# Essential Work

## 2019 Sound Transit Annual Report

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Also, throughout the report, look for underlined text that links to additional information.

Future light rail bridge in place over I-405 in Downtown Bellevue.

SOUNDTRANSIT

Downtown Bellevue tunnel construction.

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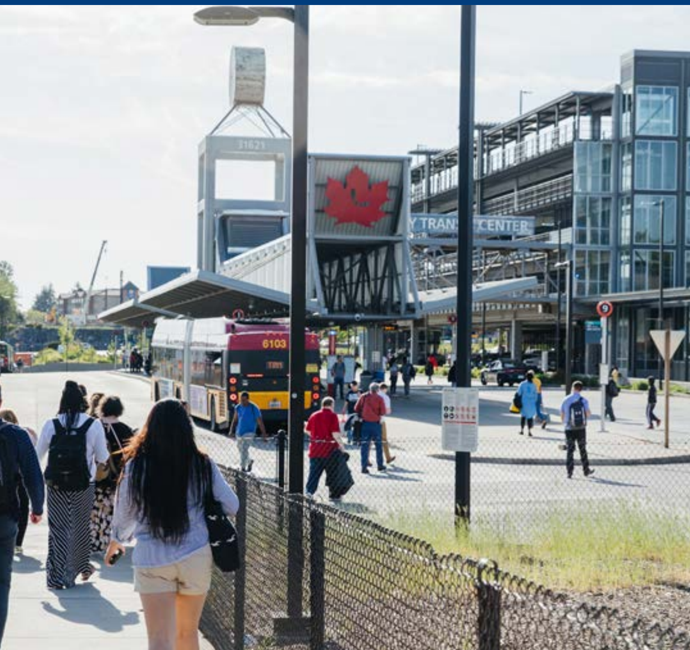
# In 2019, Sound Transit meant business.



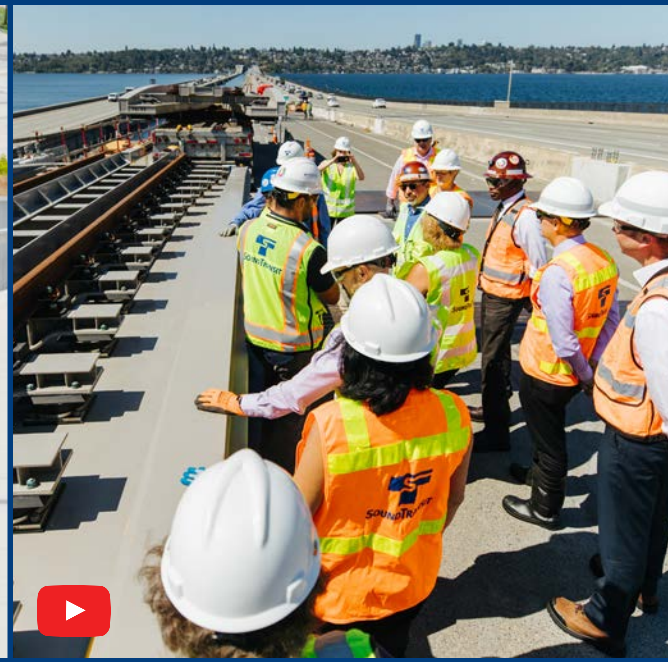
**FFGA for Federal Way** Our record of success means we've earned the trust and confidence of partners like the FTA who decided to invest in our future by approving a $790 million Full Funding Grant Agreement for our 7.8 mile Federal Way Link Extension.

**Ballard, Tacoma, and West Seattle Link Extensions are getting real.** Hundreds of hours of stakeholder meetings and staff analysis means key Board votes on expansion.


**Groundbreaking on Expansion Projects** Historic groundbreakings in Snohomish County and Downtown Redmond mean a truly regional light rail network is no longer just a concept.

**Tree Replacement Program** New light rail construction North into Snohomish County means we're planting 4,000 new trees as we build Lynnwood Link.

**System Access Fund** Awarding $40 million to projects such as safe sidewalks and protected bike lanes that improve non-motorized access to stations means we're partnering with jurisdictions regionwide on their priorities.



**Crews begin critical construction phase in world's first floating bridge rail corridor** Laying rail bridges in place on the I-90 floating bridge means light rail is on track to reach the East Side in 2021.


**Next Gen Light Rail Vehicles** Tripling our fleet by 2024 with Siemens' upgraded light rail cars means we will be able to add tens of thousands of new Link riders when we open Northgate Link in 2021 and hundreds of thousands of new riders when we expand to a 60-mile, 50 station network in 2024.


**New Reserved Parking Spots** Growing demand means we've started adding reserved parking for Sounder commuters and future commuters.

Light rail en route near the Othello Station.

# *Message from the* **Board Chair**

After serving three years as a member of the Sound Transit Board, I was honored to be elected Chair in late 2019. As I begin my term in 2020 during an unprecedented pandemic, Board leadership is more important than ever.

Sound Transit's Board has demonstrated success acting as a steward of the public's investment in regional transit expansion. Our stewardship role guided the agency again in 2019. With fiscal responsibility as the governing principle, the Board made a number of key decisions last year to advance the voter mandate for regional transit.  Notably, in 2019, we advanced our Tacoma Dome Link Extension and West Seattle Ballard Link Extension alternatives to the formal environmental review stage with language requiring third-party funding to cover any expansions of assumed project scopes.

