattle from 1982 to 1988 and as General Manager and Secretary-Treasurer for the Greater Cleveland Regional Transit Authority from 1988 to 1999. Mr. Tober has been active on numerous transit industry committees and served as chair of the American Public Transportation Association. Mr. Tober received a Bachelor of Science degree in Industrial Engineering from Cornell University and a Masters in Science in Operations Research from Case Western Reserve University.

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

**Brian McCartan, Executive Director, Finance and Information Technology.** With over 20 years of experience in financial management, Mr. McCartan oversees the accounting, financial planning, treasury, grants, risk management and information technology divisions of Sound Transit. Prior to joining Sound Transit, he served as Debt Manager for the City of Seattle, where he worked on financing capital projects, including the issuance of over \$800 million in revenue bonds, bond anticipation notes and certificates of participation, including taxable, tax-exempt, fixed and variable rate obligations. As an International Economist for the U.S. Treasury in Washington D.C., he served in the Office of Foreign Exchange Operations, which managed the \$32 billion Exchange Stabilization Fund, a multi-currency enterprise fund used to finance U.S. international monetary operations. Mr. McCartan holds a Master of Arts from Yale University in International Finance & Economics and a Bachelor of Arts from the University of Washington.

**Ahmad Fazel, Executive Director, Link Light Rail.** Mr. Fazel joined Sound Transit in 2000 as the Systems Engineering Manager, and he became the Director of Link Light Rail a year later. With over 23 years of experience in transportation, he has specialized in approaches and management structures, engineering techniques, and procedures for implementing light rail transit projects in complex urban and urbanizing areas. Prior to joining Sound Transit, he served as the Director of Planning and Development for the Regional Transportation District in Denver, where he managed the buildout of Denver's first two segments of light rail. Mr. Fazel also has served as Systems Engineer for the Tri-County Metropolitan Transportation District of Oregon (Tri-Met). He holds a Bachelor of Science in Mechanical Engineering from Washington State University.

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



from 1995 to 1998 and has served as staff member on the subcommittee on Transportation in the U.S. House of Representatives. He holds a Bachelor of Arts in Journalism from the University of Oregon.

**Ron Klein, Director, Communications and External Affairs.** Mr. Klein joined Sound Transit in January 2009. Prior to joining Sound Transit, Mr. Klein spent eight years at Pierce County, where he was responsible for media relations, public outreach, and operation of the county's cable TV channel. Prior to Pierce County, Mr. Klein worked for advertising and public relations firms in the Seattle/Tacoma area. Mr. Klein received a Bachelor of Arts from the University of Washington.

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

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

## **System Plan**

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

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

Based on the joint regional policy committee's adopted plan for regional transit (the "Regional Transit Plan"), the legislative authorities of the Counties, each by resolution, decided to participate in Sound Transit and appointed its Board members. Upon formation of Sound Transit, the joint regional policy committee ceased to exist.

Sound Transit has adopted its "System Plan," which incorporates commuter rail, light rail, express bus, community connections (such as transit centers, park-and-ride lots and transit access improvements) and high occupancy vehicle 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

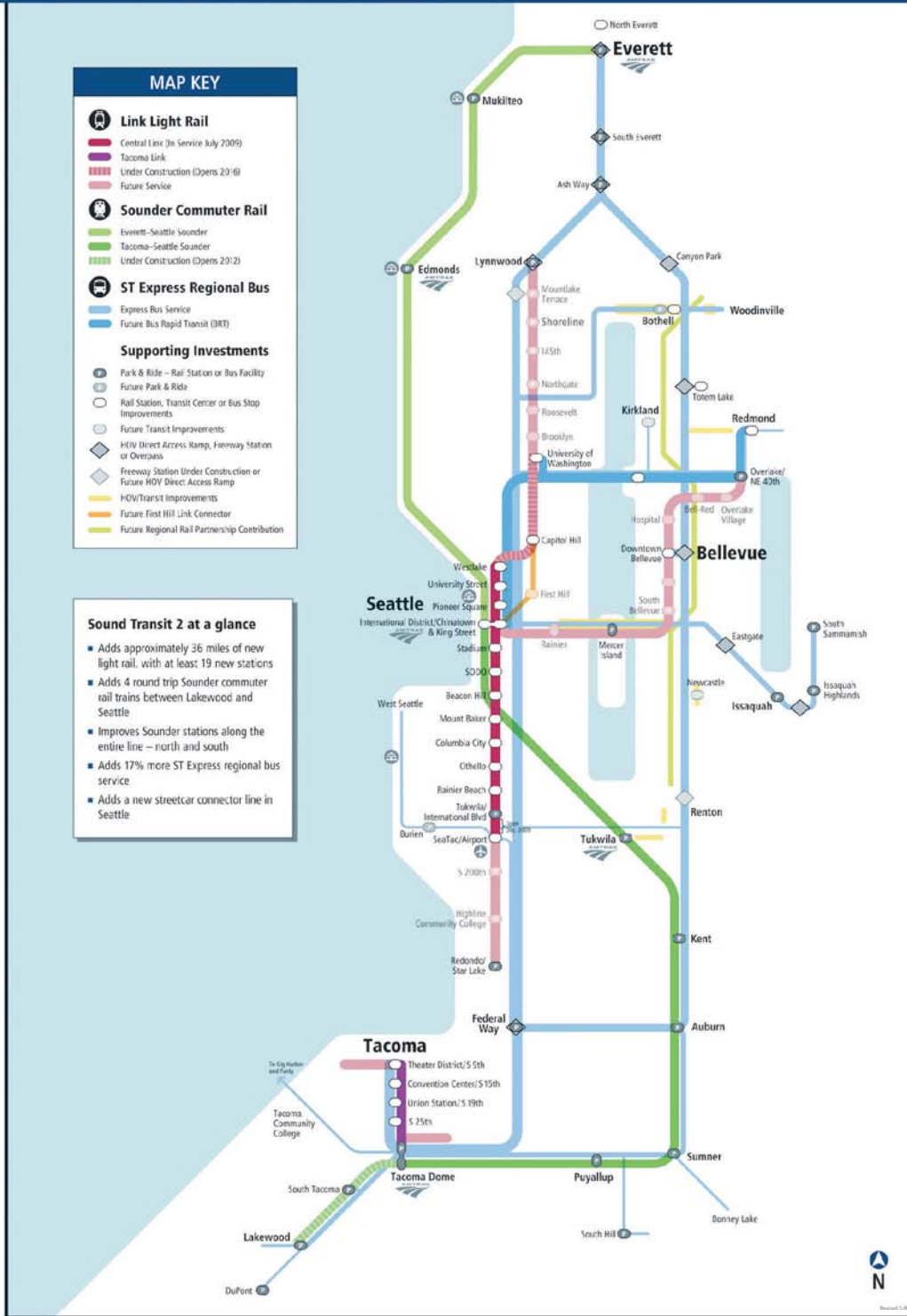


("ST Express"); commuter rail ("Sounder"); and electric light rail ("Link"). The implementation of the initial phase of the System Plan ("Sound Move"), which was approved by voters in 1996, is scheduled for a 20-year period ending in 2016. In 2008, voters approved "Sound Transit 2" as a second phase of the System Plan to finance the expansion of the existing light rail system, commuter rail and express bus service over the next 15 years. In the 1996 and 2008 elections, approximately 57% of voters approved the propositions.

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

# REGIONAL TRANSIT SYSTEM PLAN

## SOUND MOVE & SOUND TRANSIT 2 PROJECTS / SERVICES



**Progress to Date.** Sound Transit has completed construction on the Tacoma Link light rail system, seven park-and-ride facilities, three freeway station projects, nine transit centers, 14 HOV access projects and 10 commuter rail stations. In addition, Sound Transit currently operates 26 ST Express bus routes, 13 round-trip Sounder commuter rail trains daily and daily operations of Tacoma Link light rail. Sound Transit had over 16 million passenger boardings in 2008. The 14-mile Link Light Rail line between downtown Seattle and Tukwila opened on July 18, 2009. The 1.7 mile Link Light Rail line from Tukwila to Seattle-Tacoma International Airport (the “Airport”) is scheduled to open in December 2009.

Sound Transit expects to make capital expenditures associated with the System Plan through 2023 and to finance those expenditures with, among other things, Local Option Taxes, federal, State and local grants, bond proceeds (including 2009 Bond proceeds), fares and other operating revenues, as well as with interest earnings on money from such sources. Sound Transit also uses Local Option Taxes to pay costs of operating its facilities.

Sound Transit periodically updates its long-term financial plan to include the most recent estimated sources and uses of funds for the agency. The most recent financial plan was updated in July 2008. The current Board-adopted capital plan includes estimates that the capital projects will cost (in year of expenditure dollars): \$16.2 billion for Link light rail, \$2.5 billion for Sounder commuter rail, \$1.2 billion for ST Express bus service and \$858 million for other capital expenditures. In light of recent reductions in the collection of Local Option Taxes, Sound Transit is reviewing projected revenues and the System Plan. See “SOUND TRANSIT TAXES—Recent Developments.” The 2009 Bonds are secured by a gross pledge of certain taxes and, therefore, the security for the 2009 Bonds does not depend on implementation of the System Plan.

The Board’s policy decisions as to services, equipment, route alignment, fares and other matters may affect the cost and timing of System Plan implementation. Implementation of the remaining portions of the System Plan on time and on budget also depends on circumstances beyond the control of Sound Transit, including weather, soil conditions, environmental conditions, economic conditions, local jurisdiction permitting, the presence of archaeologically significant artifacts, natural disasters, earthquakes, volcanic eruptions, legal challenges, changes in law and other circumstances. Any of these circumstances, among others, could delay the implementation or increase costs of the remainder of the System Plan, increase operating expenses or result in the need to revise the System Plan. The ability of Sound Transit to issue debt is subject to market conditions and Sound Transit’s debt capacity, which is based on the assessed value of property within the District, as described under “DEBT CAPACITY AND SOURCES AND USES OF BOND PROCEEDS—Debt Capacity.”

## **Transit Operations**

**Partner Agencies.** Sound Transit purchases buses and trains that are then operated and maintained by its partner agencies—King County Metro, Community Transit, Pierce Transit, BNSF Railway Company (“BNSF”) and the National Railroad Passenger Corporation (Amtrak)—with the exception of Tacoma Link light rail, which is operated directly by Sound Transit. Sound Transit’s current operations contracts for ST Express buses with King County Metro, Community Transit and Pierce Transit expire on December 31, 2009. The HOV access projects are being implemented with the State Department of Transportation (“WSDOT”). Sound Transit has entered into an operations contract for King County Metro to operate Link light rail in King County for five years beginning with the commencement of operations in July 2009. Sound Transit currently is in negotiations with its service providers on extensions to the service agreements for Sounder commuter rail and ST Express bus service, and these negotiations are expected to be completed before the end of 2009.

**ST Express.** Through its partner agencies, Sound Transit currently operates 26 ST Express bus routes in the Counties. ST Express bus ridership in 2008 was 12.5 million. This compares to 10.7 million in 2007 and 9.7 million in 2006. ST Express buses currently carry more than 43,000 passengers each weekday. The ST Express capital program is focused on providing two types of transportation improvements: community connection facilities and HOV improvements. The original System Plan called for funding the cost of 45 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 has constructed special access ramps to make it easier for transit and vanpools

to use HOV lanes at some of the region's most congested freeway intersections. These improvements are intended to expand and improve the existing HOV network within the District. Sound Transit expects to increase ST Express bus service in the highest-need corridors by improving service frequency, expanding hours of operation and adding trips to relieve overloads. Sound Transit expects that total annual ST Express service hours in the District will increase by approximately 17% by 2012.

***Sounder Commuter Rail.*** The Sounder commuter rail capital program is expected to create 83 miles of peak-period train service, primarily using existing BNSF 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 expects to meet this goal by installing capital improvements to track, signal and communications equipment. These improvements are required to increase the capacity of those lines and to improve the speed and reliability of trains in the corridor.

The commuter rail system, when completed, is expected to include 12 stations. The System Plan calls for major multimodal terminals in Everett, Seattle and Tacoma. Additional major intermodal terminals, being developed through a partnership between Sound Transit and other public agencies (including Washington State Ferries), are planned for the Mukilteo and Edmonds waterfronts. Ten stations are currently in service, and the majority of track and signal improvements between Tacoma and Everett are in place.

Sounder commuter rail service between Tacoma and Seattle began in 2000 with two round trips on weekdays and weekend event service. Service has gradually been expanded, and there are now nine round trips between Tacoma and Seattle and four round trips between Everett and Seattle on weekdays, as well as event service on weekends.

Sounder commuter rail ridership in 2008 was 2.7 million. This compares to 2.2 million in 2007 and 1.7 million in 2006. Sounder trains currently carry more than 9,000 passengers each weekday.

Sound Transit and BNSF have entered into agreements that allow Sound Transit to operate the Sounder service on the entire 83-mile BNSF corridor from Lakewood to Tacoma. Sound Transit's contract with BNSF requires the completion of specific track and signal improvements to accommodate passenger service along BNSF's right-of-way and the payment of certain amounts to acquire easements from BNSF. See Note 12 in Appendix A—"AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007."

Sound Transit expects to increase the capacity of the Tacoma-Seattle Sounder service through additional trains and expanded train lengths. Four additional round trips are expected to be added. The number of passenger cars per train is expected to increase from seven to eight. Sound Transit also expects to construct an expanded Sounder station in Tukwila and access improvements for commuter rail and bus riders at seven stations.

***Link Light Rail.*** The System Plan initially envisioned a 21-mile light rail system running from the University District in Seattle, through downtown Seattle, to just south of the Airport in the city of SeaTac. Sound Transit is building these projects in phases. The first phase is the 14-mile "initial segment" line with 12 stations running from downtown Seattle to Tukwila. Sound Transit received a \$500 million "Full Funding Grant" from the Federal Transit Administration (the "FTA") to pay a portion of the costs of the Seattle to Airport segment. Service on the Seattle to Tukwila segment began in July 2009. The second phase, Tukwila to the Airport, is scheduled to open in December 2009.

Sound Transit expects that ridership on the Seattle to Tukwila segment will reach 21,000 riders every weekday by the end of 2009, and that in 2010, after a full year of operation, the average weekday ridership from downtown Seattle to the Airport will total 26,600 riders.

The last phase is University Link, a three-mile light rail extension that will tunnel east from the Downtown Seattle Transit Tunnel, cross under Interstate 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. The University Link project received \$813 million in grants from the FTA, which is

expected to fund approximately 40% of the \$1.9 billion cost of building the line. Construction began in March 2009 with operations expected to begin in 2016.

Sound Transit 2 also includes 36 new miles of light rail service to the north, east and south. Sound Transit 2 plans include extension of service from the University of Washington north to Northgate and then to Lynnwood, with seven stations. Service to Northgate is expected to open by 2020, with service to Lynnwood opened by 2023. Light rail service from downtown Seattle across Interstate 90 to Bellevue and downtown Redmond is planned, with service to Bellevue by 2020 and to Redmond by 2021. Link Light Rail also is planned from the Airport to north of Federal Way. Service to the Highline Community College area is expected to open by 2020 and service to the Redondo/Star Lake area by 2023.

Tacoma Link light rail is free and connects downtown Tacoma with a regional transit center at the Tacoma Dome Station, where riders can transfer to Sounder commuter rail, ST Express regional buses, and local Pierce Transit buses. Tacoma Link began service in August 2003. Ridership in 2008 was approximately 930,600. Tacoma Link light rail trains currently carry more than 3,200 passengers each weekday.

### **Financial Policies**

The Board has adopted an Asset Liability Management Policy that contains investment, debt management and swap policies. The objectives of the investment policy are, in order of priority, safety, liquidity and return on investment. The policies provide that Sound Transit will maintain a minimum reserve of two months' operating expenses and up to three months of forecasted capital expenditures and a system-wide emergency and contingency reserve. The three reserves currently total approximately \$187 million. The Prior Bonds and the Parity Bonds are secured by a gross pledge of certain taxes, but for planning purposes, under Sound Transit's current debt management policy the debt service coverage ratio is to be set at an average coverage ratio of 2.0x for net revenues over annual debt service costs and the debt service coverage ratio on bonds is not to fall below 1.5x in any single year. The debt policy establishes that Sound Transit will manage its debt obligations to minimize its net debt service payments. Under the swap policy, Sound Transit may consider the use of swaps in connection with the issuance of debt obligations consistent with its overall Asset Liability Management Policy as a means of reducing exposure to interest rate fluctuations and/or lower net borrowing costs. See "Payment Agreements" under this heading. The Board may revise the Asset Liability Management Policy at any time.

### **Labor Relations**

As of June 2009, Sound Transit employed 401 permanent employees. In October 2008, seven employees involved in the operation of Tacoma Link authorized representation by the Amalgamated Transit Union, Local 758 AFL-CIO. The union contract is effective from October 2008 to October 2011. 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 2008 on a covered payroll of \$28.6 million was 12%, or \$3.4 million, and the employee contribution rate was 10%, or \$2.9 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, 2008, there was one remaining employee participating in PERS.



## **Other Post-Employment Benefits**

The Governmental Accounting Standards Board (“GASB”) has issued a standard concerning Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions (“GASB 45”). In addition to pensions, many State and local governmental employers provide other post-employment benefits (“OPEB”) as a part of total compensation. OPEB includes post-employment health care as well as other forms of post-employment benefits when provided separately from a pension plan. The standard provides for the measurement, recognition and display of OPEB expenses/expenditures, related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports. Sound Transit currently has no OPEB liability.

## **Risk Management**

In the ordinary course of construction of its transit projects and agency and rail operations, Sound Transit is exposed to various types of 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 risk management and insurance program that encompasses risk, safety and security. For its agency and railroad operations, a commercial insurance program has been put in place that provides first-level coverage for property, liability, employment practices and crime and fidelity to provide protection from these risks and exposures. Such coverage includes deductibles or self-insured retentions per occurrence or claim depending on the specific insurance policy coverage form.

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.

For ST Express operations, under Sound Transit’s agreements insurance coverage is provided by its bus partner agencies, except that under its interagency agreement for service in Pierce County, Sound Transit reimburses Pierce Transit for the cost of all individual claims paid up to \$1 million.

Sound Transit also utilizes two Owner-Controlled Insurance Programs (“OCIP”) for all general liability claims for third-party injuries and/or property damage related to project construction activities carried out by third-party contractors. Its first OCIP was secured in 2001, primarily for construction of the Central Link Light Rail – Initial Segment, and was subsequently amended to include the Airport Link light rail segment. This OCIP provides coverage from January 1, 2001 through December 31, 2009, with the exception of the professional liability and contractor’s pollution liability insurance policy, which provides coverage through December 31, 2016, with an additional three-year reporting period extending to December 31, 2019.

Sound Transit also entered into a deductible liability protection policy to supplement the deductible self-insured retention for the probable maximum claims exposure at the inception of the Central Link Light Rail OCIP general liability policy, estimated at \$6.5 million. This amount was deposited with the insurer in an interest-bearing loss fund account.

A second OCIP was secured in October 2008 for the University Link Light Rail segment. The funding of the premiums for this OCIP is structured with initial premium payments of \$6.8 million in 2008 followed by premium payments in 2009 and 2010 of \$6.2 million and \$5.8 million respectively, with coverage provided from October 20, 2008 through September 30, 2016.

Annually Sound Transit engages an actuary to estimate its total claim exposure under all of these risk management and insurance programs. Claim amounts estimated to be paid within the next year are included in other current liabilities.

## **Budgeting and Capital Planning Process**

Sound Transit prepares an annual proposed budget for presentation to the Board no later than 60 days prior to the end of each Fiscal Year. The budget includes operating expenses, capital expenditures and revenues for the upcoming Fiscal Year. Sound Transit also prepares a multi-year capital plan. The capital plan contains project-by-



project summaries of total 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 2009 was adopted by the Board on December 11, 2008, and may be amended if necessary.

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. See "SOUND TRANSIT TAXES—Recent Developments."

## **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, 2008 AND 2007" 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, 2008 and 2007, including the accompanying notes, are set forth in Appendix A—"AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007." 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 2007, 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 will be conducted when determined necessary by the State Auditor's Office.

## **Investments**

Washington law provides that investments of municipalities, including Sound Transit, may be invested in U.S. Treasury bonds, notes, bills or other government obligations of the U.S. Government or agencies of the U.S. Government; Governmental Sponsored Enterprise agency securities; interest bearing demand or time deposits issued by certain banks, trust companies or savings and loan associations; fully-secured repurchase agreements; banker's acceptances having a term of 180 days or less; taxable government money market portfolios restricted to obligations of one year or less issued and guaranteed by the full faith and credit of the U.S. government; and any other investments permitted under the laws of the State, such as obligations of the State and of any political subdivision of the State. In addition, Sound Transit invests in accordance with an investment policy approved by the Board. Permitted investments under the policy include obligations of the United States treasury and agency securities, bankers' acceptances, certificates of deposit, commercial paper, general obligation municipal bonds and repurchase agreements. See Note 3 in Appendix A—"AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007."

As of June 30, 2009 Sound Transit funds were invested as follows:

**TABLE 5**  
**SOUND TRANSIT RESTRICTED AND UNRESTRICTED INVESTMENTS**  
**(As of June 30, 2009)**

Type	Amount	Percentage
Treasuries	\$26,613,154	5.68%
Agency Bonds		
FNMA	25,687,827	5.48
FFCB	20,009,860	4.27
FHLB	90,446,428	19.30
FHLMC	62,060,279	13.24
Tax Exempt GO bonds	26,487,774	5.65
CDs	8,000,000	1.71
Cash & Cash Equivalents	33,851,231	7.22
Investment Pools <sup>(1)</sup>	175,429,571	37.44
<b>Total <sup>(2)</sup></b>	<b>\$468,586,124</b>	<b>100.00%</b>

(1) Primarily the State’s Local Government and Investment Pool (“LGIP”). The State Treasurer’s Office administers the LGIP, a \$6.7 billion fund that invests money on behalf of approximately 446 cities, counties and special taxing districts. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands. The State Treasurer’s Office reports that the LGIP is a highly liquid money market fund comparable to a Rule 2a-7 money market fund. The pool is restricted to investments with maturities of one year or less, and the average investment life typically is less than 90 days. Permissible investments include U.S. government and agency securities, bankers’ acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, and certificates of deposit issued by qualified Washington State depositories.

(2) Totals may not foot due to rounding.

Source: Sound Transit.

### Payment Agreements

Sound Transit is authorized by chapter 39.96 RCW and by the 2009 Bond Resolutions to enter into payment agreements, including interest rate swap agreements, agreements for interest rate caps and floors, and certain interest payment option agreements. Sound Transit has adopted a formal policy with respect to its potential use of payment agreements. Sound Transit may amend such policy at any time. Pursuant to the 2009 Bond Resolutions, Sound Transit has designated the federal credit payments in respect of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds as “Receipts” under “Payment Agreements,” although such Payment Agreements are not “payment agreements” as defined in chapter 39.96 RCW. See “THE 2009 BONDS—Federal Credit Payments for ‘Build America Bonds.’”

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

To date, Sound Transit has not entered into any payment agreement of the type authorized by chapter 39.96 RCW. See “SECURITY FOR THE 2009 BONDS—Payment Agreements” for a summary of requirements contained in the 2009 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, 2008, the present value of Sound Transit’s future payments under the sublease was \$61.7 million. Sound Transit expects that its payment obligations under the sublease will be fully satisfied from investment earnings on the amounts deposited with AIG-FP Special Finance Ltd. and AIG Matched Funding Corp. (“AIG Matched Funding”) pursuant to repurchase agreements with such parties. Such payments, however, may be made from Local Option Taxes, if necessary. The pledge of Local Option Taxes under the sublease documents is expressly subordinate to the pledges of Local Option Taxes securing the Prior Bonds and the Parity Bonds. Sound Transit will be required to make an additional, lump sum payment (which could be substantial) if it defaults or prematurely terminates any of these transactions. Sound Transit also may be subject to certain payment obligations if the counterparty to these transactions has financial difficulties. The lease documents established minimum credit levels for AIG Matched Funding, and AIG Matched Funding currently is rated below the minimum levels. As a result, Sound Transit is required to replace AIG Matched Funding or to amend the documents, but if this does not occur the investor has various options, including termination. The termination payment, less the accreted value schedule for the equity payment agreement, was valued at \$15 million at the end of December 2008. See Appendix A—“AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007, footnote 6.”

## **Debt Service Requirements**

The 1999 Prior Bonds were issued in the aggregate principal amount of \$350,000,000 and remain Outstanding as of August 31, 2009 in the aggregate principal amount of \$331,855,000. The 2005A Parity Bonds were issued and remain Outstanding as of August 31, 2009 in the aggregate principal amount of \$422,815,000. The 2007A Parity Bonds were issued in the amount of \$450,000,000 and remain Outstanding as of August 31, 2009 in the aggregate principal amount of \$435,445,000. Table 6 sets forth the annual principal and interest requirements of the 1999 Prior Bonds, the 2009 Prior Bonds, the 2005A Parity Bonds, the 2007A Parity Bonds and the 2009 Parity Bonds, rounded to the nearest dollar. Sound Transit expects to issue additional series of bonds to finance a portion of the System Plan. See “System Plan” under this heading and “SECURITY FOR THE 2009 BONDS.” Table 6 does not include payments due under capital leases. See “Capital Leases” under this heading.

**TABLE 6  
ANNUAL DEBT SERVICE REQUIREMENTS FOR THE PRIOR BONDS AND PARITY BONDS**

Year	Outstanding Prior Bonds Debt Service	2009P-1 Prior Bonds		2009P-2T Prior Bonds <sup>(1)</sup>		Total Prior Bonds Debt Service	Outstanding Parity Bonds Debt Service <sup>(2)</sup>	2009S-2T Parity Bonds <sup>(1)</sup>		Total Parity Bonds Debt Service	Aggregate Debt Service
		Principal	Interest	Principal	Interest			Principal	Interest		
2009	\$ 21,309,258	–	–	–	–	\$ 21,309,258	\$ 56,872,319	–	–	\$ 56,872,319	\$ 78,181,576
2010	21,310,585	–	\$ 835,533	–	\$2,091,089	24,237,207	43,628,569	–	\$ 11,659,223	55,287,792	79,524,999
2011	21,298,918	–	996,000	–	2,492,688	24,787,606	53,653,569	–	10,707,450	64,361,019	89,148,625
2012	21,288,891	–	996,000	–	2,492,688	24,777,580	53,550,089	–	10,707,450	64,257,539	89,035,118
2013	21,283,101	–	996,000	–	2,492,688	24,771,790	53,554,164	–	10,707,450	64,261,614	89,033,403
2014	21,273,206	–	996,000	–	2,492,688	24,761,895	51,853,889	–	10,707,450	62,561,339	87,323,233
2015	21,266,685	\$ 5,535,000	885,300	–	2,492,688	30,179,673	50,414,826	–	10,707,450	61,122,276	91,301,950
2016	21,255,831	17,620,000	387,300	–	2,492,688	41,755,820	37,377,370	–	10,707,450	48,084,820	89,840,640
2017	21,246,581	–	–	–	2,492,688	23,739,270	57,232,370	–	10,707,450	67,939,820	91,679,090
2018	21,239,090	–	–	–	2,492,688	23,731,778	54,698,370	–	10,707,450	65,405,820	89,137,598
2019	34,770,829	–	–	–	2,492,688	37,263,517	57,062,120	–	10,707,450	67,769,570	105,033,087
2020	34,740,629	–	–	\$ 7,390,000	2,376,324	44,506,952	56,908,589	–	10,707,450	67,616,039	112,122,991
2021	34,708,479	–	–	7,665,000	2,139,264	44,512,743	51,722,220	–	10,707,450	62,429,670	106,942,413
2022	34,735,066	–	–	7,890,000	1,894,331	44,519,397	51,718,500	–	10,707,450	62,425,950	106,945,347
2023	34,707,660	–	–	8,175,000	1,641,367	44,524,027	51,722,750	–	10,707,450	62,430,200	106,954,227
2024	34,681,116	–	–	8,470,000	1,379,271	44,530,387	51,723,500	–	10,707,450	62,430,950	106,961,337
2025	34,648,341	–	–	8,790,000	1,098,921	44,537,262	51,723,500	–	10,707,450	62,430,950	106,968,212
2026	34,615,848	–	–	9,130,000	799,276	44,545,123	51,720,500	–	10,707,450	62,427,950	106,973,073
2027	34,580,548	–	–	9,485,000	488,010	44,553,557	51,711,500	–	10,707,450	62,418,950	106,972,507
2028	34,542,780	–	–	9,850,000	164,704	44,557,484	51,709,250	–	10,707,450	62,416,700	106,974,184
2029	–	–	–	–	–	–	75,940,500	\$ 4,810,000	10,707,450	91,457,950	91,457,950
2030	–	–	–	–	–	–	75,940,500	4,985,000	10,535,774	91,461,274	91,461,274
2031	–	–	–	–	–	–	75,937,250	5,170,000	10,357,852	91,465,102	91,465,102
2032	–	–	–	–	–	–	75,939,000	5,360,000	10,173,327	91,472,327	91,472,327
2033	–	–	–	–	–	–	75,939,000	5,555,000	9,982,020	91,476,020	91,476,020
2034	–	–	–	–	–	–	75,940,250	5,760,000	9,783,754	91,484,004	91,484,004
2035	–	–	–	–	–	–	75,940,250	5,970,000	9,578,171	91,488,421	91,488,421
2036	–	–	–	–	–	–	75,941,250	6,185,000	9,365,093	91,491,343	91,491,343
2037	–	–	–	–	–	–	–	82,355,000	9,144,341	91,499,341	91,499,341
2038	–	–	–	–	–	–	–	85,365,000	6,204,967	91,569,967	91,569,967
2039	–	–	–	–	–	–	–	88,485,000	3,158,162	91,643,162	91,643,162
Total <sup>(3)</sup>	\$559,503,441	\$23,155,000	\$6,092,133	\$76,845,000	\$36,506,752	\$702,102,326	\$1,648,075,963	\$300,000,000	\$303,384,234	\$2,251,460,197	\$2,953,562,523

(1) Net of federal credit payments expected to be received by Sound Transit in respect of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds. See “THE 2009 BONDS—Federal Credit Payments for ‘Build America Bonds.’”

(2) Excludes debt service on \$25,000,000 in aggregate principal amount of 2005A Parity Bonds refunded with proceeds of the 2009P-1 Prior Bonds. See “DEBT CAPACITY AND SOURCES AND USES OF 2009 BOND PROCEEDS.”

(3) Totals may not foot due to rounding.

Source: Sound Transit.

## Historical Financial Results

Table 7 sets forth a summary of revenues, expenses and changes in net assets, as reported in Sound Transit's audited financial statements for the years 2004 through 2008, which are on an accrual basis. Notes to Table 7 are set forth on the following page.

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

	2004	2005	2006	2007	2008
<b>Operating Revenues</b>					
Passenger fares	\$ 13,205	\$ 16,483	\$ 18,052	\$ 22,029	\$ 26,611
Other operating revenue	3,403	3,376	3,431	4,234	3,942
<b>Total Operating Revenues</b>	<b>16,608</b>	<b>19,859</b>	<b>21,483</b>	<b>26,263</b>	<b>30,553</b>
<b>Operating Expenses</b>					
Operations and maintenance	70,870	81,103	89,134	99,113	116,748
General and administrative	15,987	16,690	18,471	17,060	19,073
Loss on disposal of assets	108	8	3	309	14
Depreciation, amortization and accretion	22,956	34,477	33,486	35,187	38,282
<b>Total Operating Expenses</b>	<b>109,921</b>	<b>132,278</b>	<b>141,094</b>	<b>151,669</b>	<b>174,117</b>
<b>Loss from Operations</b>	<b>(93,313)</b>	<b>(112,419)</b>	<b>(119,611)</b>	<b>(125,406)</b>	<b>(143,564)</b>
<b>Non-Operating Revenues (Expenses)</b>					
Sales Tax	219,020	239,785	259,164	280,263	265,358
Motor Vehicle Tax	64,714	66,308	70,202	72,403	68,621
Rental Car Tax	2,166	2,245	2,427	2,531	2,498
Investment income	10,626	26,090	37,277	24,952	23,630
Capital lease and other revenues	15	5	62	119	65
Non-operating expenses <sup>(1)</sup>	(14,592)	(15,789)	(12,358)	(27,220)	(25,732)
Interest expense	(74)	(252)	(436)	(224)	(16)
Recovery of Prior Year and Insured Losses	-	-	-	-	7,722
Discontinued and impaired projects <sup>(2)</sup>	(194)	(6,330)	(5,944)	(211)	(4,818)
Loss on change in interlocal agreement <sup>(3)</sup>	(4,584)	-	-	-	-
Loss on disposal of assets	(920)	(353)	-	-	159
<b>Total Non-Operating Revenues, Net</b>	<b>276,177</b>	<b>311,709</b>	<b>350,394</b>	<b>352,613</b>	<b>337,487</b>
<b>Income Before Capital Contributions</b>	<b>182,864</b>	<b>199,290</b>	<b>230,783</b>	<b>227,207</b>	<b>193,923</b>
Capital contributions to other governments <sup>(4)</sup>	(99,118)	(55,888)	(72,750)	(115,557)	(67,848)
Federal capital contributions	68,842	135,393	130,445	112,668	161,771
Other capital contributions	27,617	7,092	14,080	4,670	13,867
<b>Net Capital Contributions</b>	<b>(2,659)</b>	<b>86,597</b>	<b>71,775</b>	<b>1,781</b>	<b>107,790</b>
<b>Changes in Net Assets Before Cumulative Effect Adjustment</b>	<b>180,205</b>	<b>285,887</b>	<b>302,558</b>	<b>228,988</b>	<b>301,713</b>
Cumulative effect of accretion expense	-	211	-	-	-
<b>Change in Net Assets</b>	<b>180,205</b>	<b>285,676</b>	<b>302,558</b>	<b>228,988</b>	<b>301,713</b>
<b>Total Net Assets, Beginning of Year</b>	<b>1,878,841</b>	<b>2,059,046</b>	<b>2,344,722</b>	<b>2,647,280</b>	<b>2,876,268</b>
<b>Total Net Assets, End of Year</b>	<b>\$ 2,059,046</b>	<b>\$ 2,344,722</b>	<b>\$ 2,647,280</b>	<b>\$ 2,876,268</b>	<b>\$ 3,177,981</b>



- (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, writeoffs in 2006 due to design errors and overhead related to postponed projects, a discontinued project in 2008 due to high costs, and wetland mitigation expenses in 2007 and 2008.
- (3) In 2004, 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, resulting 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.

***Historical Debt Service Coverage on Prior Bonds.*** Table 8 sets forth historical debt service coverage for the 1999 Prior Bonds (the Outstanding Prior Bonds). Sound Transit is issuing the 2009 Prior Bonds and expects to issue additional bonds to finance a portion of the System Plan. See "System Plan" under this heading. Sound Transit has reserved the right to issue Future Prior Bonds as described in "SECURITY FOR THE 2009 BONDS—Security for the 2009 Prior Bonds—Future Prior Bonds."

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

	2004	2005	2006	2007	2008
Sales Tax <sup>(1)</sup>	\$219,020	\$239,785	\$259,164	\$280,263	\$265,358
Rental Car Tax <sup>(1)</sup>	2,166	2,245	2,427	2,531	2,498
Motor Vehicle Tax <sup>(1)</sup>	64,714	66,308	70,202	72,403	68,621
Total Local Option Taxes	\$285,900	\$308,338	\$331,793	\$355,197	\$336,477
Actual Prior Bond debt service	\$17,164	\$17,164	\$21,348	\$21,349	\$21,340
Actual Prior Bond debt service coverage <sup>(2)</sup>	16.66x	17.96x	15.54x	16.64x	15.77x

(1) On an accrual basis.

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

*Source:* Sound Transit.

***Historical Debt Service Coverage on Parity Bonds.*** Table 9 sets forth historical debt service coverage for the 2005A Parity Bonds and 2007A Parity Bonds (the Outstanding Parity Bonds). Sound Transit is issuing the 2009 Parity Bonds and expects to issue additional bonds to finance a portion of the System Plan. See "SOUND TRANSIT—System Plan." Sound Transit has reserved the right to issue Future Parity Bonds as described in "SECURITY FOR THE 2009 BONDS—Security for the 2009 Parity Bonds—Future Parity Bonds."

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

	2004	2005	2006	2007	2008
Sales Tax <sup>(1)</sup>	\$219,020	\$239,785	\$259,164	\$280,263	\$265,358
Rental Car Tax <sup>(1)</sup>	2,166	2,245	2,427	2,531	2,498
Total Pledged Taxes	221,186	242,030	261,591	282,794	267,856
Less: Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement, after all Motor Vehicle Tax has been applied for that purpose <sup>(2)</sup>	—	—	—	—	—
Pledged Taxes available for debt service on the 2005A Parity Bonds and 2007A Parity Bonds	221,186	242,030	261,591	282,794	267,856
Motor Vehicle Tax <sup>(1)</sup>	64,714	66,308	70,202	72,403	68,621
Less: debt service on Prior Bonds	(17,164)	(17,164)	(21,348)	(21,349)	(21,340)
Local Option Taxes available for debt service on the 2005A Parity Bonds and 2007A Parity Bonds	\$268,736	\$291,174	\$310,445	\$333,848	\$315,137
Actual Parity Bond debt service	—	\$12,063	\$20,581	\$20,581	\$54,601
Actual Parity Bond debt service coverage:					
by Pledged Taxes <sup>(3)</sup>	—	20.06x	12.71x	13.74x	4.91x
by Local Option Taxes <sup>(4)</sup>	—	24.14x	15.08x	16.22x	5.77x

(1) On an accrual basis.

(2) Equal to zero in each year, because the Motor Vehicle Tax revenues in each year exceeded the Prior Bonds Coverage Requirement (1.5 times Maximum Annual Prior Bond Debt Service). The Motor Vehicle Tax is a component of the Local Option Taxes pledged to the payment of the Prior Bonds, but the Motor Vehicle Tax is not a component of the Pledged Taxes pledged to the payment of the Parity Bonds. Under current law, Sound Transit does not have clear authority to impose the Motor Vehicle Tax after the 1999 Prior Bonds are retired or provision is made therefor. The last scheduled maturity of the 1999 Prior Bonds is 2028. Sound Transit has covenanted in the Master Prior Bond Resolution to use the proceeds from all Local Option Taxes (including the Motor Vehicle Tax) for the purposes and in the priorities described in “SECURITY FOR THE 2009 BONDS—Flow of Funds,” including for payment of debt service on Parity Bonds.

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

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

Source: Sound Transit.

## INITIATIVES AND REFERENDA

Under the State Constitution, the State’s voters have the ability to initiate legislation and to modify existing statutes through the powers of initiative and referendum. Initiatives and referenda can be submitted to the voters each November upon receipt of a petition signed by at least 8% (initiatives) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Regular gubernatorial elections occur every four years, with the last such election held in November 2008.

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 been upheld.

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

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 2009 Bonds.

Except as described in the following paragraph, there is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the issuance, sale, execution, or delivery of the 2009 Bonds or in any way contesting the validity of the 2009 Bonds or any proceedings of Sound Transit taken with respect to the issuance or sale thereof, or the power of Sound Transit to collect any of the Local Option Taxes as described in this Official Statement.

On September 16, 2009, an individual with a history of serving Sound Transit with legal complaints served Sound Transit with a complaint questioning, among other things, the authority of Sound Transit to issue long-term bonds in excess of \$800 million. Sound Transit has determined in consultation with counsel that the claims included in the complaint are without merit.

## TAX EXEMPTION—2009P-1 PRIOR BONDS

### General

***Exclusion From Gross Income.*** In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the 2009P-1 Prior Bonds, interest on the 2009P-1 Prior Bonds is excluded from gross income for federal income tax purposes.

***Continuing Requirements.*** Sound Transit is required to comply with certain requirements of the Code after the date of issuance of the 2009P-1 Prior Bonds in order to maintain the exclusion of the interest on the 2009P-1 Prior Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2009P-1 Prior Bond proceeds and the facilities financed or refinanced with 2009P-1 Prior Bond proceeds, limitations on investing gross proceeds of the 2009P-1 Prior Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the 2009P-1 Prior Bonds. Sound Transit has covenanted in the 2009 Prior Bond Resolutions to comply with those requirements, but if Sound Transit fails to comply with those requirements, interest on the 2009P-1 Prior Bonds could become taxable retroactive to the date of issuance of the 2009P-1 Prior Bonds. Bond Counsel has not undertaken and does not undertake to monitor Sound Transit's compliance with such requirements.

***Alternative Minimum Tax.*** Under existing federal law, interest on the 2009P-1 Prior Bonds received by individuals and corporations is *not* treated as an item of tax preference for purposes of the federal alternative minimum tax, and

interest on the 2009P-1 Prior Bonds received by corporations is *not* taken into account in determining adjusted current earnings of corporations for purposes of the federal alternative minimum tax.

***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 2009P-1 Prior 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 2009P-1 Prior Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the 2009P-1 Prior 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 2009P-1 Prior 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 2009P-1 Prior Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the 2009P-1 Prior Bonds could adversely affect the market value and liquidity of the 2009P-1 Prior Bonds until the audit is concluded, regardless of its ultimate outcome.

#### **Certain Other Federal Tax Consequences**

***2009P-1 Prior Bonds “Qualified Tax-Exempt Obligations” for Financial Institutions.*** Section 265 of the Code generally provides that 100% of any interest expense incurred by banks and other financial institutions that is allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than certain private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$30,000,000 of tax-exempt obligations (other than certain private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as “qualified tax-exempt obligations,” only 20% of any interest expense deduction allocable to those obligations will be disallowed.

Sound Transit is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing less than \$30,000,000 of tax-exempt obligations (other than certain private activity bonds and other obligations not required to be included in such calculation) during the current calendar year, and has designated the 2009P-1 Prior Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code. Therefore, only 20% of the interest expense deduction of a financial institution allocable to the 2009P-1 Prior Bonds will be disallowed for federal income tax purposes.

***Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies.*** Under Section 832 of the Code, interest on the 2009P-1 Prior 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 2009P-1 Prior Bonds into account in determining gross income.

***Other Possible Federal Tax Consequences.*** Receipt of interest on the 2009P-1 Prior Bonds may have other federal tax consequences as to which prospective purchasers of the 2009P-1 Prior Bonds may wish to consult their own tax advisors.

***Original Issue Premium.*** The 2009P-1 Prior Bonds have been sold at prices reflecting original issue premium (“Premium Bonds”). An amount equal to the excess of the purchase price of a Premium Bond over its stated

redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

## TAX MATTERS—2009P-2T PRIOR BONDS AND 2009S-2T PARITY BONDS

**This advice was written to support the promotion or marketing of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds. This advice is not intended or written by Foster Pepper PLLC to be used, and may not be used, by any person or entity for the purpose of avoiding any penalties that may be imposed on any person or entity under the Code. Prospective purchasers of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds should seek advice based on their particular circumstances from an independent tax advisor.**

The following discussion generally describes certain aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners (“Owners”) of 2009P-2T Prior Bonds and 2009S-2T Parity Bonds who have purchased 2009P-2T Prior Bonds or 2009S-2T Parity Bonds in the initial offering and who hold the 2009P-2T Prior Bonds or the 2009S-2T Parity Bonds as capital assets within the meaning of Section 1221 of the Code. For purposes of this discussion, a “U.S. person” means an individual who, for U.S. federal income tax purposes, is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source of income, or (iv) a trust, if either: (A) a United States court is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust or (B) a trust has a valid election in effect to be treated as a United States person under the applicable Treasury regulations.

This summary is based on the Code, published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect). This summary does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances, such as an Owner who may purchase 2009P-2T Prior Bonds or 2009S-2T Parity Bonds in the secondary market, or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, non-U.S. persons, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, or dealers in securities. **Accordingly, before deciding whether to purchase any 2009P-2T Prior Bonds or 2009S-2T Parity Bonds, prospective purchasers should consult their own tax advisors regarding the United States federal income tax consequences, as well as tax consequences under the laws of any state, local or foreign taxing jurisdiction or under any applicable tax treaty, of purchasing, holding, owing and disposing of the 2009P-2T Prior Bonds or the 2009S-2T Parity Bonds.**

***In General.*** As described herein under the heading “THE 2009 BONDS—Designation of 2009P-2T Prior Bonds and 2009S-2T Parity Bonds as ‘Build America Bonds,’” Sound Transit has made irrevocable elections to have the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds treated as “Build America Bonds” within the meaning of Section 54AA(d) of the Code that are “qualified bonds” within the meaning of Section 54AA(g) of the Code. As a result of these elections, interest on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds is not excludable from the gross income of the Owners for federal income tax purposes, and Owners of the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds.

***Payments of Interest.*** Interest paid on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner’s method of accounting for U.S. federal income tax purposes. Owners who are cash-method taxpayers will be



required to include interest in income upon receipt of such interest payment; Owners who are accrual-method taxpayers will be required to include interest as it accrues, without regard to when interest payments are actually received.

**Disposition or Retirement.** Upon the sale, exchange or other disposition of a 2009P-2T Prior Bond or 2009S-2T Parity Bond, or upon the retirement of a 2009P-2T Prior Bond or 2009S-2T Parity Bond (including by redemption), an Owner will recognize capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (excluding any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the 2009P-2T Prior Bond or 2009S-2T Parity Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes. If Sound Transit defeases any 2009P-2T Prior Bonds or 2009S-2T Parity Bonds, such 2009P-2T Prior Bonds or 2009S-2T Parity Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. In such event, the Owner of a 2009P-2T Prior Bond or 2009S-2T Parity Bond would recognize a gain or loss on the 2009P-2T Prior Bond or 2009S-2T Parity Bond at the time of defeasance.

**Backup Withholding.** An Owner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding tax is 28%, but may change in the future) with respect to interest on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds. This withholding generally applies if the owner of a 2009P-2T Prior Bond or 2009S-2T Parity Bond (a) fails to furnish the Bond Registrar or other payor with its taxpayer identification number; (b) furnishes the Bond Registrar or other payor an incorrect taxpayer identification number; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Bond Registrar or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the Owner is not subject to backup withholding. Any amount withheld may be creditable against the Owner's U.S. federal income tax liability and be refundable to the extent it exceeds the Owner's U.S. federal income tax liability.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the 2009P-2T Prior Bonds and the 2009S-2T Parity Bonds will be reported to the Owners and to the Internal Revenue Service.

## ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on employee benefit plans subject to Title I of ERISA ("ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing that ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to Title I of ERISA but are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons" (each, a "Party in Interest")) having certain relationships to Plans, unless a statutory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The fiduciary of a Plan that proposes to purchase and hold any 2009P-2T Prior Bonds or 2009S-2T Parity Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest, (ii) the sale or exchange of any property between a Plan and a Party in Interest and (iii) the transfer to or use by or for the benefit of a Party in Interest of any Plan assets. Depending on the identity of the Plan fiduciary making the decision to acquire or hold 2009P-2T Prior Bonds or 2009S-2T Parity Bonds on behalf of a Plan and other factors, United States Department of Labor Prohibited Transaction Class Exemption ("PTCE") 75-1 (relating to certain broker-dealer transactions), PTCE 84-14 (relating to transactions effected by independent "qualified professional asset managers"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company general account) or PTCE 96-23 (relating to

transactions directed by certain “in-house asset managers”) (collectively, the “Class Exemptions”) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in Interest solely by reason of providing services to such Plans or that are affiliated with such service providers, provided generally that such persons are not fiduciaries (or affiliates of such fiduciaries) with respect to the “plan assets” of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a 2009P-2T Prior Bond or a 2009S-2T Parity Bond, each purchaser will be deemed to have represented and warranted that either (i) no “plan assets” of any Plan have been used to purchase such 2009P-2T Prior Bond or 2009S-2T Parity Bond, or (ii) the Underwriters are not a Parties in Interest with respect to the “plan assets” of any Plan used to purchase such 2009P-2T Prior Bond or 2009S-2T Parity Bond, or (iii) the purchase and holding of such 2009P-2T Prior Bond or 2009S-2T Parity Bond is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

Each Plan fiduciary (and each fiduciary for a governmental or church plan subject to the rules similar to those imposed on Plans under ERISA) should consult with its legal advisor concerning an investment in any of the 2009P-2T Prior Bonds or 2009S-2T Parity Bonds.

### **CONTINUING DISCLOSURE**

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission, Sound Transit has undertaken for the benefit of holders of the 2009 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, 2009 (the “Annual Financial Information”), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Financial Information is required to be filed by or on behalf of Sound Transit with the Municipal Securities Rulemaking Board (the “MSRB”). Notices of material events will be filed by or on behalf of Sound Transit with the MSRB. Sound Transit’s proposed undertakings to provide continuing disclosure are set forth in Appendix C—“FORM OF CONTINUING DISCLOSURE UNDERTAKINGS.”

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

### **LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of the 2009 Bonds by Sound Transit are subject to the approving legal opinions of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. See “ADVISORS AND CONSULTANTS—Bond Counsel.” The forms of approving opinions of Bond Counsel are set forth in Appendix E. Certain legal matters will be passed upon for Sound Transit by its General Counsel and by Foster Pepper PLLC, which is also serving as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP (“Underwriters’ Counsel”). Any opinion of Underwriters’ Counsel will be rendered solely to the Underwriters, will be limited in scope and cannot be relied upon by investors. From time to time Underwriters’ Counsel represents Sound Transit on matters unrelated to the 2009 Bonds.

### **LIMITATIONS ON REMEDIES**

Any remedies available to the Owners of the 2009 Bonds upon the occurrence of a Default under the Master Prior Bond Resolution or the Parity Bond Resolutions are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If Sound Transit fails to comply with its covenants under the Master Prior Bond Resolution or the Parity Bond Resolutions or

to pay principal of or interest on the 2009 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the Owners of the 2009 Bonds.

In addition to the limitations on remedies contained in the 2009 Bond Resolutions, the rights and obligations under the 2009 Bonds and the 2009 Bond Resolutions may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinions to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the 2009 Bonds, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the 2009 Bonds will be similarly qualified. The forms of opinions of Bond Counsel are set forth in Appendix E.

## **RATINGS**

Moody's Investors Service, Inc., and Standard & Poor's Ratings Services have assigned their municipal bond ratings of "Aa2" and "AAA," respectively, to the 2009 Prior Bonds and have assigned their municipal bond ratings of "Aa3" and "AAA," respectively, to the 2009 Parity Bonds. No application was made to any other rating agency for the purpose of obtaining an additional rating on the 2009 Bonds. Each rating reflects only the view of the applicable rating agency, and an interpretation of such rating may be obtained only from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such revision or withdrawal of any such rating may have an adverse effect on the market price of the 2009 Bonds.

## **UNDERWRITING**

The 2009 Bonds are to be purchased by Citigroup Global Markets Inc., Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets Corporation and Siebert Brandford Shank & Co., LLC (collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the 2009P-1 Prior Bonds at a price equal to the principal amount thereof, plus an original issue premium of \$2,497,664, less an underwriting discount of \$131,868; to purchase the 2009P-2T Prior Bonds at a price equal to the principal amount thereof, less an underwriting discount of \$384,225; and to purchase the 2009S-2T Parity Bonds at a price equal to the principal amount thereof, less an underwriting discount of \$2,250,000. The bond purchase contract for the purchase of the 2009 Bonds provides that the Underwriters will purchase all the 2009 Bonds if any 2009 Bonds are purchased. The Underwriters may offer and sell the 2009 Bonds to certain dealers (including dealers depositing 2009 Bonds into investment trusts) and others at prices lower than the initial offering prices or prices corresponding to the yields set forth on the inside cover page hereof, and such initial offering prices may be changed, from time to time, by the Underwriters, without prior notice.

Citigroup Inc., parent company of Citigroup Global Markets Inc., an Underwriter of the 2009 Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2009 Bonds.

## ADVISORS AND CONSULTANTS

**Bond Registrar.** Sound Transit has appointed the fiscal agent of the State as the Bond Registrar for the 2009 Bonds. The State fiscal agency contract is bid out by the State Treasurer on a competitive basis for a four-year term. The current contract expires on January 31, 2011. The Bank of New York Mellon currently serves in this capacity. For so long as the 2009 Bonds are held by DTC in the book-entry system, the beneficial owners of the 2009 Bonds must transfer their ownership interests, and will receive payments on the 2009 Bonds, in the manner described in Appendix F—“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 three years. Foster Pepper PLLC also is serving as disclosure counsel to Sound Transit in connection with the issuance of the 2009 Bonds. Bond Counsel will be compensated from the proceeds of the 2009 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 2009 Bonds. From time to time Bond Counsel represents certain of the Underwriters on matters unrelated to Sound Transit or to the 2009 Bonds.

**Financial Advisor.** Public Financial Management, Inc. serves as financial advisor to Sound Transit in conjunction with the issuance of the 2009 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, 2008 and 2007, have been audited by KPMG LLP and are set forth in Appendix A—“AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007.” 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 2009 Prior Bond Resolutions, the 2009 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.

This Official Statement is not to be construed as a contract or agreement between Sound Transit and the Owners of any of the 2009 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, 2008 AND 2007**



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

*Financial Statements for the  
Years Ended December 31, 2008 and  
2007 Independent Auditors' Report*

**TABLE OF CONTENTS**

**Statement of Management’s Responsibility..... i**

**Management’s Discussion and Analysis..... 1**

**Independent Auditors’ Report ..... 15**

**Basic Financial Statements**

**Balance Sheets..... 17**

**Statements of Revenues, Expenses and Changes in Net Assets ..... 18**

**Statements of Cash Flows ..... 19**

**Notes to Financial Statements.....21**

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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## STATEMENT OF MANAGEMENT'S RESPONSIBILITY

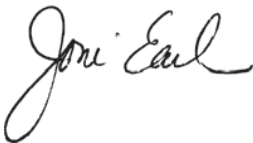
The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit) have been prepared from the Agency's accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including 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 2008 financial statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

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



Joni Earl  
*Chief Executive Officer*



Brian McCartan  
*Chief Financial Officer*



Kelly A. Priestley  
*Controller*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2008 and 2007

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, 2008 and 2007. 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 mass transit system ("*Sound Move*") is scheduled for a 20-year period, ending in 2016. In November, 2008 the voters approved a second phase of expansion of the mass transit system, a 15-year program called ST2. ST2 includes initial investments commencing in 2009 with regional express buses and more commuter trains, as well as mid to longer-term expansion of regional light rail and parking facilities through 2023.

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. The Agency has not reached its full service levels and is in the construction phase on its initial light rail project, with major sources of revenue exceeding expenses resulting in a rising net asset position.

### Financial Highlights

- Total operating revenues were \$30.6 million for 2008, an increase of 16.3% from the prior year. Passenger fares increased by \$4.6 million from the prior year with continued large ridership gains on Sounder and ST Express.
- Loss from operations was \$143.6 million for 2008, an increase of 14.5% from the prior year. Operations and maintenance expenses increased by 17.8% reflecting the increased service levels, as well as unit cost increases in the price of fuel and labor and higher maintenance costs. General and administrative expenses, after allocations to capital projects and operations and maintenance, increased by 11.8%, reflecting increased costs in support of facilities, fleet, safety, technology and tax collection.
- Non-operating revenues net of expenses were \$337.5 million, a 4.3% reduction from prior year. Tax revenues decreased by 5.3% as the regional economy slowed in 2008. Interest revenues and non-operating expenses remained comparable to prior year, while other revenues increased by \$7.7 million reflecting the recovery from the State of prior year-impaired costs on the Totem Lake Freeway Station project and recovery of costs through its insurance program for Mercer Island Parking Garage.
- Federal, state and local contributions to Sound Transit of \$175.6 million increased by 49.7 % from the prior year while completed projects transferred to other governments of \$67.8 million decreased by 41.3 %. These changes reflect higher grant and local funds received in the current year, including the new full funding agreement for University Link, Airport Link and Tacoma-to-Lakewood commuter rail.
- Total net assets at December 31, 2008, were \$3.2 billion, an increase of \$301.7 million or 10.5% from 2007. This change was up from 2007, during which net assets increased by \$229 million or 8.7%, which reflected a greater number of projects that were completed and transferred to other governments in the prior year.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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## *Management's Discussion and Analysis, continued*

- Total capital assets, net of accumulated depreciation, were \$3.9 billion at December 31, 2008, an increase of \$466.1 million or 13.5% from 2007. The increase in total capital assets reflects progress on the Central and Airport Link light rail projects, which go into operation in 2009, new activity on the University Link project and related land acquisitions for light rail extension to the University and north, as well as Sounder Commuter rail to Lakewood and several station projects. In 2008, \$168.8 million in expenditures related to completed projects or land acquisitions was transferred to property, vehicles and equipment.

## **Overview of the Financial Statements**

Sound Transit's financial statements are prepared in conformity with United States generally accepted accounting principles ("GAAP") as applied to government units. The 2008 and 2007 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, 2008, were \$3.2 billion, an increase of \$301.7 million or 10.5% from 2007 (see Table A-1). Total assets increased \$272.0 million or 6.2% and total liabilities decreased by \$29.7 million or 2.0%. Assets and liabilities were comparable to prior year as no bonds were issued in 2008 with the balance of the increase in total assets substantially attributable to capital-spending activity. This compares to total net assets of \$2.9 billion at December 31, 2007.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis, continued

Table A-1

Sound Transit Net Assets					
(in millions)	As of December 31			% Change	
	2008	2007*	2006*	2008-2007	2007-2006
Current assets, excluding restricted assets	\$ 526.0	\$ 730.3	\$ 587.1	(28.0)	24.4
Restricted assets	124.0	120.2	142.1	3.2	(15.4)
Capital assets	3,917.4	3,451.3	2,868.7	13.5	20.3
Other non-current assets	77.1	70.7	67.9	9.1	4.1
<b>Total Assets</b>	<b>4,644.5</b>	<b>4,372.5</b>	<b>3,665.8</b>	<b>6.2</b>	<b>19.3</b>
Current liabilities, excluding interest payable from restricted assets	174.6	190.6	162.9	(8.4)	17.0
Interest payable from restricted assets	14.0	11.2	10.5	24.4	7.0
Long-term debt	1,204.1	1,226.3	779.8	(1.8)	57.3
Other long-term liabilities	73.8	68.1	65.3	8.4	4.2
<b>Total Liabilities</b>	<b>1,466.5</b>	<b>1,496.2</b>	<b>1,018.5</b>	<b>(2.0)</b>	<b>46.9</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	2,701.4	2,216.8	2,085.8	21.9	6.3
Restricted net assets	110.0	109.0	131.6	1.0	(17.2)
Unrestricted net assets	366.6	550.5	429.9	(33.4)	28.1
<b>Total Net Assets</b>	<b>\$ 3,178.0</b>	<b>\$ 2,876.3</b>	<b>\$ 2,647.3</b>	<b>10.5</b>	<b>8.6</b>

\* Restated—see *New Accounting Pronouncement*, Note 2

Current assets, excluding restricted assets, decreased in 2008 by 28.0% from 2007. This decrease was due to lower cash and cash equivalent balances on hand, as the agency funded its construction activity. Current assets, excluding restricted assets, increased in 2007 by 24.4% due to higher cash and cash equivalent balances on hand with the receipt of bond proceeds in December 2007, which were considered fully spent on issuance.

Restricted assets were comparable to 2007, however decreased by 15.4% from 2006 as payments were made out of funds restricted under contractual agreement with BNSF for improvements required in the Seattle-to-Tacoma Sounder corridor.

Capital assets increased in 2008 by 13.5% from 2007. Of that, construction in progress increased by \$336.7 million, primarily on the Link light rail projects, the first segments of which are scheduled to go into service in July 2009. In 2008, Sound Transit capitalized \$576.4 million (\$737.6 million in 2007) in design, construction, acquisition, interest and general and administrative costs allocated to capital projects in progress. The Central Link and Airport Link light rail projects are approaching completion of construction, representing \$325.1 million of amounts capitalized in 2008 or 56.4% of total capital spending. Significant activity is also starting to occur on the final Sound Move Link segments, University and North Link with \$114.7 million or 19.9% of total capital spending, bringing total capital spending in 2008 on light rail to \$439.8 million or 76.3% (\$552.4 million in 2007 or 74.9%).

Capital spending on Sounder and ST Express projects as a percentage of total capital spending was 10.4% and 5.8% respectively (13.9% and 10.6% in 2007). Transfers out of capital projects in progress were \$247.3 million (\$302.6 million in 2007) as projects were completed and transferred to property, vehicles and equipment or expensed as follows:

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Management's Discussion and Analysis, continued*

(in millions)

	2008	2007
Transferred to property, vehicles and equipment	\$ 168.8	\$ 183.6
Expensed to contributions to other governments	67.6	114.4
Transferred to inventory and prepaid expense	0.7	
Link start-up expenditures	5.4	4.0
Write-off of overhead, discontinued and impaired project costs and loss on disposal of assets	4.8	0.6
	<u>\$ 247.3</u>	<u>\$ 302.6</u>

In 2008, \$4.8 million of costs were written off, substantially all of which related to the Star Lake Freeway Station, a component of a larger state project. The state project was determined to be no longer economically viable and the station project was discontinued. In 2007, write-offs included \$211 thousand related to the Meadowdale dock mitigation project in Shoreline that was not pursued, and \$349 thousand in overhead costs were written off.

Direct additions to property, vehicles or equipment in 2008 were \$1.1 million, including data warehousing, eDiscovery and the ERP systems procurement module. In 2007 direct additions were \$4.7 million, which included the acquisition of seven new 45' diesel buses operated by Pierce Transit.

Offsetting the increase in capital spending were disposals and transfers of \$2.4 million, the most significant of which was a transfer property in the Rainer Valley to land held for resale as well as disposals of 27 Orion buses and various computer and office equipment, which were at the end of their useful life and substantially depreciated. Depreciation increased in 2008 to \$38.2 million. In 2007, disposal and transfers were \$4.6 million, which included land held for resale of \$3.9 million and \$263 thousand related to the replacement of the back office system for the ticket vending machines and depreciation, increased by \$35.1 million.

Current liabilities, in 2008, excluding interest payable from restricted assets, decreased by 8.4% as lower amounts were payable at year-end as the initial segment construction approaches completion. The current portion of principal due in 2009 on the 1999 and 2007A bond issues was comparable to the prior year. Interest payable at year-end increased by \$2.7 million, as the 2007A bonds were outstanding for the full year in 2008. Current liabilities, in 2007, excluding interest payable from restricted assets, increased by 17.0% as higher amounts were payable at year-end for the Beacon Hill tunnel and Link vehicle contracts, the construction claim provision was increased and the current portion of long-term debt increased as amounts for principal due in 2008 for the 2007A Bonds.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Management's Discussion and Analysis, continued*

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

<b>Net Assets</b> <i>(in millions)</i>	<b>As of December 31</b>			<b>% Total Net Assets</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Invested in capital assets, net of related debt	\$ 2,701.4	\$ 2,216.8	\$ 2,085.8	85.0	77.1	78.8
Restricted net assets	110.0	109.0	131.6	3.5	3.8	5.0
Unrestricted net assets	366.6	550.5	429.9	11.5	19.1	16.2
<b>Total Net Assets</b>	<b>\$ 3,178.0</b>	<b>\$ 2,876.3</b>	<b>\$ 2,647.3</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

In 2008, the change in the components of Sound Transit's net assets, which represent the cumulative effect of the excess of revenues over expenses, together with the impact of the agency's financing and asset management decisions, reflected the agency's progress on its Sound Move capital program. Unrestricted net assets decreased by 33.4% while invested in capital assets increased by 21.9%. Invested in capital assets reflects investment in property, construction in progress and depreciable net assets used in its operations, while restricted net assets are assets restricted for use by the agency for a specific purpose and unrestricted net assets are the remainder of net assets not invested in capital nor restricted for a specific purpose.

### **Changes in Net Assets**

Changes in net assets reflect the excess of revenue over expenditures for a year. In 2008, the excess of revenues over expenses was \$301.7 million, while in 2007 it was \$229.0 million (see Table A-2). The lower net revenues in 2007 reflect the completion of several significant projects, which were transferred to other local governments or the State, and substantially offset capital contributions received from Federal grants and other funding from state and local agencies.



# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis, continued

The agency's statement of revenue, expenses and changes in net assets is summarized in the table below:

**Table A-2**

<b>Changes in Sound Transit Net Assets</b> <i>(in millions)</i>	<b>For the Year Ended December 31</b>			<b>% Change</b>	
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2008-2007</b>	<b>2007-2006</b>
<b>Operating Revenues</b>					
Passenger fares	\$ 26.6	\$ 22.0	\$ 18.1	20.8	22.0
Other	3.9	4.2	3.4	(6.9)	23.4
<b>Total Operating Revenues</b>	<b>30.5</b>	<b>26.2</b>	<b>21.5</b>	<b>16.3</b>	<b>22.3</b>
<b>Operating Expenses</b>					
Total operating expenses, before depreciation and loss on disposal of assets	135.8	116.2	107.6	16.9	8.0
Depreciation and loss on disposal of assets	38.3	35.4	33.5	7.9	6.0
<b>Total operating expenses</b>	<b>174.1</b>	<b>151.6</b>	<b>141.1</b>	<b>14.8</b>	<b>7.5</b>
Loss from operations	(143.6)	(125.4)	(119.6)	14.5	4.8
Non-operating revenues, net of expenses	337.5	352.6	350.4	(4.3)	0.6
<b>Income before capital contributions</b>	<b>193.9</b>	<b>227.2</b>	<b>230.8</b>	<b>(14.6)</b>	<b>(1.5)</b>
Capital contributions	107.8	1.8	71.8	5,953.1	(97.5)
<b>Change in Net Assets</b>	<b>301.7</b>	<b>229.0</b>	<b>302.6</b>	<b>31.8</b>	<b>(24.3)</b>
Total net assets, beginning	2,876.3	2,647.3	2,344.7	8.6	12.9
<b>Total Net Assets, ending</b>	<b>\$ 3,178.0</b>	<b>\$ 2,876.3</b>	<b>\$ 2,647.3</b>	<b>10.5</b>	<b>8.7</b>

## Operating Revenues

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

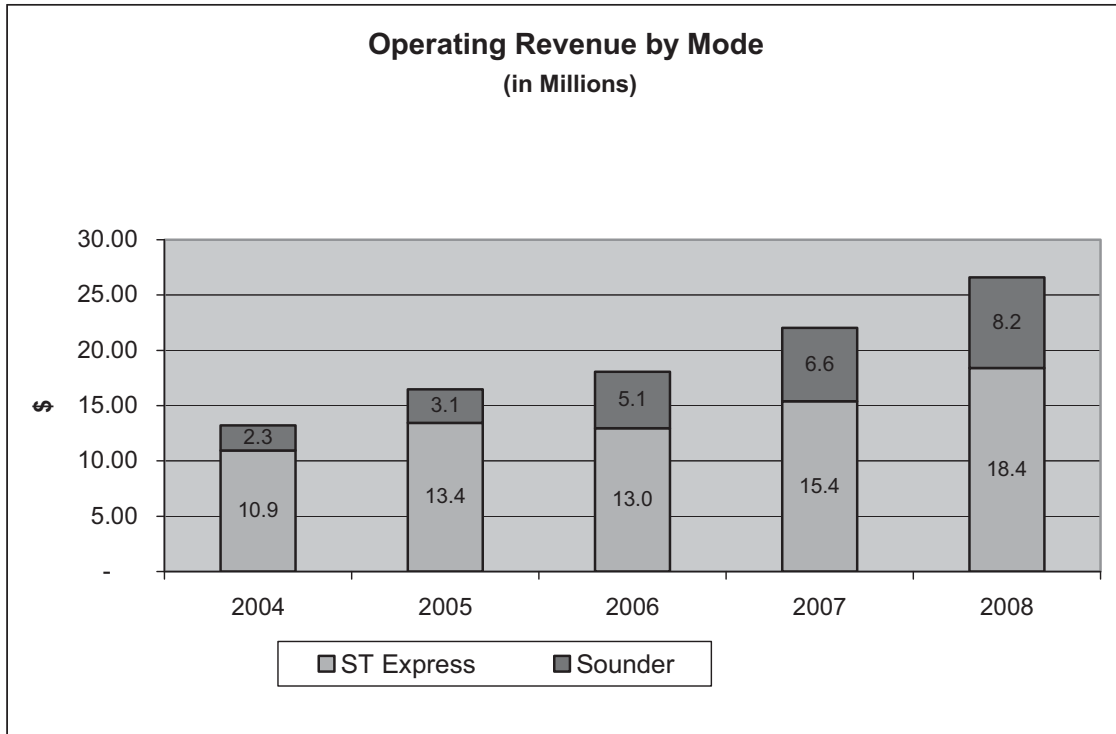
## Passenger Fare Revenue

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 agency experienced overall growth in passenger fares revenue of 20.8%, passenger boardings of 17.1% and its average fare per boarding (AFB) of 3.2%.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis, continued

The following chart displays revenue by mode from 2004 to 2008:



Sounder rail passenger revenue increased \$1.6 million or 23.8% in 2008, compared to \$1.5 million or 29.6% in 2007 as ridership continues to grow. The ridership increase in 2008 and 2007 reflects both higher per train ridership and additional round-trip service, the effect of which was an increase in boardings of 23.7% in 2008 and 27.4% in 2007. On the South line, round-trip service was added between Auburn-to-Seattle for the month of August 2007 and between Tacoma-to-Seattle in September 2008 and 2007, as well as reverse commute trips in September 2008 and 2007. On the North line, an additional round trip was added between Everett-to-Seattle in each of September 2008 and 2007.

The average fare per boarding on Sounder in 2008 and 2007 was \$3.07, an increase of \$0.05 from 2006. In June 2007, the agency restructured its fare system to distance based-fares together with a fare increase.

ST Express bus passenger revenue increased by \$3.0 million or 19.5% in 2008 and by \$2.4 million or 19.0% in 2007. The increase in 2008 was driven primarily by growing ridership as well as a slight increase in the average fare per boarding. Ridership on ST Express throughout the system was favorably impacted in both 2008 and 2007, increasing by 1.8 million boardings or 17.2 % in 2008 and 1.0 million boardings or 10.5% in 2007. The rising cost of fuel and increased congestion in the region, continues to make public transportation a more attractive alternative. In addition, service route enhancements were implemented on the Redmond – Seattle route in 2008 and on the Issaquah – Seattle and Lakewood – Seattle routes in 2007. In 2008 and 2007, service hours increased by approximately 2.3% and 4.5%, respectively.

The average fare per boarding on ST Express in 2008 at \$1.47, increased by \$0.03 or 2.0% over 2007; and by \$0.10 or 7.8% in 2007. The last fare increase for ST Express was in 2005 when fare prices were increased by \$0.25, effective in June of that year.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## *Management's Discussion and Analysis, continued*

Ridership on Tacoma Link, a free fare service, was comparable between 2008 and 2007 and increased slightly from 2006.

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

<b>Ridership</b> <i>(in thousands)</i>	<b>% Increase</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2008-2007</b>	<b>2007-2006</b>
Sounder	2,668.6	2,156.7	1,693.0	23.7	27.4
Link	919.1	919.0	885.6	0.0	3.8
ST Express	12,528.8	10,689.0	9,677.6	17.2	10.5
<b>Total</b>	<b>16,116.5</b>	<b>13,764.7</b>	<b>12,256.2</b>	<b>17.1</b>	<b>12.3</b>

### **Other Operating Revenues**

Other operating revenues consist of vehicle advertising, rental of equipment and facilities and other miscellaneous revenue. Other revenues of \$3.9 million were comparable to prior years.

### **Operating Expenses**

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

### **Operations and Maintenance**

Operations and maintenance expenses for all transit modes, increased in 2008 by \$17.6 million or 17.8% and by \$10.0 million or 11.2% in 2007. Major expense categories are services, materials, supplies, utilities, insurance, taxes, and purchased transportation, allocated overhead from staff divisions and operating leases and rentals. Purchased transportation represents amounts paid to BNSF, Community Transit, King County Department of Transportation and Pierce Transit who operate Sound Transit's commuter rail and express bus service, accounting for 67% of this category, 70% in 2007. 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 and shared facilities.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### Management's Discussion and Analysis, continued

Operations and maintenance costs by mode are as follows:

<b>Operations and Maintenance</b>					
<i>(in millions)</i>					
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>% Increase</b>	
				<b>2008-2007</b>	<b>2007-2006</b>
Souder	\$ 31.2	\$ 24.8	\$ 22.7	25.9	9.5
Link	3.2	3.2	2.9	1.4	8.6
ST Express	82.3	71.1	63.5	15.7	11.9
<b>Total</b>	<b>\$ 116.7</b>	<b>\$ 99.1</b>	<b>\$ 89.1</b>	<b>17.8</b>	<b>11.2</b>

The operating and maintenance cost increase on Souder was 25.9% in 2008 and 9.5% in 2007 and on ST Express was 15.7% in 2008 and 11.9% in 2007. These increases reflect the service increases and corridor improvements previously described which on Souder equated to a 43.0% increase in trips in 2008 and a 14.6% increase in 2007 and on ST Express a 2.3% increase in hours in 2008 and a 4.5% increase in 2007. Rising fuel costs also contributed to increased costs in both years, as well as higher maintenance costs on ST Express as the fleet ages.

### 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 2008, net general and administrative expenses increased by \$2.0 million or 11.8%, while in 2007, they decreased by \$1.4 million or 7.6%.

<b>General and Administration</b>					
<i>(in millions)</i>					
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>% Increase</b>	
				<b>2008-2007</b>	<b>2007-2006</b>
Total General and Administrative					
cost before allocations	\$ 52.6	\$ 48.6	\$ 46.0	8.2	5.7
Allocations to Operations	(7.5)	(6.9)	(6.5)	9.0	5.8
Allocations to Capital Projects	(26.8)	(25.0)	(23.4)	7.3	7.0
Project overhead written off	0.8	0.4	2.4	127.6	(85.1)
<b>Net General and Administrative</b>	<b>\$ 19.1</b>	<b>\$ 17.1</b>	<b>\$ 18.5</b>	<b>11.8</b>	<b>(7.6)</b>

Before allocation to capital projects and operations, total agency staff and administrative costs increased by \$4.0 million or 8.2%, primarily in the salary and benefits, services, materials and supplies. Salary and benefit costs represent 75% of the increase, reflecting higher staffing levels in safety, diversity and finance and information technology, as the agency ramps up to support operations, Smart Card fare collection ("ORCA") and Link systems. Also increasing in 2008 were non-revenue vehicle fleet insurance costs and the cost to collect the agency's Motor Vehicle Excise Tax ("MVET"). Total general and administrative expenses in 2007 increased by \$2.6 million or 5.7%, primarily in the salary and benefits, services, materials and supplies.

General and administrative costs allocated to capital projects and transit operations include staff-related costs of those divisions and an allocation of agency overhead. Total general and administrative costs

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### Management's Discussion and Analysis, continued

allocated to capital projects and transportation services of \$34.3 million increased in 2008 by \$2.4 million, mostly due to the light rail project, as well as to transportation services reflecting increased operations service. Total general and administrative costs allocated to capital projects in 2007 increased by \$2.0 million, mostly due to the light rail project, which was in its peak construction period, as well as to transportation services reflecting increased operations service.

As projects approach completion, allocated overhead costs are reviewed, and any excess costs or costs with no continuing value are written off. Costs written off in 2008 were comparable to 2007 however, 2006 included \$2.4 million related to the postponement of construction of the Tukwila Sounder Station.

### Depreciation

Depreciation expense increased in 2008 by \$3.1 million or 8.8% from the prior year (\$1.9 million in 2007). The increase in 2008 reflects the continued capitalization of the track and facility improvements in the South corridor for Sounder, completion of the Mukilteo North platform, Lakewood Station, the Issaquah Transit Center, Mercer Island Park and Ride and bus fleet replacements. In 2007, the higher depreciation reflects the track and facility improvements in the South corridor, as well as the capitalization of the Link Operations and Maintenance Facility.

### 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 decreased by \$15.1 million or 4.3% in 2008, however were comparable between 2007 and 2006.

#### Non-operating Revenues and Expenses

<i>(in millions)</i>	% Increase				
	2008	2007	2006	2008-2007	2007-2006
<b>Non-operating revenues</b>					
Sales tax	\$ 265.4	\$ 280.3	\$ 259.2	(5.3)	8.1
Motor vehicle excise tax	68.6	72.4	70.2	(5.2)	3.1
Rental car tax	2.5	2.5	2.4	(1.3)	4.3
Investment income	23.6	25.0	37.3	(5.3)	(33.1)
Other revenues	7.9	0.1	(0.0)	6,577.3	-
<b>Total</b>	<b>\$ 368.0</b>	<b>\$ 380.3</b>	<b>\$ 369.1</b>	<b>(3.2)</b>	<b>3.0</b>
<b>Non-operating Expenses</b>					
Non-operating expense	25.7	27.3	12.4	(5.5)	120.3
Interest expense	0.0	0.2	0.4	(92.8)	(48.7)
Discontinued/impaired projects	4.8	0.2	5.9	2,183.4	(96.5)
<b>Total</b>	<b>30.5</b>	<b>27.7</b>	<b>18.7</b>	<b>10.5</b>	<b>47.6</b>
<b>Non-operating Revenues and Expenses</b>	<b>\$ 337.5</b>	<b>\$ 352.6</b>	<b>\$ 350.4</b>	<b>(4.3)</b>	<b>0.6</b>

The most significant impact on non-operating revenues has been weaker tax revenues, that decreased by \$18.7 million in 2008 compared to an increase of \$23.4 million in 2007. This performance reflects the continued weakening of the regional economy from prior years, as well as a \$4.5 million in over collection of motor vehicle excise tax refunds going back to July 2005. Investment earnings also decreased by \$1.4 million, reflecting lower cash and investment balances on hand in 2008. The higher investment earnings in

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## *Management's Discussion and Analysis, continued*

2006 reflected higher interest rate being generated on funds invested in State and County investment pools and other investments.

Other non-operating expenses include light rail operation start-up costs, east corridor planning, supplemental mitigation in the Rainier Valley, costs not eligible to be capitalized, interest expense and discontinued and impaired project costs. In 2008, preparations for start-up of light rail increased, while east corridor planning, supplemental mitigation and costs related to construction claim support decreased from the prior year. While the Phase II plan went to the ballot in 2008 and 2007, a significant portion Phase II planning costs incurred in preparation for the ballot measure in 2007, together with the start-up activities for light rail resulted in the increase from 2006.

### **Capital Contributions**

Net capital contributions increased in 2008 by \$106.0 million, reflecting a significant increase in federal grant funds received and state contributions, together with a decrease in the number of projects completed in 2008 that were contributed to other governments. In 2007, net capital contributions decreased by \$70.0 million. 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:

<b>Capital Contributions</b>					
<i>(in millions)</i>					
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>% Increase</b>	
				<b>2008-2007</b>	<b>2007-2006</b>
Federal	\$ 161.8	\$ 112.7	\$ 130.5	43.6	(13.6)
State and local governments	13.9	4.7	14.1	197.0	(66.8)
To other governments	<u>(67.9)</u>	<u>(115.6)</u>	<u>(72.8)</u>	<u>(41.3)</u>	<u>58.8</u>
<b>Total</b>	<b><u>\$ 107.8</u></b>	<b><u>\$ 1.8</u></b>	<b><u>\$ 71.8</u></b>	<b><u>5,953.1</u></b>	<b><u>(97.5)</u></b>

Federal contributions increased in 2008 by \$49.1 million and decreased by \$17.8 million in 2007. The University Link full funding grant agreement was executed in 2008 and \$13.0 million in funds were received. In addition, amounts received in respect of Airport Link increased by \$27.4 million. Grant funds received on Central Link also increased, as well as funding received for Tacoma-to-Lakewood, Everett-to-Seattle and Nisqually Sounder corridor project. In 2007, federal funding on Link and ST Express projects was slightly up, but for Sounder projects were down in 2007 as 2006 included the receipt of \$24.4 million for the Everett-to-Seattle Corridor projects.

State and local government contributions increased by \$9.2 million, however were comparable to 2006. In 2008, grant funding of \$2.6 million was received from the State towards the Mountlake Terrace Freeway Station project and parking expansion for Sounder Commuter parking.

Contributions to other governments decreased in 2008 by \$47.8 million. As contributions are dependent upon the timing and scope of project activities there are significant fluctuations from year to year. In 2008, significant projects completed where Sound Transit does not retain ownership included the South Everett Freeway Station and Phase I of the I90 Two-way Transit and HOV lanes. In 2007, Sound Transit completed the Totem Lake Freeway Station/NE 128<sup>th</sup> project of which \$67.9 million is included above. Other significant projects included the completion of the Reservation – Freighthouse Square mitigation, Redmond Transit Center/NE 83<sup>rd</sup> and the SR-522 HOV Enhancements at Kenmore and Bothell. In 2006,



# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis, continued

project funding provided or projects completed for other governments included: Federal Way HOV Access/317<sup>th</sup>; Eastgate Transit Access/142<sup>nd</sup>; and Sammamish Park and Ride/228<sup>th</sup> SE.

### Capital Assets

As of December 31, 2008, Sound Transit had invested \$3.9 billion in capital assets, net of accumulated depreciation, which included \$843.7 million of depreciable assets in service. This represents a \$466.1 million or a 13.5% increase over 2007.

**Table A-3**

#### Sound Transit Capital Assets (net of depreciation)

(in millions)	As of December 31			% Change	
	2008	2007*	2006*	2008-2007	2007-2006
Land	\$ 360.2	\$ 326.6	\$ 290.9	10.3	12.3
Permanent easements	282.2	267.2	216.7	5.6	23.3
Capital projects in progress					
Sound Transit	2,414.5	2,040.5	1,556.8	18.3	31.1
Other governments	16.8	54.1	103.8	(68.9)	(47.9)
<b>Total Non-Depreciable Assets</b>	<b>3,073.7</b>	<b>2,688.4</b>	<b>2,168.2</b>	<b>14.3</b>	<b>24.0</b>
Buildings, transit facilities & rail	360.2	290.1	236.2	24.2	22.8
Rail access rights	315.7	305.1	288.9	3.5	5.6
Revenue vehicles	164.2	164.5	172.1	(0.2)	(4.4)
Equipment, vehicles & other	3.6	3.2	3.3	10.7	(2.6)
<b>Total Depreciable Assets</b>	<b>843.7</b>	<b>762.9</b>	<b>700.5</b>	<b>10.6</b>	<b>8.9</b>
<b>Total Net Capital Assets</b>	<b>\$ 3,917.4</b>	<b>\$ 3,451.3</b>	<b>\$ 2,868.7</b>	<b>13.5</b>	<b>20.3</b>

\* Restated—see *New Accounting Pronouncement*, Note 2

Land increased by \$33.6 million in 2008, primarily related to acquisitions for the University Link and North Link extension, while in 2007 it increased by \$35.7 million, also related to acquisition for the University Link.

Permanent easements increased in 2008 by \$15.0 million with the acquisition of a permanent easement from the University of Washington. In 2007 the fourth easement from BNSF in the Everett-to-Seattle corridor was acquired for \$50.0 million.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis, continued

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

**Table A-4**

**Major capital project activities from 2008 and 2007:**

	<b>Souder</b>	<b>Link</b>	<b>ST Express</b>
<b>2008</b>	<ul style="list-style-type: none"> <li>▪ Track and signal projects on Everett to Seattle; Seattle to Auburn; and Auburn to Tacoma</li> <li>▪ Everett Station</li> <li>▪ South Tacoma Station</li> <li>▪ Lakewood Station</li> </ul>	<ul style="list-style-type: none"> <li>▪ Central Line (CPS to 154<sup>th</sup>; Beacon Hill tunnel Guideway; and Martin Luther King Way)</li> <li>▪ Tukwila Roadwork and Parking Lot</li> <li>▪ Airport Link (154<sup>th</sup> to 160<sup>th</sup>; and 160<sup>th</sup> to 176<sup>th</sup>)</li> <li>▪ North Link (PSST to UW Station; and Northgate to 45<sup>th</sup>)</li> <li>▪ Beacon Hill Station</li> <li>▪ Traction Power and other Systems</li> <li>▪ Light Rail Vehicles</li> </ul>	<ul style="list-style-type: none"> <li>▪ Issaquah Transit Center</li> <li>▪ South Everett Freeway Station</li> <li>▪ I-90 2 Way Transit HOV</li> <li>▪ Totem Lake Freeway Station/NE128th</li> </ul>
<b>2007</b>	<ul style="list-style-type: none"> <li>▪ Track and signal projects on Everett to Seattle; Seattle to Auburn; and Auburn to Tacoma</li> <li>▪ Lakewood Station</li> </ul>	<ul style="list-style-type: none"> <li>▪ Central Line (CPS to 154<sup>th</sup>; Downtown &amp; Beacon Hill tunnels; Martin Luther King Way)</li> <li>▪ Tukwila Alignment</li> <li>▪ Airport Link (154<sup>th</sup> to 160<sup>th</sup>; and 160<sup>th</sup> to 170<sup>th</sup>)</li> <li>▪ North Link (PSST to UW Station)</li> <li>▪ Beacon Hill Station</li> <li>▪ Traction Power System</li> <li>▪ Operations and Maintenance Base</li> <li>▪ Light Rail Vehicles</li> </ul>	<ul style="list-style-type: none"> <li>▪ Issaquah Transit Center</li> <li>▪ South Everett Freeway Station</li> <li>▪ Totem Lake Freeway Station/NE128th</li> </ul>

Buildings, transit facilities, and rail, net of depreciation, increased in 2008 by \$70.1 million, primarily related to the capitalization of the Mulkiteo Station North platform, Lakewood Station, Issaquah Transit Center, and the Mercer Island Park & Ride. In 2007 they increased by \$53.9 million with the capitalization of the Link Operations and Maintenance Facility.

Rail access rights, net of depreciation, increased by \$10.6 million in 2008 and by \$16.2 million in 2007. 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. Phase 2 of this program was substantially completed at the end of 2008. As the agency is utilizing the rail, these costs are capitalized as charges are incurred.

Revenue vehicles, net of depreciation, and equipment, vehicles and other remained comparable to the prior year of 2007.

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

### Long-Term Debt

The agency issued no debt in 2008. In December 2007, the agency issued sales tax bonds with a par value of \$450.0 million at a premium of \$17.0 million for net proceeds before bond issue costs of \$467.0 million. Total bond issue costs were \$3.1 million.

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

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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### *Management's Discussion and Analysis, continued*

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 2007 assessed valuations for collection of 2008 taxes, Sound Transit's non-voter approved remaining debt capacity is \$4.4 billion and its voter approved remaining debt capacity is \$17.5 billion.

### **Economic Conditions**

The economic recession has significantly impacted the agency's tax collections, with local tax revenues falling by 5.3% over 2007. Weakness in retail sales and car sales directly impacted the agency's revenue base. The weakness has extended into 2009, with tax revenue still experiencing year-over-year declines.



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## **Independent Auditors' Report**

Audit and Reporting Subcommittee of the Board of Directors  
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 Sound Transit) as of and for the years ended December 31, 2008 and 2007, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2008 and 2007, and its changes in financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2, during 2008, Sound Transit adopted Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

The Management's Discussion and Analysis on pages 1 through 14 is not a required part of the basic financial statements of Sound Transit, 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 supplementary information. However, we did not audit this information and express no opinion on it.

**KPMG LLP**

June 19, 2009

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# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

### BALANCE SHEETS

<i>(in thousands)</i>	December 31	
	2008	2007 *
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents <i>(Note 3)</i>	\$ 144,887	\$ 600,319
Restricted assets <i>(Note 3)</i>	5,238	6,651
Investments <i>(Note 3)</i>	234,683	23,165
Taxes and other receivables <i>(Notes 4)</i>	132,743	96,310
Other	13,690	10,478
<b>Total Current Assets</b>	<b>531,241</b>	<b>736,923</b>
<b>Non-Current Assets</b>		
Capital assets, net of accumulated depreciation <i>(Note 5)</i>	3,917,380	3,451,338
Restricted assets <i>(Note 3)</i>	118,748	113,540
Investment held to pay capital lease obligation <i>(Note 6)</i>	61,617	60,770
Unamortized bond issuance costs	8,025	8,677
Prepaid expense and deposits	7,436	1,228
<b>Total Non-Current Assets</b>	<b>4,113,206</b>	<b>3,635,553</b>
<b>Total Assets</b>	<b>\$ 4,644,447</b>	<b>\$ 4,372,476</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities <i>(Note 7)</i>	\$ 96,530	\$ 116,436
Deferred receipts	3,377	1,618
Interest payable from restricted assets	13,988	11,245
Current portion, long-term debt <i>(Note 8)</i>	19,810	19,175
Current portion, capital lease obligation <i>(Note 6)</i>	167	228
Other claims and short-term obligations	54,723	50,472
<b>Total Current Liabilities</b>	<b>188,595</b>	<b>199,174</b>
<b>Non-Current Liabilities</b>		
Long-term debt <i>(Note 8)</i>	1,204,052	1,226,285
Capital lease obligations <i>(Note 6)</i>	61,648	60,968
Other long-term obligations <i>(Note 9)</i>	12,171	9,781
<b>Total Non-Current Liabilities</b>	<b>1,277,871</b>	<b>1,297,034</b>
<b>Total Liabilities</b>	<b>1,466,466</b>	<b>1,496,208</b>
<b>Commitments and Contingencies <i>(Notes 6, 9, 11, 12)</i></b>		
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,701,345	2,216,783
Restricted for contractual arrangements and other <i>(Note 10)</i>	109,998	108,946
Unrestricted	366,638	550,539
<b>Total Net Assets</b>	<b>3,177,981</b>	<b>2,876,268</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,644,447</b>	<b>\$ 4,372,476</b>

See Notes to Financial Statements.

\* Restated—see *New Accounting Pronouncement*, Note 2



# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

<i>(in thousands)</i>	December 31	
	2008	2007
<b>Operating Revenues</b>		
Passenger fares	\$ 26,611	\$ 22,029
Other operating revenue	3,942	4,234
<b>Total Operating Revenues</b>	<b>30,553</b>	<b>26,263</b>
<b>Operating Expenses</b>		
Operations and maintenance	116,748	99,113
General and administrative	19,073	17,060
Loss on disposal of assets	14	309
Depreciation, amortization and accretion	38,282	35,187
<b>Total Operating Expenses</b>	<b>174,117</b>	<b>151,669</b>
<b>Loss from Operations</b>	<b>(143,564)</b>	<b>(125,406)</b>
<b>Non-Operating Revenues (Expenses)</b>		
Sales tax	265,358	280,263
Motor vehicle excise tax	68,621	72,403
Rental car tax	2,498	2,531
Investment income	23,630	24,952
Recovery of prior year and insured losses	7,722	-
Gain on disposal of assets	159	-
Other revenues	65	119
Non-operating expenses	(25,732)	(27,220)
Interest expense	(16)	(224)
Discontinued and impaired projects	(4,818)	(211)
<b>Total Non-Operating Revenues, Net</b>	<b>337,487</b>	<b>352,613</b>
<b>Income Before Capital Contributions</b>	<b>193,923</b>	<b>227,207</b>
Federal capital contributions	161,771	112,668
Other capital contributions	13,867	4,670
Capital contributions to other governments	(67,848)	(115,557)
<b>Net Capital Contributions</b>	<b>107,790</b>	<b>1,781</b>
<b>Change in Net Assets</b>	<b>301,713</b>	<b>228,988</b>
<b>Total Net Assets, Beginning of Year</b>	<b>2,876,268</b>	<b>2,647,280</b>
<b>Total Net Assets, End of Year</b>	<b>\$ 3,177,981</b>	<b>\$ 2,876,268</b>

See Notes to Financial Statements.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## STATEMENTS OF CASH FLOWS

<i>(in thousands)</i>	December 31	
	2008	2007
<b>Cash Flows from Operating Activities</b>		
Cash receipts from fares	\$ 26,637	\$ 16,265
Cash receipts from other operating revenue	4,112	4,066
Payments to suppliers	(34,852)	(18,876)
Payments to transportation service providers	(60,361)	(73,986)
Payments to employees for wages and benefits	(27,002)	(23,421)
	<b>(91,466)</b>	<b>(95,952)</b>
<b>Cash Flows from Non-Capital Financing Activities</b>		
Taxes received	346,767	351,962
	<b>346,767</b>	<b>351,962</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital contributions from grants	124,575	99,291
Proceeds on issuance of bonds	-	464,236
Proceeds on land sales	580	498
Proceeds for betterments and recoverable costs	1,061	4,499
Purchase of property, vehicles and equipment	(1,317)	(4,642)
Payments in respect of capital projects in progress	(523,473)	(657,518)
Payments to employees capitalized to capital projects in progress	(12,037)	(12,260)
Payments for bond interest, principal and promissory notes	(19,175)	(10,445)
Payments for owner controlled insurance premiums	(9,979)	-
Cash paid for interest	(56,782)	(37,510)
Payments to suppliers for non-operating expenses	(19,762)	(22,396)
Other	(241)	(322)
	-	-
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(516,550)</b>	<b>(176,569)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(407,204)	(349,972)
Proceeds from sales or maturities of investments	235,033	589,535
Investment income	18,145	23,209
	<b>(154,026)</b>	<b>262,772</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(415,275)</b>	<b>342,213</b>
<b>Cash and Cash Equivalents</b>		
Beginning of year	646,840	304,627
<b>End of Year</b>	<b>\$ 231,565</b>	<b>\$ 646,840</b>
<b>Cash and Cash Equivalents (Note 3)</b>		
Unrestricted	\$ 144,887	\$ 600,319
Current restricted	2,152	2,432
Non-current restricted	84,526	44,089
	<b>\$ 231,565</b>	<b>\$ 646,840</b>

*See Notes to Financial Statements.*

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## STATEMENTS OF CASH FLOWS, continued

<i>(in thousands)</i>	December 31	
	2008	2007
<b>Loss from Operations</b>	\$ (143,564)	\$ (125,406)
<b>Adjustments to Reconcile Loss from Operations to Net Cash Used by Operating Activities</b>		
Depreciation, amortization and accretion	38,282	35,187
Loss on disposal of capital assets	14	309
<b>Changes in Operating Assets and Liabilities</b>		
Decrease (increase) in accounts receivable	44	(48)
Decrease (increase) in due from other governments	3,619	(5,224)
(Increase) decrease in materials, parts and supplies	(65)	425
(Increase) decrease in prepaid expenses	(312)	327
(Decrease) increase in accounts payable, accrued and other liabilities	(4,087)	2,596
Increase in salaries, wages and benefits	426	210
Increase (decrease) in deferred pass fare receipts	1,906	(1,249)
Increase (decrease) in due to other governments	12,271	(3,079)
<b>Net Cash Used by Operating Activities</b>	<u>\$ (91,466)</u>	<u>\$ (95,952)</u>

<i>(in thousands)</i>	December 31	
	2008	2007 *
<b>Supplemental Disclosures of Non-Cash Operating, Investing and Financing Activities</b>		
Capital contributions to other governments	\$ (67,848)	\$ (115,557)
Capital contributions from Land Bank	8,119	700
Accounts payable and other liabilities in construction in progress	106,685	133,095
Interest income from investments held to pay capital leases, net	848	844
Interest expense on capital leases	(848)	(844)
Decrease in fair value of investments	(3,177)	(585)

See Notes to Financial Statements.

\* Restated—see *New Accounting Pronouncement*, Note 2

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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## *Notes to Financial Statements*

### NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2008 AND 2007

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#### 1. ORGANIZATION AND REPORTING ENTITY

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

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

Sound Transit is governed by an 18-member board, seventeen of whom are appointed by the respective member county executives and confirmed by the council of each member county. Membership is based on the population from the portion of each county that lies within Sound Transit’s service area. Representation on the board 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. In November, 2008 the voters approved a 0.5% increase in the sales and use tax, with collection to commence on April 1, 2009. These taxes are collected on Sound

**CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY**

**Notes to Financial Statements, continued**

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. 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:

	<b>Estimated Useful Life</b>
Rail access costs	37–40 years
Buildings	8–30 years
Transit facilities, rail, and equipment	4–70 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 measured based on the lower of carrying value or fair value of the affected asset. Impairment losses on assets that will continue to be used are measured using the best method that reflects the diminished service utility of the related asset.

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

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 were acquired incrementally, as certain requirements were met under their

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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### ***Notes to Financial Statements, continued***

respective agreements. As of December 31, 2008, these improvements have been substantially met and rail access rights have been earned.

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, 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 is accrued. Similarly, sick leave is accrued as the benefits are earned but only to the extent that Sound Transit will compensate the employees through cash payments conditional on the employee's termination, retirement or death. Vacation pay, which may be accumulated up to 50 days, is payable upon termination, retirement or death. Sick leave is payable at the rate of 50% of accrued hours upon resignation, retirement or death for employees hired before January 1, 2004, and 25% thereafter and is limited to 120 days for termination other than for retirement or death.

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

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

***New Accounting Pronouncement***—In November, 2006 the GASB adopted Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and is effective for financial statement periods beginning on or after December 15, 2007. For environmental remediation activities, the new statement establishes when an obligating event has occurred, when a liability should be accrued and whether the costs should be expensed or capitalized. This statement was implemented in 2008 and has been applied retroactively for all periods presented. The effect of the adoption was a decrease to capital assets, construction in progress and a decrease to other liabilities by \$2,653 thousand and \$1,672 thousand as of January 1, 2007 and 2006 respectively.

***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.

***Reclassifications***—Certain reclassifications have been made to the 2007 Financial Statements to conform to the current year's presentation.

***Restricted Assets***—Restricted assets are assets set aside to meet externally imposed legal and contractual obligations. Restricted assets are used in accordance with their requirements and where both restricted and



# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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## ***Notes to Financial Statements, continued***

unrestricted resources are available for use, restricted resources are used first and then unrestricted resources as they are needed. In addition to assets set aside to meet externally imposed legal and contractual obligations, Sound Transit has also set aside two months of average annual operating expenses in cash and cash equivalents and has established an investment fund for capital replacement, as established by resolution of its board in 2007. As these cash and investment reserves are derived from internal restrictions, they are not included in restricted assets.

***Revenue and Expense Classification***—Sound Transit distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing passenger services in connection with Sound Transit’s principal ongoing operations. The principal operating revenues are passenger fares. Sound Transit’s operating expenses include labor, materials, 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.

***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 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, general obligation municipal bonds and repurchase agreements. Sound Transit investment policy and monitoring program addresses common deposit and investment risks as described below, with detailed information by investment type presented in the tables that follow. Modified duration is presented in years.

***Interest Rate Risk***—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. For its internally managed and capital replacement funds, Sound Transit matches its investments to cash flow requirements and manages its exposure to fair value losses using the modified duration method, whereby the modified duration of fixed income securities held in its investment portfolios is compared to established benchmarks. Modified duration estimates the sensitivity of a bond’s price to interest rate changes. Modified duration benchmarks for the internally managed fund was 0.58 and for the capital replacement fund was 1.35. For the 2005A Bond Reserve Fund, interest rate risk is managed by using the specific identification method.

***Concentration of Credit Risk***—Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. The investment policy sets forth maximum concentration guidelines whereby no single Agency exceeds 50% of the overall

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

portfolio, or 25% for repurchase agreements or 10% for certificates of deposit, bankers' acceptances, reverse 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.

**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 Certificates of Deposit are covered by the PDPC. The King County Investment Pool's rating of AAAs has been temporarily suspended due to asset-backed commercial paper in their portfolio which is in default. 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.

In 2007 Sound Transit recorded an estimated loss in the amount of \$209 thousand, which was the expected pro-rata share of the loss on its holdings in the King County Pool based on independent market valuations obtained by the County. In 2008 this estimated loss was increased by \$59 thousand. The ultimate resolution of the impaired investments is expected to take approximately six years.

In 2007, Sound Transit entered into a Forward Purchase and Sale Agreement for funds invested for purposes of its 2005A Bond Reserve. It terminated this agreement in September of 2008 when the counterparty to the transaction, Lehman Brothers, declared bankruptcy. These funds were then invested in a portfolio separately managed by Sound Transit which currently includes municipal bonds and US agency securities.

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

(in thousands)	2008			2007		
	Fair Value	Maturity	Call Date	Fair Value	Maturity	Call Date
<b>2005A Debt Service Reserve Fund</b>						
<b>Investments</b>						
Municipal Bonds						
Clark County Nevada GO Limited	\$ 17,104	11/1/2027	11/1/2027 *	\$ -	-	-
Georgia State GO Unlimited	6,442	4/1/2026	4/1/2026 *	-	-	-
US Agency Securities						
Federal National Mortgage Association	10,363	4/12/2022	4/12/2022 **	-	-	-
Federal Home Loan Bank	-	-	-	39,892	4/30/2008	-
	<u>33,909</u>			<u>39,892</u>		
<b>Cash and Cash Equivalents</b>						
Washington State Local Government Investment Pool	6,124			-		
	<u>\$ 40,033</u>			<u>\$ 39,892</u>		

\* Continuously callable from this date forward

\*\* One-time call

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

<i>(in thousands)</i>	2008			2007		
	Fair Value	Modified Duration	% of Portfolio	Fair Value	Modified Duration	% of Portfolio
<b>Investments - Internally Managed Fund</b>						
US agency securities:						
Federal Farm Credit Bank	\$ 20,331	0.560	10.79%	\$ -	-	-
Federal Home Loan Bank	76,748	0.650	40.73%	8,034	0.256	27.35%
Federal Home Loan Mortgage Corporation	30,582	0.730	16.23%	9,451	0.372	32.18%
Federal National Mortgage Association	30,525	0.420	16.20%	11,886	0.449	40.47%
US treasury securities	12,856	0.990	6.82%	-	-	-
Municipal Bonds	2,370	0.490	1.26%	-	-	-
Certificate of deposit	15,000	0.000	7.96%	-	-	-
	<u>\$ 188,412</u>	<u>0.636</u>	<u>100.00%</u>	<u>\$ 29,371</u>	<u>0.372</u>	<u>100.00%</u>
<b>Investments - Capital Replacement Fund</b>						
US agency securities:						
Federal Farm Credit Bank	7,855	0.450	16.98%	7,746	1.390	33.44%
Federal Home Loan Bank	27,165	1.510	58.71%	15,419	1.421	66.56%
Federal Home Loan Mortgage Corporation	11,251	1.690	24.32%	-	-	-
	<u>\$ 46,271</u>	<u>1.374</u>	<u>100.00%</u>	<u>\$ 23,165</u>	<u>1.411</u>	<u>100.00%</u>

<i>(in thousands)</i>	December 31	
	2008	2007
<b>Cash and Cash Equivalents</b>		
Investment Pools:		
King County	\$ 145	\$ 181
Washington State Local Government Investment Pool *	181,294	618,794
US discount note:		
Federal Home Loan Bank	-	280
Federal Home Loan Mortgage Corporation	-	-
Certificates of Deposit	8,000	8,000
FDIC or PDPC Insured Bank Deposits	35,819	19,502
Cash on hand	183	83
	<u>225,441</u>	<u>646,840</u>
<b>Other Restricted Assets</b>		
Deductible liability protection policy	3,086	4,219
Interest receivable on restricted investments	313	188
	<u>3,399</u>	<u>4,407</u>
Total Investments, Cash and Cash Equivalents and Other Restricted Assets	<u>\$ 503,556</u>	<u>\$ 743,675</u>

\* Portion segregated for the 2005A Debt Reserve. See also table on Page 25.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

<i>(in thousands)</i>	December 31	
	2008	2007
<b>Balance Sheet Classifications</b>		
Cash and cash equivalents	\$ 144,887	\$ 600,319
Current restricted assets:		
Cash equivalents	2,152	2,432
Deductible liability protection policy	3,086	4,219
	<u>5,238</u>	<u>6,651</u>
Investments	<u>234,683</u>	<u>23,165</u>
Non-current restricted assets:		
Cash Equivalents	84,526	44,089
Investments	33,909	69,263
Other assets	313	188
	<u>118,748</u>	<u>113,540</u>
	<u>\$ 503,556</u>	<u>\$ 743,675</u>

#### 4. RECEIVABLES

Receivables consist of the following:

<i>(in thousands)</i>	December 31	
	2008	2007
Taxes receivable	\$ 49,251	\$ 57,384
Grants receivable	65,647	22,703
Accounts receivable, net	2,185	139
Due from Other Governments	13,112	14,903
Interest receivable	2,548	1,181
	<u>\$ 132,743</u>	<u>\$ 96,310</u>

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.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

### 5. CAPITAL ASSETS

Capital assets are summarized as follows:

<i>(in thousands)</i>							
	December 31 2006*	Transfers In and Additions*	Transfers Out and Retirements	December 31 2007*	Transfers In and Additions	Transfers Out and Retirements	December 31 2008
<b>Non-Depreciable Assets</b>							
Land	\$ 290,876	\$ 39,604	\$ (3,896)	\$ 326,584	\$35,898	\$ (2,300)	\$ 360,182
Permanent easements	216,685	50,491	-	267,176	14,995	-	282,171
Capital Projects in Progress							
Sound Transit	1,556,890	670,192	(186,572)	2,040,510	549,769	(175,747)	2,414,532
Other Governments	103,778	66,399	(116,066)	54,111	34,318	(71,591)	16,838
<b>Total Non-Depreciable Assets</b>	<b>2,168,229</b>	<b>826,686</b>	<b>(306,534)</b>	<b>2,688,381</b>	<b>634,980</b>	<b>(249,638)</b>	<b>3,073,723</b>
<b>Depreciable Assets</b>							
Transit facilities, rail and heavy equipme	265,645	67,620	(575)	332,690	85,430	-	418,120
Rail access rights	304,945	25,181	-	330,126	20,010	-	350,136
Buildings and leasehold improvements	23,168	10	-	23,178	166	-	23,344
Revenue vehicles	231,717	3,881	-	235,598	11,693	(3,430)	243,861
Furniture, equipment and vehicles	14,847	1,558	(479)	15,926	1,650	(2,115)	15,461
Equipment under capital lease	901	170	(131)	940	-	-	940
<b>Total Depreciable Assets</b>	<b>841,223</b>	<b>98,420</b>	<b>(1,185)</b>	<b>938,458</b>	<b>118,949</b>	<b>(5,545)</b>	<b>1,051,862</b>
<b>Accumulated Depreciation</b>							
Transit facilities and heavy equipment	(46,008)	(12,480)	28	(58,460)	(14,656)	-	(73,116)
Rail access rights	(16,047)	(8,942)	-	(24,989)	(9,482)	-	(34,471)
Buildings and leasehold improvements	(6,555)	(776)	-	(7,331)	(793)	-	(8,124)
Revenue vehicles	(59,665)	(11,400)	-	(71,065)	(11,986)	3,403	(79,648)
Furniture, equipment and vehicles	(12,063)	(1,271)	216	(13,118)	(1,057)	2,086	(12,089)
Equipment under capital lease	(389)	(222)	73	(538)	(219)	-	(757)
<b>Total Accumulated Depreciation</b>	<b>(140,727)</b>	<b>(35,091)</b>	<b>317</b>	<b>(175,501)</b>	<b>(38,193)</b>	<b>5,489</b>	<b>(208,205)</b>
<b>Depreciable Assets, Net</b>	<b>700,496</b>	<b>63,329</b>	<b>(868)</b>	<b>762,957</b>	<b>80,756</b>	<b>(56)</b>	<b>843,657</b>
<b>Total Capital Assets, Net</b>	<b>\$ 2,868,725</b>	<b>\$ 890,015</b>	<b>\$ (307,402)</b>	<b>\$ 3,451,338</b>	<b>\$ 715,736</b>	<b>\$ (249,694)</b>	<b>\$ 3,917,380</b>

\* Restated—see *New Accounting Pronouncement*, Note 2

During 2008, Sound Transit capitalized \$57.8 million of interest costs, (\$37.3 million in 2007), representing all of the interest, net of premium, discounts and bond issue costs, incurred on its bonds outstanding (see Note 8).

### 6. CAPITAL AND OPERATING LEASES

Capital lease obligations are comprised of the following:

<i>(in thousands)</i>		
	2008	2007
Lease/leaseback	\$ 61,617	\$ 60,770
Copier leases	198	426
	<u>61,815</u>	<u>61,196</u>
Less current portion	<u>(167)</u>	<u>(228)</u>
	<b>\$ 61,648</b>	<b>\$ 60,968</b>

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements, continued

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

The lease documentation established minimum credit levels by AIG for the equity and debt defeasance accounts. At the time these transactions closed, AIG was rated “AAA” by S&P and “Aaa” by Moody’s. However, starting in March 2005, AIG suffered a series of credit rating downgrades to reach a level of “A-” by S&P and “A3” by Moody’s by end year 2008. As a result of these rating downgrades under the lease transaction Sound Transit is required to replace AIG for its undertaking agreements and credit enhancements provision in the transaction and AIG is required to post collateral for the debt defeasance accounts.

Through June 30, 2009 Sound Transit has negotiated a standstill agreement with the transaction participants on the requirements to replace the debt defeasance, letter of credits and payment undertaker as required under the transaction. Sound Transit is pursuing options to replace AIG or amend the transaction to the satisfaction of the participants. If Sound Transit does not receive additional standstill agreements or amend the transaction to achieve compliance, the investor has the option to exercise any of several remedies, including termination of the lease in which case investor could request payment of a termination amount. The termination payment, less the accreted value schedule for the equity payment agreement, was \$15.0 million at end year 2008.

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

<i>(in thousands)</i>	2008	2007
Net sublease, January 1	\$ 60,770	\$ 59,925
Accrued interest	4,548	4,485
Less payment	<u>(3,701)</u>	<u>(3,640)</u>
<b>Net Sublease, December 31</b>	<b><u>\$ 61,617</u></b>	<b><u>\$ 60,770</u></b>

**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



**CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY**

**Notes to Financial Statements, continued**

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 has entered into leases of ground, office space, parking, land, storage at various locations, as well as equipment leases under non-cancelable operating leases in excess of one year with lease terms expiring in 2008 and beyond 2010. Significant lease arrangements include office space and parking adjacent to Union Station and a ground lease for the Rider Services Building. Certain of its leases contain one, two or three year extension options as well as a 5-year extension option on the office space adjacent to Union Station.

Minimum lease payments through 2013 are as follows:

Operating Rentals, commitments next 5 years:

<i>(in thousands)</i>	
2009	\$ 2,224
2010	1,176
2011	301
2012	289
2013	288
	<u>\$ 4,278</u>

Total rental expenses for 2008, which include non-cancelable leases as well as other month-to-month rentals, were \$3.0 million, of which \$725 thousand was for capital projects in progress. Total expenses for 2007 were \$2.4 million, of which \$468 thousand was for capital projects in progress.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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## *Notes to Financial Statements, continued*

### 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

<i>(in thousands)</i>	<b>2008</b>	<b>2007</b>
Accounts payable	\$ 35,891	\$ 17,465
Accrued liabilities	7,716	52,769
Due to other governments	50,565	44,268
Accrued salaries, wages and benefits	2,090	1,623
Retainage payable	268	311
	<u><b>\$ 96,530</b></u>	<u><b>\$ 116,436</b></u>

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# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

### 8. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(in thousands)</i>	2008			2008 Ending	Amounts Due
	Beginning	Additions	Reductions	Balance	within
	Balance				One Year
<b>Bonds payable:</b>					
Series 1999 Bonds, at par	\$ 341,285	-	\$ (4,620)	\$ 336,665	\$ 4,810
Series 2005A Bonds, at par	422,815	-	-	422,815	-
Series 2007A Bonds, at par	450,000	-	(14,555)	435,445	15,000
	1,214,100	-	(19,175)	1,194,925	19,810
Plus unamortized premium	37,708	-	(2,800)	34,908	-
Less unamortized discount	(6,348)	-	377	(5,971)	-
<b>Total Long-Term Debt</b>	<b>\$ 1,245,460</b>	<b>-</b>	<b>\$ (21,598)</b>	<b>\$ 1,223,862</b>	<b>\$ 19,810</b>

<i>(in thousands)</i>	2007			2007 Ending	Amounts Due
	Beginning	Additions	Reductions	Balance	within
	Balance				One Year
<b>Bonds payable:</b>					
Series 1999 Bonds, at par	\$ 345,730	-	\$ (4,445)	\$ 341,285	\$ 4,620
Series 2005A Bonds, at par	422,815	-	-	422,815	-
Series 2007A Bonds, at par	-	450,000	-	450,000	14,555
	768,545	450,000	(4,445)	1,214,100	19,175
Plus unamortized premium	22,460	17,009	(1,761)	37,708	-
Less unamortized discount	(6,732)	-	384	(6,348)	-
<b>Total bonds payable</b>	<b>784,273</b>	<b>467,009</b>	<b>(5,822)</b>	<b>1,245,460</b>	<b>19,175</b>
<b>Promissory notes:</b>					
Lakeview South Line	6,000	-	(6,000)	-	-
Plus (minus) imputed interest	(199)	-	199	-	-
<b>Total Promissory Notes Payable</b>	<b>5,801</b>	<b>-</b>	<b>(5,801)</b>	<b>-</b>	<b>-</b>
<b>Total Long-Term Debt</b>	<b>\$ 790,074</b>	<b>\$ 467,009</b>	<b>\$ (11,623)</b>	<b>\$ 1,245,460</b>	<b>\$ 19,175</b>

**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 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, and are considered senior to the Series 2005A and 2007A subsequently issued.

**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 prior bonds issued. 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.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements, continued

**Sales Tax Bonds, Series 2007A**—On December 18, 2007, Sound Transit issued tax-exempt Sales Tax Bonds, Series 2007A dated December 18, 2007 in the amount of \$450.0 million. These bonds were issued on a subordinate basis to prior bonds issued. 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.

Sound Transit is required to maintain certain minimum deposits as defined in the respective bond resolution for each bond issue to meet debt service requirements. In addition, for the Series 2005A Bonds, the Agency established a \$39.5 million reserve, consistent with the Parity Bond Resolution, which was invested in a Forward Purchase and Sale Agreement in 2007 with a guaranteed yield of 5.18% for the life of the bond reserve. The Purchase and Sale Agreement was terminated in September 2008 (see Note 3). Proceeds from all bond issues have been used for the Agency's capital projects.

The following tables set forward average and effective coupon rates, rating agency information, principal payment commencement, fair value, amounts currently restricted for debt service and debt requirements to maturity.

	Issue Date	Average Rate		Ratings		Principal
		Coupon	Effective	Moody's (1)	S&P (2)	Payment Commencement
Series 1999	Dec 1, 1998	4.88	5.03	Aa2	AAA	Feb 1, 2006
Series 2005A	March 31, 2005	4.95	4.60	Aa3	AAA	Nov 1, 2011
Series 2007A	Dec 18, 2007	4.99	4.76	Aa3	AAA	Nov 1, 2008

(in millions)	December 31			
	Fair Value <sup>(3)</sup>		Cash Restricted For Debt Service	
	2008	2007	2008	2007
Series 1999	308.5	354.7	11.7	11.6
Series 2005A	377.0	442.5	3.5	3.4
Series 2007A	371.3	466.7	3.6	0.8

(1) Moody's Investor Services

(2) Standard and Poor's

(3) Estimated using quoted market prices.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

### Debt service requirements to maturity for bonds payable.

Year Ending December 31 2008	<i>(in thousands)</i>		Total
	Principal	Interest	
2009	\$ 19,810	\$ 58,865	\$ 78,675
2010	8,065	57,862	65,927
2011	18,465	57,475	75,940
2012	19,195	56,744	75,939
2013	20,135	55,802	75,937
2014-2018	123,175	262,899	386,074
2019-2023	223,520	219,277	442,797
2024-2028	271,745	159,912	431,657
2029-2033	284,010	95,686	379,696
2034-2036	206,805	21,017	227,822
	<b>\$ 1,194,925</b>	<b>\$ 1,045,539</b>	<b>\$ 2,240,464</b>

## 9. OTHER LONG-TERM OBLIGATIONS

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

<i>(in thousands)</i>	2008			2008	Amounts Due
	Beginning Balance	Additions and accretion	Reductions	Ending Balance	within One Year
<b>Asset retirement obligations</b>					
Sounder station platforms	\$ 912	\$ 41	\$ -	\$ 953	\$ -
Tacoma Link surface rail	1,332	48	-	1,380	-
<b>Total asset retirement obligations</b>	<b>2,244</b>	<b>89</b>	<b>-</b>	<b>2,333</b>	<b>-</b>
<b>Uninsured Losses</b>					
Owner Controlled Insurance Program	6,297	3,503	(1,278)	8,522	1,909
Transit operations	453	741	-	1,194	252
<b>Total uninsured losses</b>	<b>6,750</b>	<b>4,244</b>	<b>(1,278)</b>	<b>9,716</b>	<b>2,161</b>
<b>Compensated absences</b>	<b>3,119</b>	<b>3,538</b>	<b>(3,213)</b>	<b>3,444</b>	<b>1,161</b>
<b>Total other long-term obligations</b>	<b>\$ 12,113</b>	<b>\$ 7,871</b>	<b>\$ (4,491)</b>	<b>\$ 15,493</b>	<b>\$ 3,322</b>

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Notes to Financial Statements, continued*

<i>(in thousands)</i>	2007			2007	Amounts Due
	Beginning	Additions and	Reductions	Ending	within
	Balance	accretion		Balance	One Year
<b>Asset retirement obligations</b>					
Sunder station platforms	\$ 955	\$ (43)	\$ -	\$ 912	\$ -
Tacoma Link surface rail	1,607	(275)	-	1,332	-
<b>Total asset retirement obligations</b>	<b>2,562</b>	<b>(318)</b>	<b>-</b>	<b>2,244</b>	<b>-</b>
<b>Uninsured Losses</b>					
Owner Controlled Insurance Program	2,508	5,040	(1,251)	6,297	1,269
Transit operations	414	721	(682)	453	74
<b>Total uninsured losses</b>	<b>2,922</b>	<b>5,761</b>	<b>(1,933)</b>	<b>6,750</b>	<b>1,343</b>
<b>Compensated absences</b>	<b>2,855</b>	<b>3,370</b>	<b>(3,106)</b>	<b>3,119</b>	<b>989</b>
<b>Total other long-term obligations</b>	<b>\$ 8,339</b>	<b>\$ 8,813</b>	<b>\$ (5,039)</b>	<b>\$ 12,113</b>	<b>\$ 2,332</b>

**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, require that these costs and related obligations be recognized where they exist.

**Risk Management**—In the ordinary course of construction of its transit project and agency and rail operations, Sound Transit is exposed to various types of 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 and insurance program that encompasses risk, safety and security. For its agency and railroad operations a commercial insurance program has been put in place that provides first-level coverage for property, liability, employment practices and crime and fidelity to provide protections from these risks and exposures. For ST Express operations, under Sound Transit’s agreements insurance coverage is provided by its bus partner agencies, however under its agreement for service in Pierce County, Sound Transit reimburses Pierce Transit for the cost of all individual claims paid up to \$1 million.

Sound Transit also utilizes two Owner-Controlled Insurance Programs (“OCIP”) for all general liability claims by third-party injuries and/or property damage related to project construction activities carried out by third-party contractors. Its first program was secured in 2001, primarily for construction of the Central Link Light Rail – Initial Segment and subsequently amended to include the Airport Link light rail segment and provides coverage from January 1, 2001 through December 31, 2009, with the exception of the professional liability and contractor’s pollution liability insurance policy, which provides coverage through December 31, 2016, with an additional 3-year reporting period extending to December 31, 2019.

A second OCIP was secured in October 2008 for the University Link Light rail segment. The funding of the premiums for this program is structured with initial premium payments of \$6.8 million in 2008 followed by premium payments in 2009 and 2010 of \$6.2 million and \$5.8 million respectively, with coverage provided from October 20, 2008 through September 30, 2016.

On each of its policies, Sound Transit is responsible for deductibles or self-insured retentions, per occurrence or claim. For its Central and Airport Link Light Rail OCIP general liability policy, Sound Transit also entered into a deductible liability protection policy to supplement the deductible self-insured retention for the probable maximum claims exposure at the inception of the policy, estimated at \$6.5



# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

million. This amount was deposited with the insurer in an interest-bearing loss fund account, of which a balance of \$3.1 million is remaining at December 31, 2008 (see Note 3).

Annually Sound Transit engages an actuary to estimate its total claim exposure under all of these risk management and insurance programs. 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.

### 10. RESTRICTED NET ASSETS

Restricted net assets consist of the following:

<i>(in thousands)</i>	2008	2007
Contractual arrangements	\$ 44,604	\$ 58,063
Debt service, net of related obligations	60,156	44,512
Deductible liability protection policy	3,086	4,219
State appropriation	2,152	2,152
	<u>\$ 109,998</u>	<u>\$ 108,946</u>

### 11. EMPLOYEE BENEFITS

Sound Transit provides a defined contribution money purchase plan and trust (“401(a) Plan”) to its employees. Prior to December 31, 1999, employees had a choice of participating in either the 401(a) Plan or in the Washington Public Employees’ Retirement System (“PERS”). In 1999, the Washington State Legislature amended the laws governing PERS requiring employers to either terminate their participation in PERS or permit all new employees to participate in PERS regardless of their simultaneous participation in a 401(a) plan. Effective December 31, 1999, Sound Transit terminated its status as a PERS employer with regard to all employees hired after that date. Individuals who were active members at that date were eligible to continue their membership in PERS for the duration of their continuous employment with Sound Transit. At December 31, 2008, 2007 and 2006, 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.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements, continued

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 2008 and 2007 was \$28.6 and \$26.8 million, respectively, and total payroll was \$29.2 and \$27.2 million respectively. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2008, 2007, and 2006 are as follows:

	Contribution Rate			Contributions (in thousands)		
	2008	2007	2006	2008	2007	2006
Employer	12%	12%	12%	\$3,437	\$3,213	\$3,111
Employee	10%	10%	10%	2,864	2,678	2,592
<b>Total</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>	<b>\$6,301</b>	<b>\$5,891</b>	<b>\$5,703</b>

## 12. COMMITMENTS AND CONTINGENCIES

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

In September, 2000, Sound Transit entered into an agreement with Amtrak for the operations and maintenance of its Sounder commuter rail rolling stock, expiring December 31, 2009 with annual renewal options at the mutual consent of both parties. Under the agreement, Sound Transit pays a flat monthly fixed price dependent upon the number of one-way trips and train sets in operation for a baseline set of operating assumptions. Sound Transit pays a negotiated rate for additional service above this baseline operating plan. See related agreements described in Note 6: *Amtrak Lease/Sublease*. Sound Transit is currently in negotiation with Amtrak for a new contract, however if negotiations are not complete by December 31, 2009 both parties intend to exercise the annual renewal options.

On June, 2002, Sound Transit entered into an agreement with King County to share Downtown Seattle Transit Tunnel ("DSST") maintenance and operation costs in exchange for the right to use the DSST for light rail operations. Sound Transit's obligations include transfer of betterments, reimbursement of costs, and payment of a share of county debt service owed for the original tunnel construction. Sound Transit is also committed under this agreement to share costs for future capital repairs or replacements as they arise. Compensation is calculated as reimbursement of certain county costs based on fixed percentages. The DSST agreement remains in effect indefinitely.

In June, 2003, Sound Transit entered into a Central Link Light Rail system operation and maintenance agreement with King County. The agreement term extends five years beyond the commencement of passenger revenue service. Compensation for this service is based on reimbursement for county expenses based on a fixed amount for a baseline level of service, with additional costs billed for service changes directed by Sound Transit.

In December, 2003, Sound Transit entered into an agreement with BNSF for the operation of the commuter trains by BNSF between Seattle and Everett and the compensation paid to BNSF for train crews, maintenance-of-way and other expenses incurred in the operation of the Sounder service. The compensation is structured as an hourly rate per train mile operated for a baseline service plan, with inflation adjusters

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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### ***Notes to Financial Statements, continued***

plus performance incentives. The term of the agreement is for 12 years with an option of five additional years that must be agreed to by both parties, for a maximum term of 17 years. In addition, a first amendment was executed to the existing long-term agreement for commuter service from Seattle to Tacoma, covering service for the Lakewood-to-Tacoma corridor, provided Sound Transit eventually operates in the corridor.

In July, 2004, Sound Transit entered into five-year agreements that expire December 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. Service is compensated based upon a fixed fee agreed to annually, with certain items subject to variable pricing, such as fuel and special services. Sound Transit is currently in negotiations with its purchased transportation providers with the intention to enter into new multi-year agreements.

***Agreements with BNSF for Sounder Commuter Rail Service Easements 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 and the fourth and final easement closed in December 2007, each in exchange for a payment of \$50 million. Each easement allows the addition by Sound Transit of one round trip commuter train service.

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

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

***Governmental Agreements***— In its ordinary course of planning design and construction of its projects, Sound Transit enters into agreements with other governments. These agreements establish the working relationships with the other governmental entities and may obligate Sound Transit to pay for services over the lifecycle of a construction project, and often include provisions to transfer property or property rights upon completion of construction. Significant governmental agreements include:

***City of Seattle Construction Services Agreement:*** Entered into on November 13, 2003, this agreement covers areas including, quality assurance & inspections, emergency services, traffic signal design, and utility work by city crews. The agreement also commits Sound Transit to accomplish certain betterments and utility upgrades, which are to be reimbursed by the city. All commitments under this agreement are anticipated to be completed during 2009.

***Port of Seattle Construction Services Agreement:*** Entered into on April 17, 2006, this agreement provides payment terms and assignments regarding which entity serves as contract administrator, and which serves as construction manager, for the various contract packages making up the Airport Link project. The agreement also stipulates operating terms applicable after construction. The agreement will not expire as long as Sound Transit operates rail transit systems on the segment.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements, continued

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

**Land Bank Agreement**—Sound Transit entered into an agreement called the *Land Bank Agreement* with the Washington State Department of Transportation (“WSDOT”) in July of 2000 and as restated in December of 2003, the purpose of which is to establish a framework within which WSDOT can from time to time convey portions of WSDOT property to Sound Transit and to make other portions of other WSDOT property available for non-highway use by Sound Transit in consideration for Sound Transit’s funding of highway purpose improvements. The value of Land Bank credits at December 31, 2008 was \$141.5 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 2008 and 2007.

<i>(in millions)</i>	2008	2007
Balance in Land Bank, beginning of year	\$ 149.6	\$ 150.3
Draws:		
Canyon Park airspace agreement	-	(0.7)
E-3 Busway	(4.3)	-
Issaquah TC	(0.1)	
Resevation-Freighthouse	(0.0)	
Seattle-Auburn Track & Signal	(3.6)	
Totem Lake Fwy Stations/NE 128th	(0.1)	
<b>Balance in Land Bank, end of year</b>	<b>\$ 141.5</b>	<b>\$ 149.6</b>

**Purchases**—At December 31, 2008 and 2007, Sound Transit had outstanding construction commitments of approximately \$358.3 million and \$398.9 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, 2008 and 2007 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, 2008, \$52.0 million has been recorded in construction in progress and a corresponding liability accrued (\$49.0 million at December 31, 2007); however, as these are estimates, these amounts may be subject to change.

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**APPENDIX B**

**FORMS OF MASTER PRIOR BOND RESOLUTION AND 2009 PARITY BOND RESOLUTION**



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**MASTER PRIOR BOND RESOLUTION**

SOUND TRANSIT

RESOLUTION NO. R2009-15

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

ADOPTED: September 10, 2009

This document prepared by:  
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B-1

**TABLE OF CONTENTS\***

	<u>Page</u>
Section 1. Definitions .....	3
Section 2. Pledge of Local Option Taxes; Flow of Funds .....	15
a. Local Option Tax Accounts .....	15
b. Flow of Funds .....	15
c. Pledge of Local Option Taxes and Certain Accounts .....	17
Section 3. Authorization and Description of Prior Bonds .....	18
Section 4. Future Prior Bonds .....	20
Section 5. Refunding Prior Bonds .....	20
Section 6. Subordinate Obligations; Obligations Payable From Revenues .....	21
Section 7. Prior Bond Account and Prior Reserve Account .....	21
a. Prior Bond Account .....	21
b. Prior Reserve Account .....	22
c. Credit Facilities .....	25
d. Deposits into Accounts .....	25
Section 8. Covenants .....	25
a. Tax Levy Covenant .....	25
b. Maintenance of its Facilities .....	26
c. Property and Liability Insurance .....	26
d. Books and Records .....	26
Section 9. Prior Payment Agreements .....	26
Section 10. Defeasance .....	28
Section 11. Lost, Stolen, Mutilated or Destroyed Prior Bonds .....	30
Section 12. Execution of Prior Bonds .....	30
Section 13. Adoption of Supplemental Resolutions .....	31
a. Without Owners' Consent .....	31
b. With Owners' Consent .....	32
c. Special Amendments .....	33
Section 14. Defaults .....	34
Section 15. Remedies Upon Default .....	35
a. Prior Bondowners' Trustee .....	35
b. Suits at Law or in Equity .....	36
c. Books of Authority Open to Inspection .....	37
d. Payment of Funds to Prior Bondowners' Trustee .....	37
e. Application of Funds by Prior Bondowners' Trustee .....	37
f. Relinquishment of Funds Upon Remedy of Default .....	38
g. Suits by Individual Owners .....	39
h. Remedies Granted in Resolution not Exclusive .....	39
Section 16. Continuing Disclosure .....	39
Section 17. Resolution a Contract .....	39
Section 18. Severability .....	39
Section 19. Reaffirmation .....	40

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

**SOUND TRANSIT  
RESOLUTION NO. R2009-15**

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

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

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

WHEREAS, by Resolution No. 82, the Board authorized the imposition of the foregoing taxes and the rental car sales and use tax authorized by RCW 81.104.160 and contracted with the State of Washington Department of Revenue and Department of Licensing to collect and transfer such taxes to the Authority, beginning on April 1, 1997; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180 and Resolution No. R98-47, as amended by Resolution No. R99-4 (together, the "Original Master Resolution") and Resolution No. R98-48, the Authority on January 6, 1999, issued its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (the "1999 Prior Bonds"), secured by a pledge of the Local Option Taxes (defined herein), to finance improvements for the purpose of providing high capacity transportation service; and

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

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

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

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

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

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

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

WHEREAS, pursuant to the first sentence of Section 13(b) of the Original Master Resolution, the Original Master Resolution may be amended from time to time by a Supplemental Resolution approved by the Owners of a majority in aggregate principal amount of the Prior Bonds then Outstanding; and

WHEREAS, pursuant to Section 11 of Resolution No. R98-48, the consent of the insurer of the 1999 Prior Bonds is deemed to constitute consent of the Owners of the 1999 Prior Bonds for purposes of the first sentence of Section 13(b) of the Original Master Resolution; and

WHEREAS, the Authority has received the consent on behalf of the insurer of the 1999 Prior Bonds to the adoption of this Resolution;

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

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

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

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

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

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

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

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

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

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

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

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

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

(vii) in the case of Capital Appreciation Prior Bonds, the principal and interest portions of the Accreted Value becoming due at maturity, or by virtue of a mandatory sinking fund deposit, shall be included in the calculation of accrued and unpaid and accruing interest on principal in such manner as is specified in the Series Resolution authorizing such Prior Bonds;

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

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

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

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

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

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

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

Board means the Board of Directors of the Authority.

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

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

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

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

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

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

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

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

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

Default means any of the events specified in Section 14.

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

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

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

Future Parity Bonds means bonds, notes or other obligations of the Authority issued after the issuance of the 2009 Parity Bonds pursuant to a Series Resolution (as defined in Resolution No. R2009-16), which are expressly stated to be secured by a pledge of Pledged Taxes on an equal and ratable basis with the Pledged Taxes required to be paid into the Parity Bond Account to pay and secure the payment of the principal of and interest on the 2005A Parity Bonds, the 2007A Parity Bonds and the 2009 Parity Bonds.

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

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

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

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

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

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

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

MSRB means the Municipal Securities Rulemaking Board.

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

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

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

Owner means the registered owner of any Prior Bond.

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

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

Parity Bonds means the 2005A Parity Bonds, the 2007A Parity Bonds, the 2009 Parity Bonds and any Future Parity Bonds.

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

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

Parity Reserve Account Requirement has the meaning assigned that term in Resolution No. R2009-16.

Paying Agent means any person or entity as designated and appointed from time to time by a Series Resolution to act as paying agent for one or more Series of Prior Bonds.

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

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

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

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

Plan means Sound Move-The Ten-Year Regional Transit System Plan adopted May 31, 1996 (the "Sound Move Plan"), together with Sound Transit 2, A Mass Transit Guide, The Regional Transit System Plan for Central Puget Sound (the "Sound Transit 2 Plan") adopted July 24, 2008, to provide high-capacity transportation services in the central Puget Sound



region, as the Sound Move Plan and Sound Transit 2 Plan have been and may hereafter be updated, amended or supplemented.

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

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

Prior Bonds means the 1999 Prior Bonds and any Future Prior Bonds.

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

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

Prior Reserve Account Requirement means the lesser of (i) 125% of Average Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds or (ii) the sum of (A) 100% of the Annual Prior Bond Debt Service with respect to the Outstanding 1999 Prior Bonds and (B) 50% of the Annual Prior Bond Debt Service with respect to all other Outstanding Prior Bonds, in each case in the Fiscal Year in which Maximum Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds occurs; provided, that at the time of issuance of any Series of Prior Bonds, the Prior Reserve Account Requirement allocable to a Series of Prior Bonds shall not exceed 10% of the initial principal amount of that Series of Prior Bonds. Notwithstanding the

foregoing, so long as the municipal bond insurance policy or the municipal bond debt service reserve fund policy for the 1999 Prior Bonds is in effect, if in any Fiscal Year the Local Option Taxes received are less than 2.5 times Maximum Annual Prior Bond Debt Service, the foregoing clause (ii) above shall be adjusted to read "100% of Maximum Annual Prior Bond Debt Service with respect to all Outstanding Prior Bonds," and any additional amount required to be on deposit in the Prior Reserve Account shall be provided within one year by 12 approximately equal monthly installments; and provided further, that the foregoing clause (ii) shall be so adjusted until after two consecutive Fiscal Years in which Local Option Taxes received are not less than 2.5 times Maximum Annual Prior Bond Debt Service.

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

Qualified Counterparty means a party (other than the Authority or a party related to the Authority) who is the other party to a Payment Agreement that has or whose obligations are unconditionally guaranteed by a party that has at least "A" ratings by Moody's Investors Service and Standard & Poor's Ratings Services, or their successors and assigns, and who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

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

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

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

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

Receipt means any payment (designated as such by a Series Resolution) to be made to, or for the benefit of, the Authority under a Payment Agreement by the Payor.

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

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

Resolution means this Resolution No. R2009-15.

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

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

SEC means the United States Securities and Exchange Commission.

Series means any series of Prior Bonds.

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

State means the State of Washington.

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

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

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

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

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

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

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

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

2009 Parity Bonds has the meaning assigned that term in Resolution No. R2009-16.

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

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

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

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

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

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

- (1) to pay the interest when due on the Prior Bonds (including regularly scheduled Payments under Prior Payment Agreements); and
- (2) to pay the maturing principal (including sinking fund redemptions) of the Prior Bonds;

Second, to make all payments required to be made into the Prior Reserve Account by Section 7(b) to meet the Prior Reserve Account Requirement and to make all payments required to be made pursuant to a reimbursement obligation in connection with a Qualified Prior Letter of Credit or Qualified Prior Insurance with respect to the Prior Reserve Account Requirement; provided, that if there is not sufficient money to make all payments under all reimbursement agreements the payments will be made to the providers on a pro rata basis;

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

- (1) to pay the interest when due on Parity Bonds (including regularly scheduled payment obligations under Parity Payment Agreements for Parity Bonds);
- (2) to pay the maturing principal (including sinking fund redemptions) of Parity Bonds; and

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

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

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

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

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

Seventh, for any lawful purpose of the Authority; provided, that the Authority may determine that items in this "Seventh" category shall be paid in a specified order of priority.

Amounts in the Local Option Tax Accounts shall be invested by the Authority in any legal investment for funds of regional transit authorities of the State; provided, that so long as the Prior Bonds are rated by the Rating Agencies, the Authority will invest amounts in the Prior Bond Account and the Prior Reserve Account in (i) cash or (ii) securities that carry a rating by the Rating Agencies not lower than the respective underlying ratings on the Prior Bonds given by the Rating Agencies.

c. *Pledge of Local Option Taxes and Certain Accounts.* So long as any Prior Bonds remain Outstanding, the Authority hereby irrevocably obligates and binds itself to deposit all Local Option Taxes into the Local Option Tax Accounts. All Prior Bonds now or hereafter Outstanding shall be equally and ratably payable and secured hereunder without priority by reason of date of adoption of the Series Resolution providing for their issuance or by reason of their Series or date of sale or delivery; provided, that any Series of Prior Bonds also may be payable from and secured by a Credit Facility pledged specifically to or provided for that Series

of Prior Bonds. The Authority hereby designates the additional sales and use tax approved at an election held on November 4, 2008, and imposed by Resolution No. R2008-15, as an Adopted Prior Rate Adjustment and a component of Local Option Taxes pledged to the payment of the Prior Bonds.

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

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

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

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

- a. the principal amount, dated date, maturity schedule, interest rates or rate (or formula), denominations and designation for such Prior Bonds;
- b. the general purpose or purposes for which such Series of Prior Bonds is being issued, and the deposit and application of the proceeds of the sale of the Prior Bonds;
- c. the currency or currencies in which the Prior Bonds of such Series are payable if other than U.S. dollars;

- d. the Bond Registrar, Paying Agent, remarketing agent and tender agent, if any, for the Prior Bonds and the duties and obligations thereof;
- e. the place or places of payment of such Prior Bonds;
- f. the form of the Prior Bonds of such Series and the methods for the registration, transfer and exchange of the Prior Bonds of such Series;
- g. the terms and conditions, if any, for the redemption of the Prior Bonds of such Series prior to maturity;
- h. the terms and conditions, if any, for the purchase of the Prior Bonds of such Series upon any optional or mandatory tender for purchase prior to maturity;
- i. the manner of sale of the Prior Bonds of such Series, with or without a premium or a discount;
- j. the authorization of and any terms and conditions with respect to any Credit Facility for the Prior Bonds;
- k. the authorization to designate one or more Series of Prior Bonds as Build America Prior Bonds, and to further designate whether the applicable federal credit payments in respect of such Build America Prior Bonds are to be tax credits or direct payments; and
- l. any other provisions which the Authority deems necessary or desirable in connection with the Prior Bonds of such Series.

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

Bonds. The terms of that sale shall be consistent with this Resolution and the Series Resolution. A Series of Prior Bonds shall be delivered to the purchasers as provided in the Series Resolution immediately upon payment to the Authority of the purchase price plus any accrued interest to the date of closing in immediately available federal funds.

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

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

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

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

- a. Refunding Prior Bonds may be issued at any time upon delivery of an Authority Prior Bond Certificate for the purpose of refunding (including by purchase) Prior Bonds, including amounts to pay principal thereof and redemption premium, if any, and interest thereon to the date of redemption (or purchase), making future Prior Reserve Account deposits, paying for a Credit Facility, making any settlement payment in connection with the termination of a hedging instrument relating to the Refunding Prior Bonds, paying the expenses of issuing the Refunding Prior Bonds and of effecting such refunding. Refunding Prior Bonds also may be

issued without regard to the requirements of clauses (a), (b) and (c) of Section 4; provided, that the issuance of such Refunding Prior Bonds shall require the delivery of an Authority Prior Bond Certificate if the Annual Prior Bond Debt Service on such Refunding Prior Bonds in any Fiscal Year shall exceed the Annual Prior Bond Debt Service by more than \$5,000 on the Prior Bonds to be refunded were such refunding not to occur.

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

Section 6. Subordinate Obligations; Obligations Payable From Revenues. The Authority may issue Subordinate Obligations for any purpose of the Authority. The resolution authorizing a series of Subordinate Obligations shall provide that the maturity date of Subordinate Obligations may not be accelerated (not including any indirect acceleration of the maturity thereof through reimbursement obligations to the provider of a credit facility occurring as a result of the mandatory tender for purchase of Subordinate Obligations) and shall further provide that following the occurrence of a Default, Local Option Taxes may not be used to pay the principal of or interest on Subordinate Obligations unless all payments required to be made with respect to principal of and interest on Prior Bonds required to be paid into the Prior Bond Account have been fully paid. In addition, the Authority reserves the right to issue obligations payable from revenues of the Authority other than Local Option Taxes.

Section 7. Prior Bond Account and Prior Reserve Account.

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

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

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

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

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

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

The Prior Reserve Account Requirement shall be maintained by deposits of cash, investments, a Qualified Prior Letter of Credit, or Qualified Prior Insurance, or a combination of the foregoing. So long as the municipal bond insurance policy or the municipal bond debt service reserve fund policy for the 1999 Prior Bonds is in effect and the Prior Reserve Account Requirement for the 1999 Prior Bonds is not fully maintained by deposits of cash and investments, any Qualified Prior Letter of Credit or Qualified Prior Insurance obtained by the Authority to provide for the Prior Reserve Account Requirement must be approved by the

provider of the municipal bond insurance policy and the municipal bond debt service reserve fund policy for the 1999 Prior Bonds, or its successor. To the extent that the Authority obtains a Qualified Prior Letter of Credit or Qualified Prior Insurance in substitution for amounts in the Prior Reserve Account, all or a portion of the money on hand in the Prior Reserve Account shall be transferred to the Prior Bond Account or another account as permitted by the Code. In computing the amount on hand in the Prior Reserve Account, Qualified Prior Insurance and/or a Qualified Prior Letter of Credit shall be valued at the face amount thereof, and all other obligations purchased as an investment of money therein shall be valued at market at least annually. The market value of securities then credited to the Prior Reserve Account shall be determined and any deficiency in the Prior Reserve Account shall be made up in equal monthly installments within six months after the date of such valuation. As used herein, the term "cash" shall include U.S. currency, cash equivalents and evidences thereof, including demand deposits, certified or cashier's checks.

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

If a deficiency in the Prior Bond Account shall occur prior to a principal or interest payment date on the Prior Bonds, such deficiency shall be made up from the Prior Reserve

Account by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the Prior Reserve Account in such amounts as will provide amounts in the Prior Bond Account sufficient to pay when due the principal and interest of the Prior Bonds, and if a deficiency still exists immediately prior to a payment date and after the withdrawal of cash, the Authority shall then draw upon any Qualified Prior Letter of Credit or Qualified Prior Insurance for the Prior Bonds, on a pro rata basis, in sufficient amount to make up the deficiency. Such draw shall be made at such times and under such conditions as such Qualified Prior Letter of Credit or such Qualified Prior Insurance shall provide. If the Authority fails to make any payment required to be made under a reimbursement agreement with the issuer of a Qualified Prior Letter of Credit or Qualified Prior Insurance, the issuer thereof shall be entitled to exercise all remedies available at law or under this Resolution; provided, that no acceleration of the Prior Bonds shall be permitted, and no remedies which adversely affect Owners of the Prior Bonds shall be permitted. Any deficiency created in the Prior Reserve Account by reason of any such withdrawal shall be made up from the next available Local Option Taxes, but in no event later than within one year from Qualified Prior Insurance or a Qualified Prior Letter of Credit or out of Local Option Taxes after making necessary provision for the payments required to be made into the Prior Bond Account within such year.

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

B-13



Letter of Credit, or in equal monthly payments, within twelve months after the insolvency of the issuer of a Qualified Prior Letter of Credit or Qualified Prior Insurance or termination of a Qualified Prior Letter of Credit, out of Local Option Taxes (or out of other money on hand and legally available for such purpose) after making necessary provisions for the payments required to be made into the Prior Bond Account.

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

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

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

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

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

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

b. *Maintenance of its Facilities.* The Authority will at all times keep and maintain or cause to be maintained its transit facilities and equipment and operate the same and the business or businesses in connection therewith in the manner determined by the Board.

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

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

Section 9. Prior Payment Agreements. A Payment made under a Payment Agreement may be secured by a pledge of Local Option Taxes on a parity with the pledge securing the Prior Bonds if the Payment Agreement satisfies the requirements for Future Prior Bonds described in Section 4, taking into consideration regularly scheduled Payments and Receipts (if any) under the Payment Agreement. The following shall be conditions precedent to the use of any Payment Agreement on a parity with the Prior Bonds:

(1) The Authority shall obtain an opinion of Bond Counsel with respect to the due authorization, validity and enforceability of such Payment Agreement, and opining that the action proposed to be taken is authorized or permitted by this Resolution or the applicable provisions of any Supplemental Resolution and will not adversely affect either the exemption from federal income taxation of the interest on any Outstanding Tax-Exempt Prior Bonds or the entitlement to receive from the United States Treasury the applicable federal credit payments in respect of any Outstanding Build America Prior Bonds.

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

- A. set forth the manner in which the Payments and Receipts are to be calculated and a schedule of Payment Dates;
- B. establish general provisions for the rights of parties to Payment Agreements; and
- C. set forth such other matters as the Authority deems necessary or desirable in connection with the management of Payment Agreements as are not clearly inconsistent with the provisions of this Resolution.

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

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

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

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

Section 10. Defeasance.

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 11. Lost, Stolen, Mutilated or Destroyed Prior Bonds. In case any Prior Bond or Prior Bonds shall be lost, stolen, mutilated or destroyed, the Bond Registrar may execute and deliver a new Prior Bond or Prior Bonds of like date, number and tenor to the Owner thereof upon the Owner paying the expenses and charges of the Authority in connection therewith and upon the Owner filing with the Authority evidence satisfactory to the Authority that such Prior Bond was actually lost, stolen or destroyed (including the presentation of a mutilated Prior Bond) and of ownership thereof, and upon furnishing the Authority with indemnity satisfactory to the Authority.

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

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

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

Section 13. Adoption of Supplemental Resolutions.

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

- (i) To provide for the issuance of a Series of Prior Bonds pursuant to Sections 4 or 5 or to authorize a Prior Payment Agreement pursuant to Section 9;
- (ii) To add covenants and agreements of the Authority for the purpose of further securing the payment of the Prior Bonds; provided, that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in this Resolution or any Series Resolution;

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

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

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

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

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

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

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

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

(xi) To modify any of the provisions of this Resolution in any other respect that does not materially and adversely affect the security for the payment of any Prior Bond and will not cause any Rating Agency to lower a rating on any Prior Bonds.

b. *With Owners' Consent.* This Resolution may be amended from time to time by a Supplemental Resolution approved by the Owners of a majority in aggregate principal amount

of the Prior Bonds then Outstanding. Without the specific consent of the Owner of each Prior Bond, no Supplemental Resolution shall (1) permit the creation of a lien or charge on Local Option Taxes superior to the payment of the Prior Bonds; (2) reduce the percentage of Owners which are required to consent to any Supplemental Resolution; or (3) give to any Prior Bond or Prior Bonds any preference over any other Prior Bond or Prior Bonds. No Supplemental Resolution shall change the date of payment of the principal of any Prior Bond, reduce the principal amount or Accreted Value of any Prior Bond, change the rate or extend the time of payment of interest thereof, reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any Prior Bond may first be called for redemption prior to its fixed maturity date (except as provided in the Series Resolution authorizing the issuance of such Prior Bond) without the specific consent of the Owner of that Prior Bond; and no such amendment shall change or modify any of the rights or obligations of any Paying Agent or Bond Registrar or other agent or provider of a Credit Facility for a Series of Prior Bonds without its written consent.

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

- (i) After the 1999 Prior Bonds are no longer Outstanding, to delete the Motor Vehicle Tax from the definition of "Local Option Taxes";
- (ii) After the 1999 Prior Bonds are no longer Outstanding, to levy the Motor Vehicle Tax at a rate of less than three-tenths of one percent (which rate may be zero);
- (iii) To delete Section 14(a) of this Resolution;
- (iv) To establish for any one or more Series of Future Prior Bonds a separate reserve account requirement for such Series (which may be zero) and, if applicable, a separate

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

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

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

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

- a. If the Authority shall default in the performance of any obligation with respect to payments into the Prior Bond Account or Prior Reserve Account and such default is not remedied;
- b. If default shall be made in the due and punctual payments of the principal of and premium, if any, on any of the Prior Bonds when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise;
- c. If default shall be made in the due and punctual payment of any installment of interest on any Prior Bond;

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

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

Section 15. Remedies Upon Default. The remedies of the Owners during the continuance of a Default shall, to the extent permitted by law, be governed by this Section.

a. *Prior Bondowners' Trustee.* So long as a Default shall not have been remedied, a Prior Bondowners' Trustee may be appointed by the owners of at least 20% in aggregate principal amount of the Prior Bonds then Outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners or by their attorneys-in-fact duly authorized and delivered to the Prior Bondowners' Trustee and the Authority. Any Prior Bondowners' Trustee appointed under the provisions of this Section shall be a bank or trust company organized under the laws of the State or the State of New York or a national banking association. The bank or trust company acting as Prior Bondowners' Trustee may be removed at any time, and a successor Prior Bondowners' Trustee may be appointed, by the Owners of a majority in aggregate principal amount of the Prior Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners or by their attorneys-in-fact duly authorized.

The Prior Bondowners' Trustee appointed in the manner herein provided, and each successor thereto, is hereby declared to be a trustee for the Owners of all the Prior Bonds and

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

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

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

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

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

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

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

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

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

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

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



B-21

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

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

Section 16. Continuing Disclosure. The Authority may provide for a continuing disclosure undertaking in a Series Resolution, and the Authority hereby agrees to comply with any such undertaking. The right of any Owner or beneficial owner of Prior Bonds to enforce any such undertaking shall be limited to a right to obtain specific enforcement of the Authority's obligations under such undertaking, and any failure by the Authority to comply with the provisions of any such undertaking shall not be a Default.

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

Section 18. Severability. If any one or more of the provisions of this Resolution shall be declared by any court of competent jurisdiction to be contrary to law, then such provision or

provisions shall be deemed separable from, and shall in no way affect the validity of, any of the other provisions of this Resolution or of the Prior Bonds issued pursuant to the terms hereof.

Section 19. Reaffirmation. This Master Prior Bond Resolution No. R2009-15 amends, restates, replaces and supersedes Resolution No. R98-47, as amended by Resolution No. R99-4. All rights of owners of any Outstanding 1999 Prior Bonds are hereby reaffirmed.

ADOPTED by the Board of Directors of The Central Puget Sound Regional Transit Authority at a regular meeting thereof held on the 10th day of September, 2009.

\_\_\_\_\_  
Gregory J. Nickels  
Board Chair

ATTEST:

\_\_\_\_\_  
Marcia Walker  
Board Administrator

**TABLE OF CONTENTS**

	<u>Page</u>
Section 1. Definitions .....	3
Section 2. Authorization and Description of 2009 Parity Bonds.....	14
Section 3. Bond Sale Resolution .....	14
Section 4. Registration and Transfer or Exchange of the 2009 Parity Bonds .....	16
Section 5. Payment of 2009 Parity Bonds .....	18
Section 6. Redemption and Purchase of 2009 Parity Bonds .....	18
Section 7. Notice and Effect of Redemption .....	20
Section 8. Failure to Pay 2009 Parity Bonds .....	21
Section 9. Form and Execution of 2009 Parity Bonds .....	21
Section 10. Bond Registrar .....	22
Section 11. Sale of 2009 Parity Bonds .....	23
Section 12. Preservation of Tax Exemption for Interest on 2009 Parity Bonds That Are Tax-Exempt Parity Bonds .....	24
Section 13. Deposit, Use and Investment of Proceeds.....	25
Section 14. Local Option Tax Accounts; Flow of Funds .....	26
Section 15. Pledge of Pledged Taxes.....	28
Section 16. Issuance of Future Parity Bonds and Future Prior Bonds.....	30
Section 17. Refunding Parity Bonds .....	32
Section 18. Junior Obligations; Obligations with Pledge of Revenues .....	32
Section 19. Parity Bond Account and Parity Reserve Account.....	33
Section 20. Covenants.....	34
Section 21. Parity Payment Agreements .....	37
Section 22. Defeasance.....	39
Section 23. Lost, Stolen, Mutilated or Destroyed 2009 Parity Bonds .....	41
Section 24. Supplements and Amendments.....	41
Section 25. Defaults.....	44
Section 26. Remedies Upon Default.....	45
Section 27. Continuing Disclosure .....	49
Section 28. Resolution a Contract .....	50
Section 29. Severability .....	50
Section 30. Ratification of Prior Acts.....	50

**SOUND TRANSIT**

**RESOLUTION NO. R2009-16**

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 ONE OR MORE SERIES, TO FINANCE AND REFINANCE A PORTION OF THE AUTHORITY'S REGIONAL TRANSIT SYSTEM PLAN; FIXING CERTAIN PROVISIONS AND COVENANTS OF THE BONDS, INCLUDING PROVISIONS SAFEGUARDING THE PAYMENT OF THE PRINCIPAL THEREOF AND INTEREST THEREON; AND AUTHORIZING AND DIRECTING THE SALE OF SUCH BONDS.

ADOPTED: September 10, 2009

B-22

**SOUND TRANSIT**

**RESOLUTION NO. R2009-16**

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 ONE OR MORE SERIES, TO FINANCE AND REFINANCE 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 (the "Board") of The Central Puget Sound Regional Transit Authority (the "Authority"), by Resolution No. 73, authorized a regional transit system plan to provide high capacity transportation services in the central Puget Sound region (as defined herein, the "Sound Move Plan"); and

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

WHEREAS, by Resolution No. 82, the Board authorized the imposition of the foregoing taxes and the rental car sales and use tax authorized by RCW 81.104.160 and contracted with the State of Washington Department of Revenue and Department of Licensing to collect and transfer such taxes to the Authority, beginning on April 1, 1997; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180 and Resolution Nos. 98-47 and 98-48, the Authority on January 6, 1999, issued its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (the "1999 Prior Bonds"), secured by a pledge of the Local Option Taxes (defined herein), to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180 and Resolution Nos. R2005-02 and R2005-07, the Authority on March 31, 2005, issued its Sales Tax Bonds, Series 2005A (the "2005A Parity Bonds"), secured by a pledge of the Pledged Taxes (defined herein) subordinate to the pledge of Local Option Taxes securing the 1999 Prior Bonds, 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. R2007-22 and R2007-27, the Authority on December 18, 2007, issued its Sales Tax Bonds, Series 2007A (the "2007A Parity Bonds"), secured by a pledge of the Pledged Taxes subordinate to the pledge of Local Option Taxes securing the 1999 Prior Bonds and on a parity with the pledge of Pledged Taxes securing the 2005A Parity Bonds, to finance improvements for the purpose of providing high capacity transportation service; and

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

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

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

WHEREAS, the Authority desires to issue additional obligations to finance improvements for the purpose of providing high capacity transportation service consistent with the resolutions authorizing the issuance of the 1999 Prior Bonds, the 2005A Parity Bonds and the 2007A Parity Bonds, such obligations to be secured by a pledge of the Pledged Taxes subordinate to the

pledge of Local Option Taxes securing the 1999 Prior Bonds and on a parity with the pledge of Pledged Taxes securing the 2005A Parity Bonds and the 2007A Parity Bonds;

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

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

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

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

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

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

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

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

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

(3) if a Parity Payment Agreement is executed in connection with a Series of Parity Bonds, the Annual Parity Bond Debt Service shall be adjusted as provided in Section 21;

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

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

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

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

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

Authority Parity Bond Certificate means a certificate executed by a Designated Authority Representative in connection with the issuance of Future Parity Bonds or Future Prior Bonds under Section 16.

Authority Pledged Taxes Sufficiency Certificate means a certificate executed by a Designated Authority Representative in connection with the reduction of the Sales Tax under Section 20(a).

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

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

Base Parity Period means any consecutive 12-month period selected by the Authority out of the 24-month period immediately preceding the date of issuance of a Series of Parity Bonds for purposes of Section 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 Parity Reserve Account Requirement.

Bond Register means the registration books on which are maintained the names and addresses of the Owners of the 2009 Parity 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 2009 Parity Bonds, maintenance of the Bond Register, effecting transfer of ownership of the 2009 Parity Bonds, and paying the principal of, premium, if any, and interest on the 2009 Parity Bonds.

Bond Sale Resolution means the resolution or resolutions of the Board adopted pursuant to this Resolution to specify certain additional provisions of one or more Series of the 2009 Parity Bonds and their sale.

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

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

Parity Bonds shall refer to the rate at which those Capital Appreciation Parity Bonds accrete in value.

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

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

Default means any of the events specified in Section 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 2009 Parity Bonds pursuant to a Series Resolution, which are expressly stated to be secured by a pledge of Pledged Taxes on an equal and ratable basis with the Pledged Taxes required to be paid into the Parity Bond Account to pay and secure the payment of the principal of and interest on the 2005A Parity Bonds, the 2007A Parity Bonds and the 2009 Parity Bonds.

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

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

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

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

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

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

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

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

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

MSRB means the Municipal Securities Rulemaking Board.

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

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

Owner means the registered owner of any Parity Bond.

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

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

Parity Bonds means the 2005A Parity Bonds, the 2007A Parity Bonds, the 2009 Parity Bonds and any Future Parity Bonds.

Parity Payment Agreement means a Payment Agreement between the Authority and a Qualified Counterparty, meeting the conditions set forth in Section 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 Parity Bond Account to pay and secure the payment of the principal of and interest on Parity Bonds.

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

Parity Reserve Account Requirement means, for the 2007A Parity Bonds and the 2009 Parity Bonds, zero, and for Parity Bonds other than the 2007A Parity Bonds and the 2009 Parity Bonds (and except as otherwise permitted under Section 19(b) of Resolution No. R2005-02), the lesser of: (1) Maximum Annual Parity Bond Debt Service or (2) 125% of Average Annual Parity Bond Debt Service; provided, that upon the issuance of any Series of Parity Bonds, the Parity Reserve Account Requirement shall not be required to be funded or increased by an amount greater than 10% of the proceeds of that Series. For purposes of calculating the Parity Reserve Account Requirement, the initial issue price of Capital Appreciation Parity Bonds shall be deemed to be the sale proceeds of such Capital Appreciation Parity Bonds.

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

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

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

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

Plan means Sound Move-The Ten-Year Regional Transit System Plan adopted May 31, 1996 (the "Sound Move Plan"), together with Sound Transit 2, A Mass Transit Guide, The Regional Transit System Plan for Central Puget Sound (the "Sound Transit 2 Plan") adopted July 24, 2008, to provide high-capacity transportation services in the central Puget Sound region, as the Sound Move Plan and Sound Transit 2 Plan have been and may hereafter be updated, amended or supplemented.

Pledged Taxes means the rental car sales and use tax authorized by RCW 81.104.160 and the sales and use tax authorized by RCW 81.104.170, initially approved at an election held on November 5, 1996, together with the additional sales and use tax approved at an election held on November 4, 2008, as such taxes may be levied from time to time by the Authority, together with Additional Taxes and/or the Motor Vehicle Tax if pledged to the Parity Bonds pursuant to Section 15.

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



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

Prior Bonds means the 1999 Prior Bonds and any Future Prior Bonds.

Prior Bonds Coverage Requirement, with respect to an Authority Parity Bond Certificate, has the meaning assigned that term in Section 16, and with respect to an Authority Pledged Taxes Sufficiency Certificate, has the meaning assigned that term in Section 20(a).

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

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

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

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.

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

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

Rating Agencies means Moody's Investors Service, or its successors and assigns, Standard & Poor's Ratings Services, or its successors and assigns, Fitch Ratings or its successors and assigns, or such other securities rating agency if such other rating agency is

selected by the Authority to provide a rating with respect to a Series of Parity Bonds or any portion thereof and which other rating agency as of the applicable date shall have assigned a rating to any Series of Parity Bonds or any portion thereof.

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

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

Record Date means, unless otherwise specified in the Bond Sale Resolution, the 15th day of the month preceding an interest payment date for the 2009 Parity Bonds.

Refunding Parity 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. R2009-16.

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

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

SEC means the United States Securities and Exchange Commission.

Series means any separate series of Parity Bonds, including the 2009 Parity 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 in accordance with the provisions of such resolution and this Resolution.

State means the State of Washington.

Subordinate Obligations means the Parity Bonds, the Junior Obligations and any other bonds, notes or other obligations identified as "Subordinate Obligations" or "Subordinate Lien

Obligations" in the resolution authorizing such obligations and secured by a pledge of Local Option Taxes subordinate to the pledge securing the Prior Bonds.

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

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

Tax Stabilization Subaccount means the subaccount of that name authorized to be created pursuant to Section 2 of the Prior Bond Resolution, Section 14 of Resolution No. R2005-02, Section 14 of Resolution No. R2007-22, or Section 14 of this Resolution.

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

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

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

2009 Parity Bonds means the bonds of each Series authorized by this Resolution.

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

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

Section 2. Authorization and Description of 2009 Parity Bonds. For the purposes of paying part of the costs of carrying out the Plan and the costs of issuing and selling the 2009 Parity Bonds, refunding all or a portion of the 2005A Parity 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 one or more Series, in the maximum aggregate principal amount of not to exceed \$300,000,000. Any amount received as original issue premium on the 2009 Parity Bonds shall not reduce the principal amount of 2009 Parity Bonds authorized under this Resolution. The principal amount of the 2009 Parity Bonds, together with the outstanding 1999 Prior Bonds, the Outstanding 2005A Parity Bonds, the Outstanding 2007A Parity 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 2009 Parity Bonds shall be designated "The Central Puget Sound Regional Transit Authority Sales Tax Bonds, Series 2009" 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 and Series or such other denomination within a maturity and series 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 2009 Parity Bonds shall mature on the dates and in years and amounts as specified by the Bond Sale Resolution. All or some of the 2009 Parity Bonds may be Term Parity Bonds, as specified by the Bond Sale Resolution.

Section 3. Bond Sale Resolution. The 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 2009 Parity 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 2009 Parity 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 2009 Parity Bonds, the establishment of the initial interest rate or rates on the 2009 Parity Bonds, and any tender, purchase, remarketing, or redemption provisions of the 2009 Parity 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 2009 Parity Bonds and the refunding of all or a portion of the 2005A Parity Bonds.

Because of the special circumstances regarding (1) the timing of the sale of the 2009 Parity Bonds, (2) the need for the purchasers of the 2009 Parity 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.

The Bond Sale Resolution may specify that one or more Series of 2009 Parity Bonds are Build America Parity Bonds and may further specify whether the applicable federal credit payments in respect of such Build America Parity Bonds are to be tax credits or direct payments.

The Bond Sale Resolution shall specify any 2005A Parity Bonds to be refunded and shall provide for the call, redemption and refunding or defeasance of those 2005A Parity Bonds consistent with the provisions of this Resolution and Resolution Nos. R2005-02 and R2005-07 through the deposit of money and/or the purchase of direct obligations of the United States of America or Government Obligations.

Section 4. Registration and Transfer or Exchange of the 2009 Parity Bonds. The 2009 Parity Bonds shall be issued only in registered form as to both principal and interest and shall be recorded on the Bond Register. The Bond Register shall contain the name and mailing address of the Owner of each 2009 Parity Bond and the principal amount and number of each of the 2009 Parity Bonds held by each Owner.

2009 Parity Bonds surrendered to the Bond Registrar may be exchanged for 2009 Parity Bonds in any authorized denomination of an equal aggregate principal amount and of the same Series, interest rate and maturity. 2009 Parity Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the Owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any 2009 Parity Bond during the period beginning on the date the Bond Registrar receives direction to send notice of redemption of that 2009 Parity Bond and ending on the date the Bond Registrar sends such notice.

The 2009 Parity Bonds initially shall be registered in the name of Cede & Co., as the nominee of DTC. The 2009 Parity Bonds so registered shall be held in fully immobilized form by DTC as depository in accordance with the provisions of the Letter of Representations. Neither the Authority nor the Bond Registrar shall have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the 2009 Parity 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 2009 Parity Bonds, or any notice which is permitted or required to be given to Owners hereunder (except such notice as is required to be given by the Bond Registrar to DTC or its nominee).

For as long as any 2009 Parity 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 2009 Parity 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 2009 Parity Bonds. Registered ownership of such 2009 Parity Bonds, or any portions thereof, may not thereafter be transferred except: (i) to any successor of DTC or its nominee, if that successor shall be qualified under any applicable laws to provide the services proposed to be provided by it; (ii) to any substitute depository appointed by the Authority or such substitute depository's successor; or (iii) to any person if the 2009 Parity Bonds are no longer held in immobilized form.

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

If (i) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (ii) the Authority determines that the 2009 Parity Bonds are to be in certificated form, the ownership of 2009 Parity Bonds may be transferred to any person as provided herein and the 2009 Parity Bonds no longer shall be held in fully immobilized form.

Section 5. Payment of 2009 Parity Bonds. Principal of and premium, if any, and interest on the 2009 Parity Bonds shall be payable in lawful money of the United States of America. Interest on the 2009 Parity Bonds shall be paid by checks or drafts of the Bond Registrar, or, if requested in writing prior to the Record Date by the Owner of \$1,000,000 or more in principal amount of 2009 Parity Bonds, by wire, mailed or transferred on the interest payment date to Owners of the 2009 Parity Bonds as those Owners and their addresses and accounts appear on the Bond Register on the Record Date. Principal of and premium, if any, on the 2009 Parity Bonds shall be payable at maturity or on such date as may be specified for prior redemption upon presentation and surrender of the 2009 Parity Bonds by the Owners at the principal corporate trust office or offices of the Bond Registrar. Notwithstanding the foregoing, payment of any 2009 Parity Bonds registered in the name of DTC or its nominee shall be made in accordance with the Letter of Representations.

Section 6. Redemption and Purchase of 2009 Parity Bonds.

(a) Optional Redemption. All or some of the 2009 Parity 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 2009 Parity Bonds that are Term Parity Bonds ("2009 Term Parity Bonds"), if not redeemed under the optional redemption provisions set forth in the Bond Sale Resolution or purchased under the provisions set forth below. Unless otherwise provided in the Bond Sale Resolution, 2009 Term Parity Bonds shall be redeemed 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. 2009 Term Parity Bonds shall be redeemed on the dates and in the years and principal amounts as set forth in the Bond Sale Resolution.

If the Authority redeems pursuant to optional redemption provisions, purchases for cancellation or defeases 2009 Term Parity Bonds, the principal amount of the 2009 Term Parity Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) shall be credited against one or more scheduled mandatory sinking fund redemptions for 2009 Term Parity Bonds of the same Series and maturity. Unless otherwise specified in the Bond Sale Resolution, the Designated Authority Representative shall determine the manner in which the credit is to be allocated. The Designated Authority Representative 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 2009 Term Parity Bonds for which notice of redemption has not already been given. If no such determination is made, the allocation shall be on a pro rata basis.

(c) Partial Redemption. Unless otherwise provided in the Bond Sale Resolution, whenever fewer than all of the 2009 Parity Bonds of a single Series and maturity are to be redeemed, the Bond Registrar shall select the 2009 Parity Bonds or portions thereof to be redeemed from the 2009 Parity Bonds of that Series and maturity by lot (or in such other manner as the Bond Registrar shall determine), except that, for so long as the 2009 Parity Bonds are registered in the name of DTC or its nominee, DTC shall select the 2009 Parity Bonds or portions thereof to be redeemed in accordance with the Letter of Representations.

Portions of the principal amount of any 2009 Parity 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 2009 Parity Bond is redeemed, upon surrender of that 2009 Parity Bond to the Bond Registrar there shall be issued to the Owner, without charge therefor, a new 2009 Parity Bond (or 2009 Parity Bonds, at the option of the Owner) of the same Series, 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 2009 Parity Bonds in the open market at any time at any price acceptable to the Authority plus accrued interest to the date of purchase.

(e) 2009 Parity Bonds to be Canceled. All 2009 Parity 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 2009 Parity 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 2009 Parity Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not notice is actually received by that Owner. Notwithstanding the foregoing, notice of redemption of any 2009 Parity Bonds registered in the name of DTC or its nominee shall be made in accordance with the Letter of Representations.

In addition, the redemption notice shall be mailed by the Bond Registrar within the same period, postage prepaid, to each of the Rating Agencies at their offices in New York, New York, to any provider of Bond Insurance for the 2009 Parity 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 2009 Parity Bonds.

In the case of an optional redemption, the notice may state that the Authority retains the rights to rescind that notice on or prior to the scheduled redemption date, and that 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 2009 Parity Bonds subject to a rescinded notice of redemption shall remain Outstanding, and the rescission shall not constitute a Default.

If notice of redemption has been duly given, then on the date fixed for redemption each 2009 Parity Bond or portion thereof so called for redemption shall become payable at the redemption price specified in such notice unless that 2009 Parity Bond or portion thereof is subject to a rescinded notice of optional redemption. From and after the date fixed for redemption, if money for the payment of the redemption price of any 2009 Parity Bond or portion thereof so called for redemption that becomes payable is held by the Bond Registrar, interest thereon shall cease to accrue and that 2009 Parity Bond or portion thereof shall cease to be Outstanding and to be entitled to any benefit, protection or security hereunder, and the Owner of such 2009 Parity Bond or portion thereof shall have no rights in respect thereof except to receive payment of the redemption price upon delivery of such 2009 Parity Bond to the Bond Registrar.

Section 8. Failure to Pay 2009 Parity Bonds. If any 2009 Parity Bond is not paid when properly presented at its maturity or date fixed for redemption, the Authority shall be obligated to pay interest on that 2009 Parity Bond at the same rate provided in that 2009 Parity Bond from and after its maturity or date fixed for redemption until that 2009 Parity Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Parity Bond Account.

Section 9. Form and Execution of 2009 Parity Bonds. The 2009 Parity Bonds shall be typed, printed, photocopied, or lithographed 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 2009 Parity 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 2009, described in the Series Resolution.

WASHINGTON STATE FISCAL AGENT  
Bond Registrar

By \_\_\_\_\_  
Authorized Signer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the 2009 Parity Bond so authenticated has been duly executed, authenticated, and delivered and is entitled to the benefits of this Resolution.

If any officer whose manual or facsimile signature appears on a 2009 Parity Bond ceases to be an officer of the Authority authorized to sign bonds before that 2009 Parity Bond is authenticated or delivered by the Bond Registrar or issued by the Authority, that 2009 Parity 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 2009 Parity Bond also may be signed on behalf of the Authority by any person who, on the actual date of signing of that 2009 Parity Bond, is an officer of the Authority authorized to sign bonds, although he or she did not hold the required office on the date of issuance of that 2009 Parity 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 2009 Parity Bonds, which shall be open to inspection by the Authority at all times. The Bond Registrar is authorized, on behalf of the Authority, to authenticate and deliver 2009 Parity Bonds transferred or exchanged in accordance with the provisions of the 2009 Parity Bonds and this Resolution, to serve as the Authority's paying agent for the 2009 Parity Bonds, and to carry out all of the Bond Registrar's powers and duties under this Resolution. The Authority reserves the right in its discretion to appoint special paying agents, registrars, or trustees in connection with the payment of some or all of the principal of, premium, if any, or interest on the 2009 Parity

Bonds. If a new Bond Registrar is appointed by the Authority (other than the Washington State fiscal agent), notice of the name and address of the new Bond Registrar shall be mailed to the Owners of the 2009 Parity Bonds appearing on the Bond Register at the time the Bond Registrar prepares the notice. The notice may be mailed together with the next interest payment due on the 2009 Parity Bonds, but, to the extent practicable, shall be mailed no later than the Record Date for any principal payment or redemption date of any 2009 Parity Bond.

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on the 2009 Parity Bonds. The Bond Registrar may become the Owner of 2009 Parity Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of the Owners of the 2009 Parity Bonds.

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

Section 11. Sale of 2009 Parity Bonds. The Designated Authority Representative shall provide for the sale of the 2009 Parity 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 2009 Parity Bonds, to prepare and deem final a preliminary official statement for the 2009 Parity Bonds, to negotiate the terms of a proposed purchase contract or purchase contracts with the purchasers of the 2009 Parity Bonds, and to specify other matters in his or her determination necessary, appropriate, or desirable to carry out the sale of the 2009 Parity 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 2009 Parity 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.

If a Series of 2009 Parity Bonds is to be sold and issued as Build America Parity Bonds, the Designated Authority Representative is hereby authorized and directed on behalf of the Authority to take such actions and to enter into such agreements as are necessary or appropriate for the Authority to cause to be received from the United States Treasury the applicable federal credit payments in respect of such Build America Parity Bonds.

Section 12. Preservation of Tax Exemption for Interest on 2009 Parity Bonds That Are Tax-Exempt Parity Bonds. The Authority covenants that it will take all actions necessary to prevent interest on the 2009 Parity Bonds that are Tax-Exempt Parity Bonds from being included in gross income for federal income tax purposes, and that it will neither take any action nor make or permit any use of proceeds of the 2009 Parity Bonds or other funds of the Authority treated as proceeds of the 2009 Parity Bonds at any time during the term of the 2009 Parity Bonds which will cause interest on the 2009 Parity Bonds that are Tax-Exempt Parity Bonds to be included in gross income for federal income tax purposes. The Authority also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to the 2009 Parity Bonds, take all actions necessary to comply (or to be treated as having complied) with that requirement in connection with the 2009 Parity Bonds, including the calculation and payment of any penalties that the Authority has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on the 2009 Parity Bonds that are Tax-Exempt Parity Bonds from being included in gross income for federal income tax purposes.

The Authority also covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the entitlement to receive from the United States Treasury the applicable federal credit payments in respect of any 2009 Parity Bonds that are Build America Parity Bonds. Without limiting the generality of the foregoing, the Authority will comply with the provisions of the Code compliance with which would result in the interest of 2009 Parity Bonds



that are Build America Parity Bonds being excluded from gross income for federal tax purposes but for the Authority's irrevocable election to have Section 54AA of the Code apply to such 2009 Parity Bonds.

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 2009 Parity Bonds shall be paid into or allocated to the "2009 Parity 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 2009 Parity 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 2009 Parity 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 2009 Parity Bonds received from the sale and delivery of the 2009 Parity Bonds, if any, shall be paid into or allocated to the Parity Bond Account prior to the first debt service payment date with respect to those 2009 Parity Bonds. Until needed to pay the costs described herein, the Authority may invest principal proceeds of the 2009 Parity 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 2009 Parity Bonds remaining after paying the costs of carrying out the Plan, issuing and selling the 2009 Parity Bonds and for other Authority purposes approved by resolution, may be used to pay principal of and interest on the 2009 Parity Bonds consistent with applicable law.

All Pledged Taxes allocated to the payment of the principal of and interest on the 2009 Parity Bonds shall be deposited in the Parity 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, in Resolution No. R2005-02 and in Resolution No. R2007-22. The Tax Stabilization Subaccount may be the same subaccount of that name established under Section 2(a) of the Prior Bond Resolution. Notwithstanding the foregoing, the Authority may provide that Additional Taxes shall be deposited into Additional Taxes Accounts, including a separate tax stabilization subaccount therein.

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

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

- (1) to pay the interest when due on the Prior Bonds (including regularly scheduled Payments under Prior Payment Agreements); and
- (2) to pay the maturing principal (including sinking fund redemptions) of the Prior Bonds;

Second, to make all payments required to be made into the Prior Reserve Account by Section 7(b) of the Prior Bond Resolution to meet the Prior Reserve Account Requirement and to make all payments required to be made pursuant to a reimbursement obligation in connection with a Qualified Prior Letter of Credit or Qualified Prior Insurance with respect to the Prior

Reserve Account Requirement; provided, that if there is not sufficient money to make all payments under all reimbursement agreements the payments will be made to the providers on a pro rata basis;

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

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

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

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

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

Fifth, to make all payments required to be made into any other bond redemption account and reserve account created to pay the principal of, premium, if any, and interest on any Junior Obligations (to the extent any such obligations are issued with a pledge of Pledged Taxes superior to the payment of operation and maintenance expenses); provided, that the Authority

may determine by resolution that items in this "Fifth" category shall be paid in any specified order of priority;

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

Seventh, for any lawful purpose of the Authority; provided, that the Authority may determine that items in this "Seventh" category shall be paid in a specified order of priority.

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 2009 Parity Bonds and so long as any of the 2009 Parity Bonds remain Outstanding, the Authority irrevocably obligates and binds itself to impose, collect and deposit all Pledged Taxes into the Local Option Tax Accounts and the Additional Taxes Accounts, as applicable. All Parity Bonds now or hereafter Outstanding shall be equally and ratably payable and secured hereunder and under each Series Resolution without priority by reason of date of adoption of the Series Resolution providing for their issuance or by reason of their Series or date of sale or delivery; provided, that any Series of Parity Bonds also may be payable from and secured by Bond Insurance specifically pledged to or provided for that Series of Parity Bonds. The Authority may also, at its sole option, apply amounts legally available from any other source to the payment of Parity Bonds or to make the deposits required hereunder. The Authority expressly reserves the right (but is not obligated) to include and pledge Additional Taxes, the Motor Vehicle Tax, and/or receipts resulting from an Adopted Parity Rate Adjustment, as "Pledged Taxes." The Board hereby determines that the future inclusion of such Adopted Parity Rate Adjustment, Additional Taxes and/or the Motor Vehicle Tax as Pledged Taxes will benefit the Authority and the Owners of Parity Bonds. The inclusion of Additional Taxes as Pledged Taxes will not constitute a pledge of those Additional Taxes to the payment of Prior Bonds unless the Authority expressly provides therefor. The Authority hereby designates the additional sales and use tax approved at an election held on November 4, 2008, and imposed by

Resolution No. R2008-15, as an Adopted Parity Rate Adjustment and a component of Pledged Taxes pledged to the payment of the Parity Bonds.

All Parity Bonds are special limited obligations of the Authority payable from and secured solely by Pledged Taxes and amounts, if any, in the Parity Bond Account, the Parity Reserve Account (except as otherwise provided in Section 19(b) of Resolution No. R2005-02, Section 19(b) of Resolution No. R2007-22 and Section 19(b) of this Resolution), the Local Option Tax Accounts, the Additional Taxes Accounts, the Tax Stabilization Subaccount and any project account created for the deposit of Parity Bond proceeds, subject to the prior pledge of money in the Local Option Tax Accounts and the Tax Stabilization Subaccount that has been created in favor of the Prior Bonds. The 2009 Parity Bonds are "Subordinate Obligations" as that term is defined by and under the Prior Bond Resolution.

There is hereby pledged for the payment of the 2009 Parity Bonds (a) amounts in the Parity Bond Account, the Additional Taxes Accounts and proceeds of the 2009 Parity Bonds deposited in any account created for the deposit of 2009 Parity Bond proceeds, and such pledge is hereby declared to be a charge on the amounts in such accounts equal to the charge of any other Parity Bonds thereon, and superior to all other charges of any kind or nature, and (b) the Pledged Taxes and amounts in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount and earnings thereon, to the extent amounts and earnings in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount represent revenues from Pledged Taxes, and such pledge is hereby declared to be a prior charge upon the Pledged Taxes and the accounts described in this paragraph superior to all other charges of any kind or nature except the charge of the Prior Bonds on Local Option Taxes, and equal to the charge of any other Parity Bonds.

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

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

Section 16. Issuance of Future Parity Bonds and Future Prior Bonds. Following the issuance of the 2009 Parity 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 Parity Bond Account;
- (b) an amount equal to the Parity Reserve Account Requirement (including for the Future Parity Bonds to be issued) shall be on deposit or shall be otherwise provided for in the Parity Reserve Account on or prior to the date of issuance of such Future Parity Bonds, all in accordance with Section 19(b);
- (c) no Default (as defined in Section 25) has occurred and is continuing; and
- (d) an Authority Parity Bond Certificate is delivered upon the issuance of such Future Parity Bonds, which shall state that:

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

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

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

that the Motor Vehicle Tax and/or Additional Taxes will be included as Pledged Taxes to secure the Future Parity Bonds.

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

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

Section 17. Refunding Parity 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 Parity Bonds as follows:

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

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

(c) Refunding Parity Bonds also may be issued, consistent with applicable law, without regard to the requirements of Section 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. Parity Bond Account and Parity Reserve Account.

(a) Parity 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 and is hereby renamed the "Parity Bond Account." The Parity 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 Parity Bonds remain Outstanding to set aside or cause to be set aside and pay or cause to be paid into the Parity Bond Account from Pledged Taxes:

- (i) approximately equal monthly deposits such that the amounts projected to be on deposit on the next interest payment date will be sufficient to pay the interest scheduled to become due and redemption premium, if any, on Outstanding Parity Bonds; and
- (ii) approximately equal monthly deposits such that the amounts projected to be on deposit on the next principal payment date will be sufficient to pay maturing principal (including sinking fund redemptions) for Parity Bonds; and
- (iii) regularly scheduled Payments under a Parity Payment Agreement.

(b) Parity Reserve Account. The Subordinate Reserve Account has been 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 and is hereby renamed the Parity Bond Account. The 2007A Parity Bonds and the 2009 Parity Bonds shall not be secured by amounts in the Parity Reserve Account or by Bond Insurance providing any portion of the Parity Reserve Account Requirement for other Parity Bonds and shall not be provided with any rights or protections under Section 19(b) of Resolution No. R2005-02. The debt service on the 2007A Parity Bonds and the 2009 Parity Bonds shall not be included in the calculation of the Parity Reserve Account Requirement for all other Series of Parity Bonds.

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

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

Section 20. Covenants. The Authority makes the following covenants with the Owners of the 2009 Parity Bonds for as long as any of the same remain Outstanding:

(a) Pledged Taxes. The Authority shall impose the rental car sales and use tax authorized by RCW 81.104.160 at a rate of not less than eight-tenths of one percent and the Sales Tax at a rate of not less than nine-tenths of one percent; provided, that the Authority may impose the Sales Tax at a rate of less than nine-tenths of one percent but not less than eight-tenths of one percent so long as an Authority Pledged Taxes Sufficiency Certificate is delivered on or prior to the date of that reduction in rate and within 30 days after the end of each Fiscal Year during which the Sales Tax has been so reduced, which Authority Pledged Taxes Sufficiency Certificate shall comply with the requirements described below. To the extent permitted by law and approved by the voters (if a vote is required), the Authority may, in a Series or Supplemental Resolution, pledge to the payment of the Parity Bonds the Sales Tax in excess of nine-tenths of one percent, the rental car sales and use tax authorized by

RCW 81.104.160 in excess of eight-tenths of one percent and any other tax authorized by law. Notwithstanding the foregoing, the Authority may at its discretion pledge amounts attributable to any increase of the Sales Tax rate above nine-tenths of one percent and any increase in the rental car sales and use tax above eight-tenths of one percent to any other obligations or to other Authority purposes.

If the Authority desires to impose the Sales Tax at a rate less than nine-tenths of one percent, an Authority Pledged Taxes Sufficiency Certificate shall be delivered that states that:

- (i) *Prior Bonds Coverage Test.* Local Option Taxes received during the Base Parity Period were not less than 1.5 times Maximum Annual Prior Bond Debt Service on all Prior Bonds outstanding on the date the Authority Pledged Taxes Sufficiency Certificate is given (the "Prior Bonds Coverage Requirement"); and
- (ii) *Parity Bonds Coverage Test for Period While Motor Vehicle Tax Not Included as Pledged Taxes.* Pledged Taxes received during the Base Parity Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement (and after all the Motor Vehicle Tax has been applied for that purpose) were not less than 1.5 times Maximum Annual Parity Bond Debt Service during the period that the Motor Vehicle Tax will not be included as Pledged Taxes to secure Parity Bonds Outstanding on the date the Authority Pledged Taxes Sufficiency Certificate is given; and
- (iii) *Parity Bonds Coverage Test for Period While Motor Vehicle Tax and/or Additional Taxes Are Included as Pledged Taxes.* Pledged Taxes received during the Base Parity Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement were not less than 1.5 times Maximum Annual Parity Bond Debt Service during the period that the Motor Vehicle Tax and/or Additional Taxes will be included as Pledged Taxes to secure Parity Bonds Outstanding on the date the Authority Pledged Taxes Sufficiency Certificate is given.

In preparing such certificate: (A) the Local Option Taxes and/or Pledged Taxes during the Base Parity Period may be only those shown in audited or unaudited financial statements of the Authority; (B) the Designated Authority Representative shall take into account in calculating amounts received during the Base Parity Period any Adopted Parity Rate Adjustment, Additional Taxes and Motor Vehicle Tax included as Pledged Taxes pursuant to Section 15, and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect

during the entire Base Parity Period; (C) the Sales Tax received during the Base Parity Period shall be adjusted to reflect the reduced rate of less than nine-tenths of one percent; (D) the Motor Vehicle Tax and/or Additional Taxes may not be taken into account to meet the requirements of clause (iii) above unless the Authority receives an opinion of Bond Counsel to the effect that the pledge of such Motor Vehicle Tax and/or Additional Taxes to Parity Bonds is in full force and effect for the period in which they are included as Pledged Taxes; and (E) any Adopted Parity Rate Adjustment, Additional Taxes and/or extension of an existing tax shall be taken into account only if a certified public accountant, economic consultant or financial advisor experienced with state or local taxation or municipal bonds certifies that it is reasonable to expect that such adjusted, new or extended taxes will be received in the amounts assumed for purposes of the Authority Pledged Taxes Sufficiency Certificate.

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

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

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

necessary to impose and provide for the continued collection of the Local Option Taxes and the application of those taxes for the payment of the Prior Bonds in accordance with the Prior Bond Resolution and the application of those Local Option Taxes in accordance with the Prior Bond Resolution and this Resolution. Except as expressly permitted under this subsection, the Authority shall not take any action that limits, terminates, reduces or otherwise impairs its authority to impose and collect all Local Option Taxes and Pledged Taxes.

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

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

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

Section 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 2009 Parity 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 2009 Parity Bonds:

(a) The Authority shall obtain an opinion of Bond Counsel with respect to the due authorization, validity and enforceability of such Payment Agreement as to the Authority, and opining that the action proposed to be taken is authorized or permitted by this Resolution or the applicable provisions of any Supplemental Resolution and will not adversely affect either the

exemption from federal income taxation of the interest on any Outstanding Tax-Exempt Parity Bonds or the entitlement to receive from the United States Treasury the applicable federal credit payments in respect of any Outstanding Build America Parity Bonds.

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

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

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

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

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

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

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



Authority obtains an opinion of Bond Counsel that the obligations of the Authority thereunder are consistent with this Resolution.

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

Section 22. Defeasance.

(a) Defeased Bonds. If the Authority deposits irrevocably with an escrow agent money and/or noncallable Government Obligations which, together with the earnings thereon and without any reinvestment thereof, are sufficient to pay the principal of and premium, if any, on any particular 2009 Parity Bonds or portions thereof (the "Defeased Bonds") as the same shall become due, together with all interest accruing thereon to the maturity date or redemption date, and, in the case of Defeased Bonds to be redeemed prior to maturity, irrevocably calls the Defeased Bonds for redemption on the redemption date, and pays or makes provision for payment of all fees, costs and expenses of that escrow agent due or to become due with respect to the Defeased Bonds, then:

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

(2) with respect to Defeased Bonds that are not Tax-Exempt Parity Bonds for which the escrow agent receives an opinion described in clause (c)(2) below, all liability of the Authority with respect to the Defeased Bonds shall cease, the Defeased Bonds shall be deemed not to be Outstanding and the Owners of the Defeased Bonds shall be restricted exclusively to the money or Government Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to the Defeased Bonds; and

(3) with respect to Defeased Bonds that are not Tax-Exempt Parity Bonds for which the escrow agent receives an opinion described in clause (c)(3) below, the Authority at

any time may terminate its obligations under any of its covenants under this Resolution, other than its covenant to maintain its existence and to make payments when due on the Parity Bonds.

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

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

(1) with respect to a defeasance described in clause (a)(1) above, an opinion of nationally recognized tax counsel (which may be Bond Counsel) that such defeasance will not, in and of itself, adversely affect the exclusion of interest on the Defeased Bonds from gross income for federal income tax purposes;

(2) with respect to a defeasance described in clause (a)(2) above, an opinion of nationally recognized tax counsel (which may be Bond Counsel) confirming that (A) the Authority has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date the Defeased Bonds were issued there has been a change in applicable federal income tax law, in either case to the effect that, and based thereon such opinion will confirm that, the Owners of the Defeased Bonds will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance and will be subject to

federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred; and

(3) with respect to a defeasance described in clause (a)(3) above, an opinion of nationally recognized tax counsel (which may be Bond Counsel) confirming that the Owners of the Defeased Bonds will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred.

(d) Administrative Provisions. Notwithstanding the foregoing provisions of this Section to the contrary, the provisions of this Resolution relating to the execution, authentication, registration, exchange, transfer and cancellation of the 2009 Parity Bonds shall apply to the Defeased Bonds.

Section 23. Lost, Stolen, Mutilated or Destroyed 2009 Parity Bonds. In case any 2009 Parity Bond shall be lost, stolen, mutilated or destroyed, the Bond Registrar may execute and deliver a new 2009 Parity Bond of like date, number and tenor to the Owner thereof upon the Owner paying the expenses and charges of the Authority in connection therewith and upon the Owner filing with the Authority evidence satisfactory to the Authority that such 2009 Parity Bond was actually lost, stolen or destroyed (including the presentation of a mutilated 2009 Parity Bond) and of ownership thereof, and upon furnishing the Authority with indemnity satisfactory to the Authority.

Section 24. Supplements and Amendments.

(a) Without Owners' Consent. The Authority may adopt at any time without the consent or concurrence of 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 2009 Parity Bonds; provided, that such additional covenants

and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Prior Resolution, this Resolution or any Series Resolution;

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

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

(v) To subject additional property, Additional Taxes, Motor Vehicle Tax, income or revenues to the pledge of this Resolution or confirm as further assurance any pledge or provision for payment of the 2009 Parity Bonds created by this Resolution and to make such confirming changes as shall be necessary or desirable in connection therewith, in each such case as are not contrary to or inconsistent with the limitations and restrictions in the Prior Resolution, this Resolution or any Series Resolution;

(vi) To specify the order of priority in which payments are to be made for purposes in the "Fifth" or "Seventh" category of Section 14(b);

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

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

(ix) To obtain or maintain a rating with respect to any Series of Parity Bonds or to modify the provisions of this Resolution to obtain from any Rating Agency a rating on any Series of Parity Bonds or any portion thereof which is higher than the rating which would be

B-43

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

(x) To modify any of the provisions of this Resolution in any other respect that does not materially and adversely affect the security for the payment of the Prior Bonds or any Parity Bonds and will not cause any Rating Agency to lower a rating on any Parity Bonds.

(b) Special Amendments. The Owners from time to time of the Outstanding 2009 Parity Bonds and any Future Parity Bonds, by taking and holding the same, shall be deemed to have consented to the adoption by the Authority of any Supplemental Resolution or Resolutions amendatory or supplemental to this Resolution for any one or more of the following purposes:

(i) To delete Section 25(b) of this Resolution and the corresponding provision of any Parity Bond Authorizing Resolution;

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

(iii) To permit federal credit payments scheduled to be received in any Fiscal Year in respect of Outstanding Build America Parity Bonds (other than federal credit payments received under a Payment Agreement) to be credited against Parity Bond Debt Service in calculating Annual Parity Bond Debt Service for that Fiscal Year; or

(iv) In satisfying the conditions to the issuance of Future Parity Bonds that will not be secured by the Parity Reserve Account, to disregard the requirement that an amount equal to the Parity Reserve Account Requirement (including for the Future Parity Bonds to be issued) be on deposit or otherwise provided for in the Parity Reserve Account on or prior to the date of issuance of such Future Parity Bonds.

(c) With Owners' Consent. This Resolution may be amended from time to time by a Supplemental Resolution approved by the Owners of a majority in aggregate principal amount of the Parity Bonds then Outstanding. So long as the payment of principal of and interest on the

2009 Parity Bonds is guaranteed by Bond Insurance, the provider of that Bond Insurance may exercise approval on behalf of all the Owners of the 2009 Parity 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 2009 Parity Bonds without its written consent.

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

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

Section 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 Parity Bond Account or Parity Reserve Account and such default is not remedied;

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

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

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

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

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

instruments in writing signed and acknowledged by such Owners or by their attorneys-in-fact duly authorized.

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

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

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

the Parity Bonds or any right of any Owner, or to authorize or empower the Parity Bondowners' Trustee to vote the claims of the Owners in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the Authority shall be a party.

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

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

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

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

In the event that at any time the funds held by the Parity Bondowners' Trustee and the Bond Registrar shall be insufficient for the payment of the principal of, premium, if any, and

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

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

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

(f) Relinquishment of Funds Upon Remedy of Default. If and whenever all overdue installments of interest on all Parity Bonds, together with the reasonable and proper charges, expenses and liabilities of the Parity Bondowners' Trustee and the Owners of Parity Bonds, their respective agents and attorneys, and all other sums payable by the Authority under this Resolution, including the principal of, premium, if any, and accrued unpaid interest on all Parity Bonds which shall then be payable, shall either be paid by or for the account of the Authority, or provision satisfactory to the Parity Bondowners' Trustee shall be made for such payment, and all Defaults under this Resolution or the Parity Bonds shall be made good or secured to the satisfaction of the Parity Bondowners' Trustee or provision deemed by the Parity Bondowners' Trustee to be adequate shall be made therefor, the Parity Bondowners' Trustee shall pay over to the Authority all money and securities then remaining unexpended and held by the Parity Bondowners' Trustee and thereupon all such funds shall thereafter be applied as provided in

this Resolution. No such payment over to the Authority by the Parity Bondowners' Trustee or resumption of the application of Pledged Taxes as provided in this Resolution shall extend to or affect any subsequent Default under this Resolution or impair any right consequent thereon.

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

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

Section 27. Continuing Disclosure. The Authority may provide for a continuing disclosure undertaking in the Bond Sale Resolution, and the Authority hereby agrees to comply with any such undertaking. The right of any Owner or beneficial owner of 2009 Parity Bonds to enforce any such undertaking shall be limited to a right to obtain specific enforcement of the Authority's obligations under such undertaking, and any failure by the Authority to comply with the provisions of any such undertaking shall not be a Default.

Section 28. Resolution a Contract. This Resolution shall constitute a contract with the Owners of the 2009 Parity 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 2009 Parity 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 2009 Parity Bonds, and executing contracts or other documents, is ratified, approved, and confirmed.

ADOPTED by the Board of The Central Puget Sound Regional Transit Authority at a regular meeting thereof held the 10th day of September, 2009.

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Gregory J. Nickels  
Board Chair

ATTEST:

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Marcia Walker  
Board Administrator

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## APPENDIX C

### FORM OF CONTINUING DISCLOSURE UNDERTAKINGS

*The following is a summary of the continuing disclosure undertakings with respect to the 2009 Prior Bonds and the 2009 Parity Bonds. Capitalized words or phrases which are not defined in this summary or conventionally capitalized have the meanings given such words or phrases in the 2009 Bond Resolutions.*

#### A. Contract/Undertakings.

Sound Transit will enter into undertakings (the “Undertakings”) constituting the written undertakings for the benefit of the beneficial owners of the 2009 Prior Bonds and the 2009 Parity Bonds in order to assist the Underwriters of the 2009 Prior Bonds and the 2009 Parity Bonds in complying with paragraph (b)(5) of Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. For purposes of the Undertakings, the term “holders of the 2009 Bonds” shall have the meaning intended for such term under the Rule.

Sound Transit undertakes to provide or cause to be provided, either directly or through a designated agent, to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

#### B. Financial Statements/Operating Data.

1. Annual Disclosure Report. Sound Transit covenants that not later than nine months after the end of each Fiscal Year (the “Submission Date”), commencing September 2010 for the fiscal year ending December 31, 2009, Sound Transit shall provide or cause to be provided to the MSRB an annual report (the “Annual Disclosure Report”) that is consistent with the requirements of part (2) of this subsection (B). The Annual Disclosure Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in part (2) of this subsection (B); provided, that any audited annual financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such audited annual financial statements are not available by the Submission Date. If Sound Transit’s Fiscal Year changes, Sound Transit shall give notice of such change in the same manner as notice is to be given of the occurrence of an event listed in subsection (C) hereof.

2. Content of Annual Disclosure Reports. Sound Transit’s Annual Disclosure Report shall contain or include by reference the following:

i. Audited financial statements. Audited financial statements, except that if any audited financial statements are not available by the Submission Date, the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for Sound Transit, and Sound Transit’s audited financial statements shall be filed in the same manner as the Annual Disclosure Report when and if they become available.

ii. Operating and Financial Information.

a. Aggregate principal amount of Prior Bonds, Parity Bonds and Junior Obligations Outstanding;

b. Amount of Local Option Taxes and Pledged Taxes levied and collected by type;

c. Any change (by type) in the rate or in the total amount of Local Option Taxes or Pledged Taxes that Sound Transit is authorized to levy; and

d. Sufficiency Test calculation if Sound Transit is required to comply with the Sufficiency Test.

Any or all of the items listed above may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the Securities and Exchange Commission.

Items listed in 2(ii) will be required to be provided separately to the MSRB only to the extent that such information is not included in the information provided pursuant to item 2(i) above.

C. Material Events. Sound Transit agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of the occurrence of any of the following events with respect to the 2009 Prior Bonds and the 2009 Parity 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 status of the 2009 Prior Bonds or the 2009 Parity Bonds;
- vii. Modifications to rights of the holders of the 2009 Prior Bonds or the 2009 Parity Bonds;
- viii. Optional, contingent or uncheduled 2009 Prior Bond or 2009 Parity Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856;
- ix. Defeasances;
- x. Release, substitution or sale of property securing the repayment of the Prior Bonds or the Parity Bonds; and
- xi. Rating changes.

D. Notice Upon Failure to Provide Financial Data. Sound Transit agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual financial information described in subsection (B) above on or prior to the date set forth in subsection (B) above.

The Undertakings are subject to amendment after the primary offering of the 2009 Prior Bonds and the 2009 Parity Bonds without the consent of any holder of any 2009 Prior Bond or 2009 Parity Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by the Rule. Sound Transit will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertakings and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

If Sound Transit fails to comply with the Undertakings, Sound Transit will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after Sound Transit learns of that failure. No failure by Sound Transit to comply with the Undertakings shall constitute a default with respect to the 2009 Prior

Bonds or the 2009 Parity Bonds. The sole remedy of any holder of a 2009 Prior Bond or 2009 Parity Bond will be to take such actions as that holder deems necessary and appropriate to compel Sound Transit to comply with the Undertakings.

E. Termination/Modification. Sound Transit's obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance (if notice of such defeasance is given as provided above) or payment in full of all of the 2009 Prior Bonds and 2009 Parity Bonds. The Undertakings, or any provision thereof, shall be null and void if Sound Transit (1) obtains an opinion of Bond Counsel to the effect that those portions of the Rule which require the Undertakings, or any such provision, have been repealed retroactively or otherwise do not apply to the 2009 Prior Bonds or the 2009 Parity Bonds; and (2) notifies the MSRB of such opinion and the cancellation of the Undertakings.

F. Designation of Official Responsible to Administer Undertakings. The Designated Representative of Sound Transit (or such other officer of Sound Transit who may in the future perform the duties of that office) or his or her designee is authorized and directed in his or her discretion to take such further actions as may be necessary, appropriate or convenient to carry out the Undertakings of Sound Transit in respect of the 2009 Prior Bonds and the 2009 Parity Bonds in accordance with the Rule, including the following actions:

- i. Preparing and filing the annual financial information undertaken to be provided;
- ii. Determining whether any event specified in subsection (A) has occurred, assessing its materiality with respect to the 2009 Prior Bonds or the 2009 Parity Bonds, and, if material, preparing and disseminating notice of its occurrence;
- iii. Determining whether any person other than Sound Transit is an "obligated person" within the meaning of the Rule with respect to the 2009 Prior Bonds or the 2009 Parity Bonds, and obtaining from such person an undertaking to provide any annual financial information and notice of material events for that person in accordance with the Rule;
- iv. Selecting, engaging and compensating designated agents and consultants, including financial advisors and legal counsel, to assist and advise Sound Transit in carrying out the Undertakings; and
- v. Effecting any necessary amendment of the Undertakings.

G. Additional Information. Nothing in the Undertakings shall be deemed to prevent Sound Transit from disseminating any other information, using the means of dissemination set forth in the Undertakings or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a material event, in addition to that which is required by the Undertakings. If Sound Transit chooses to include any information in any Annual Disclosure Report or notice of the occurrence of a material event in addition to that specifically required by the Undertakings, Sound Transit shall have no obligation under the 2009 Bond Resolutions to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a material event.

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## APPENDIX D

### 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 2008 population of the District is estimated to be 2.86 million, 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 2008, the Seattle-Bellevue-Everett-Tacoma metropolitan areas (approximately coextensive with the District boundaries) accounted for approximately 44% of the State's total employment. The District economy is diversified in the aerospace, manufacturing, trade, high technology, services, construction, tourism and government sectors.

**TABLE D-1  
POPULATION IN THE COUNTIES**

Year	King County	Pierce County	Snohomish County	Total
2008	1,884,200	805,400	696,600	3,386,200
2007	1,861,300	790,500	686,300	3,338,100
2006	1,835,300	773,500	671,800	3,280,600
2005	1,808,300	755,900	655,800	3,220,000
2004	1,788,300	744,000	644,800	3,177,100
2003	1,779,300	733,700	637,500	3,150,500
2002	1,774,300	725,000	628,000	3,127,300
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 2008, State Office of Financial Management; 1980, 1990 and 2000, U.S. Department of Commerce, Bureau of Census.

**TABLE D-2**  
**ANNUAL AVERAGE NONAGRICULTURAL EMPLOYMENT IN THE COUNTIES <sup>(1)</sup>**

	2008	2007	2006	2005	2004
Total <sup>(2)</sup>	1,757,100	1,739,500	1,687,400	1,635,500	1,591,200
Natural Resources and Mining	1,400	1,600	1,500	1,500	1,700
Construction	119,700	124,400	114,200	103,200	95,700
Manufacturing	187,200	187,400	180,900	171,100	164,300
Trade, Transportation and Utilities	325,600	325,200	319,200	314,300	309,100
Information	89,000	85,400	81,300	77,600	75,500
Financial Activities	101,700	103,900	105,200	103,600	103,600
Professional and Business Services	241,800	239,000	226,800	215,000	203,900
Education and Health Services	200,100	192,200	186,100	182,400	176,700
Leisure and Hospitality	164,800	162,700	156,900	152,700	148,400
Other Services	64,300	62,900	62,400	62,000	60,900
Government	261,400	255,000	253,000	252,100	251,500

(1) Not seasonally adjusted.

(2) Totals may not foot due to rounding.

Source: State Employment Security Department.

**TABLE D-3**  
**ANNUAL AVERAGE UNEMPLOYMENT IN THE COUNTIES <sup>(1)</sup>**

Year	King County		Pierce County		Snohomish County	
	Labor Force	% Unemployed	Labor Force	% Unemployed	Labor Force	% Unemployed
2009 <sup>(2)</sup>	1,106,640	7.5%	404,200	9.7%	381,990	9.1%
2008	1,088,440	4.3	395,040	5.7	372,120	5.1
2007	1,068,490	3.7	384,460	4.7	363,900	4.1
2006	1,047,740	4.1	374,600	5.1	359,580	4.5
2005	1,012,940	4.6	370,240	5.9	346,740	5.1
2004	995,930	5.1	362,120	7.0	338,510	5.8
2003	989,560	6.2	351,880	8.2	335,910	7.1

(1) Not seasonally adjusted.

(2) Through May 2009.

Source: State Employment Security Department.

**TABLE D-4  
MAJOR PRIVATE EMPLOYERS IN THE COUNTIES**

<u>Employer</u>	<u>Business Activity</u>
The Boeing Company	Aerospace manufacturer
Microsoft Corporation	Software developer
Wal-Mart	Retail chain
Providence Health System	Health-care services
Fred Meyer Stores	Retail grocery chain
Group Health Cooperative	Health-care services
MultiCare Health System	Health-care services
Costco Inc.	Membership warehouses
Weyerhaeuser Co.	Forest products
Alaska Air Group Inc.	Airline
Starbucks Corp.	Coffee Retailer
Safeway Inc.	Retail food stores
Lowe's	Home improvement retailer
Nordstrom Inc.	Department stores
Franciscan Health System	Health-care services
Swedish Health Services	Health-care services
Quest Communications	Telecommunications
Bank of America	Banking and financial services
Premera Blue Cross	Health Insurer
Quality Food Centers	Retail grocery chain
Safeco Corporation	Insurance and financial services
Virginia Mason Medical Center	Health-care services
Paccar Inc.	Heavy duty truck manufacturer
Philips Medical Systems	Ultrasound technology
Verizon Communications	Telecommunications
Goodrich Corp.	Commercial aircraft repair

*Sources:* December 29, 2008 Supplement to *Puget Sound Business Journal* The Book of Lists; Snohomish County Economic Development Council; Economic Development Board for Tacoma-Pierce County.

**TABLE D-5  
PERSONAL INCOME IN THE COUNTIES  
(\$000s)**

<u>Year</u>	<u>King County</u>	<u>Pierce County</u>	<u>Snohomish County</u>
2007	\$106,805,000	\$28,950,000	\$27,180,000
2006	97,750,000	27,150,000	24,958,000
2005	89,032,000	25,028,000	22,799,000
2004	88,408,000	23,426,000	21,333,000
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	19,417,000
2000	77,271,000	19,416,000	18,515,000

*Source:* U.S. Bureau of Economic Analysis.



**TABLE D-6**  
**PER CAPITA INCOME IN THE COUNTIES**

<u>Year</u>	<u>King County</u>	<u>Pierce County</u>	<u>Snohomish County</u>
2007	\$57,710	\$37,446	\$40,302
2006	53,488	35,551	37,658
2005	48,488	33,406	35,125
2004	49,670	31,604	33,349
2003	44,800	30,202	31,902
2002	44,217	29,519	31,604
2001	43,764	28,905	31,256
2000	44,424	27,582	30,396

*Source:* U.S. Bureau of Economic Analysis.

**APPENDIX E**

**FORMS OF BOND COUNSEL OPINIONS**

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[Closing Date]

The Central Puget Sound Regional Transit Authority

Re: The Central Puget Sound Regional Transit Authority  
Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-1  
Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-2T  
(Taxable Build America Bonds—Direct Payment)

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 “2009 Prior Bonds”), consisting of the Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-1 (the “2009P-1 Prior Bonds”) and the Sales Tax and Motor Vehicle Excise Tax Bonds, Series 2009P-2T (Taxable Build America Bonds—Direct Payment) (the “2009P-2T Prior Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The 2009 Prior Bonds are issued by the Authority pursuant to Resolution No. R98-47, as amended, including as amended and restated by Resolution No. R2009-15, and Resolution No. R2009-17 (together, the “2009 Prior Bond Resolutions”), to provide funds to finance part of the cost of carrying out the Authority’s regional transit system plan, to refund a portion of the 2005A Bonds, to fund a portion of the Prior Reserve Account Requirement and to pay the costs of issuing the 2009 Prior Bonds, all as set forth in the 2009 Prior Bond Resolutions. Reference is made to the 2009 Prior Bond Resolutions for the definitions of capitalized terms used and not otherwise defined herein.

The 2009 Prior Bonds are payable solely out of the Prior Bond Account, into which account the Authority irrevocably has pledged and bound itself to deposit Local Option Taxes in an amount sufficient to pay principal of and interest on the 2009 Prior Bonds as they respectively become due, all at the times and in the manner set forth in the 2009 Prior Bond Resolutions.

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

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the 2009 Prior Bonds or otherwise used in connection with the 2009 Prior Bonds.

Under the Internal Revenue Code of 1986, as amended (the “Code”), the Authority is required to comply with certain requirements after the date of issuance of the 2009P-1 Prior Bonds in order to maintain the exclusion of the interest on the 2009P-1 Prior Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2009P-1 Prior Bond proceeds and the facilities financed or refinanced with 2009P-1 Prior Bond proceeds, limitations on investing gross proceeds of the 2009P-1 Prior Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2009P-1 Prior Bonds. The Authority has covenanted in the 2009 Prior Bond Resolutions to comply with those requirements with respect to the 2009P-1 Prior Bonds, but if the Authority fails to comply with those requirements, interest on the 2009P-1 Prior Bonds could become taxable retroactive to the date of issuance of the 2009P-1 Prior Bonds. We have not undertaken and do not undertake to monitor the Authority’s compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the 2009 Prior Bonds to the purchasers thereof and full payment therefor, it is our opinion that under existing law:

1. The Authority is a duly organized and legally existing regional transit authority under the laws of the State of Washington;
2. The 2009 Prior Bonds have been duly authorized and executed by the Authority and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the resolutions of the Authority relating thereto;
3. The 2009 Prior Bonds constitute valid and binding special limited obligations of the Authority, payable from and secured solely by Local Option Taxes and amounts, if any, in the Local Option Tax Accounts, the Prior Bond Account, the Prior Reserve Account and any project account created for the deposit of Prior Bond proceeds, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases;
4. Assuming compliance by the Authority after the date of issuance of the 2009P-1 Prior Bonds with applicable requirements of the Code, the interest on the 2009P-1 Prior Bonds is excluded from gross income for federal income tax purposes and is not subject to the federal alternative minimum tax, however interest on the 2009P-1 Prior Bonds received by certain S corporations may be subject to tax, and interest on the 2009P-1 Prior Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the 2009P-1 Prior Bonds; and
5. The Authority, in the 2009 Prior Bond Resolutions, has declared its intention that interest on the 2009P-2T Prior Bonds be includable in gross income for federal income tax purposes.

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

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

[Closing Date]

The Central Puget Sound Regional Transit Authority

Re: The Central Puget Sound Regional Transit Authority  
Sales Tax Bonds, Series 2009S-2T (Taxable Build America Bonds—Direct Payment)

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, consisting of the Sales Tax Bonds, Series 2009S-2T (Taxable Build America Bonds—Direct Payment) (the “2009 Parity Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The 2009 Parity Bonds are issued by the Authority pursuant to Resolution No. R2009-16 and Resolution No. R2009-18 (together, the “2009 Parity Bond Resolutions”), to provide funds to finance part of the cost of carrying out the Authority’s regional transit system plan and to pay the costs of issuing the 2009 Parity Bonds, all as set forth in the 2009 Parity Bond Resolutions. Reference is made to the 2009 Parity Bond Resolutions for the definitions of capitalized terms used and not otherwise defined herein.

The 2009 Parity Bonds are payable solely out of the Parity Bond Account, into which account the Authority irrevocably has pledged and bound itself to deposit Pledged Taxes in an amount sufficient to pay principal of and interest on the 2009 Parity Bonds as they respectively become due, all at the times and in the manner set forth in the 2009 Parity Bond Resolutions.

The pledge for the payment of the 2009 Parity Bonds of the Pledged Taxes and amounts in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount and earnings thereon, to the extent amounts and earnings in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount represent revenues from Pledged Taxes, is a prior charge superior to all other charges of any kind or nature, except the charge of the Prior Bonds on Local Option Taxes, and equal to the charge of any other Parity Bonds. The pledge for the payment of the 2009 Parity Bonds of amounts in the Parity Bond Account, the Additional Taxes Accounts and proceeds of the 2009 Parity Bonds deposited in any account created for the deposit of 2009 Parity Bond proceeds is a charge equal to the charge of any other Parity Bonds and superior to all other charges of any kind or nature.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the 2009 Parity Bonds or otherwise used in connection with the 2009 Parity Bonds.

Based upon the foregoing, as of the date of initial delivery of the 2009 Parity Bonds to the purchasers thereof and full payment therefor, it is our opinion that under existing law:

1. The Authority is a duly organized and legally existing regional transit authority under the laws of the State of Washington;
2. The 2009 Parity Bonds have been duly authorized and executed by the Authority and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the resolutions of the Authority relating thereto;

3. The 2009 Parity Bonds constitute valid and binding special limited obligations of the Authority, payable from and secured solely by Pledged Taxes and amounts, if any, in the Parity Bond Account, the Local Option Tax Accounts, the Additional Taxes Accounts, the Tax Stabilization Subaccount and any project account created for the deposit of Parity Bond proceeds, subject to the prior pledge of money in the Local Option Tax Accounts and the Tax Stabilization Subaccount that has been created in favor of the Prior Bonds, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases; and
4. The Authority, in the 2009 Parity Bond Resolutions, has declared its intention that interest on the 2009S-2T Prior Bonds be includable in gross income for federal income tax purposes.

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

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



## APPENDIX F

### DTC AND ITS BOOK-ENTRY SYSTEM

*The information in this appendix has been furnished by DTC and has not been independently verified by Sound Transit or the Underwriters. Neither Sound Transit nor the Underwriters makes any representation as to the accuracy, adequacy or completeness of such information.*

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2009 Bonds. The 2009 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 2009 Bond certificate will be issued for each series and maturity of the 2009 Bonds, each in the aggregate principal amount of such series and maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2009 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 2009 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 2009 Bonds, except in the event that use of the book-entry system for the 2009 Bonds is discontinued.

To facilitate subsequent transfers, all 2009 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 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial DTC Owners of the 2009 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2009 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 2009 Bonds within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series and maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2009 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 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the 2009 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 2009 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, 2009 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, 2009 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.