> ***... the FTA's confidence in Sound Transit capping the year has given us a solid starting point to continue our essential work advancing projects during the pandemic and economic downturn. I look forward to that work.***

Similar instances of wise financial oversight defined Board activity all year. We approved two major design-build construction contracts, one for our Downtown Redmond Link Extension project and another for our Federal Way Link Extension Project. We approved $40 million in local system access fund projects, after vetting $86 million in requests. We reviewed the agency's FTA application for a $790 million Federal Way Link Extension Full Funding Grant Agreement. Our federal partners approved that application in December.

That inspiring conclusion to 2019 may seem like a distant memory in 2020. However, the FTA's confidence in Sound Transit capping the year has given us a solid starting point to continue our essential work advancing projects during the pandemic and economic downturn. I look forward to that work.

Regards,

Kent D. Keel
*Sound Transit Board Chair*

*Message from the*

# Chief Executive Officer

Workers at Northgate Light Rail Station construction Site.

As I look back, I can't help but view the agency's 2019's accomplishments through the lens of the current COVID-19 pandemic. The current crisis makes me realize the important system expansion work we completed last year can also be a route to the region's economic recovery.

In 2019, we hit a number of milestones on our ambitious schedule to more than double the region's light rail system in the next five years. For starters, two groundbreakings—one to the north in Snohomish County and another to the east in Redmond—set us on course to construct a regional network that will cross county boundaries and connect our region's multiple economic centers. We also signed a $790 million grant agreement with our Federal Transit Administration partners, setting us up to break ground on the Federal Way Link Extension. This brought us a step closer to building a seamless light rail network south into Pierce County

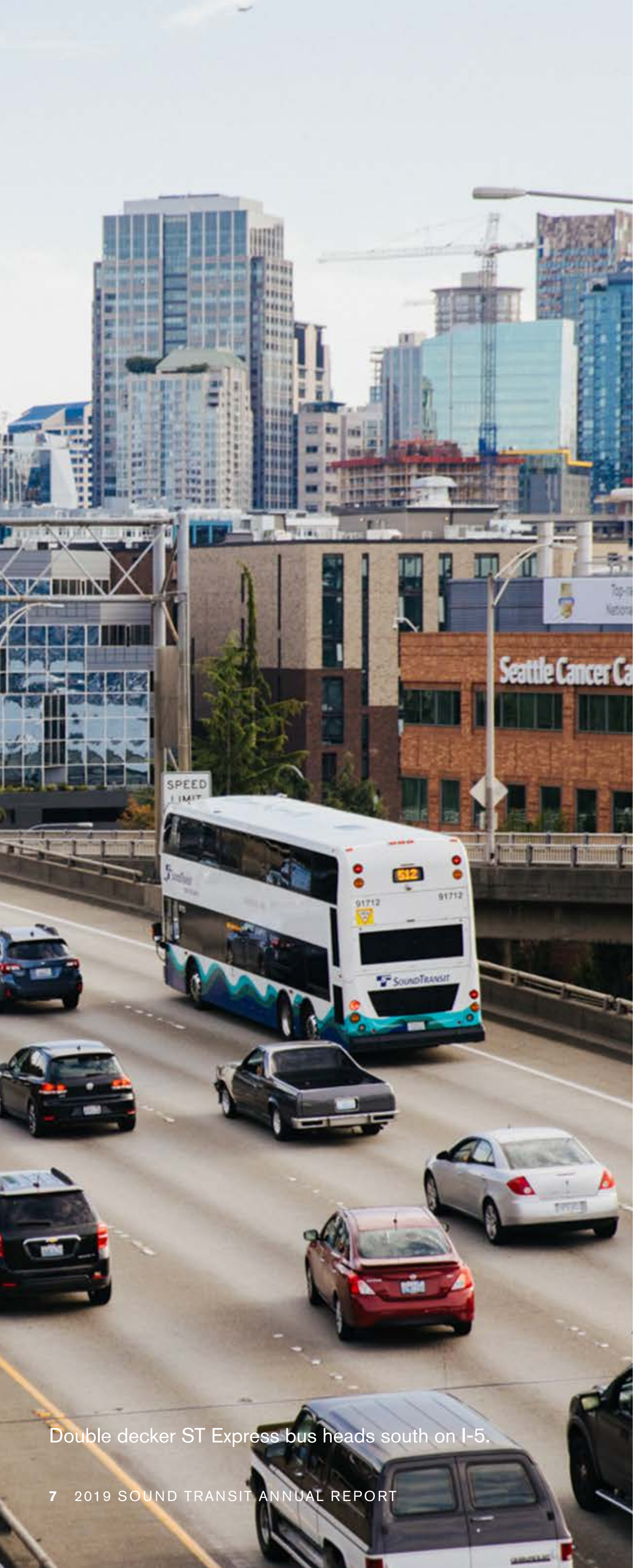
***In 2019, Sound Transit's integrated three-county system began to emerge. Continuing to build that essential regional system provides an opportunity to also help the region emerge from the current economic crisis.***

Several other 2019 milestones complimented this work. We selected preferred alternatives for our Tacoma, West Seattle and Ballard extensions. We introduced a new Sounder priority parking program. Siemens delivered the first installment of new upgraded light rail vehicles that will ultimately triple our fleet and serve as the backbone of an expanded 28-station light rail system by 2024.

The common denominator of these highlights is clear: In 2019, Sound Transit's integrated three-county system began to emerge. Continuing to build that essential regional system provides an opportunity to also help the region emerge from the current economic crisis.

Peter Rogoff
*Sound Transit CEO*

# Sound Transit
# Future Service




Double decker ST Express bus heads south on I-5.

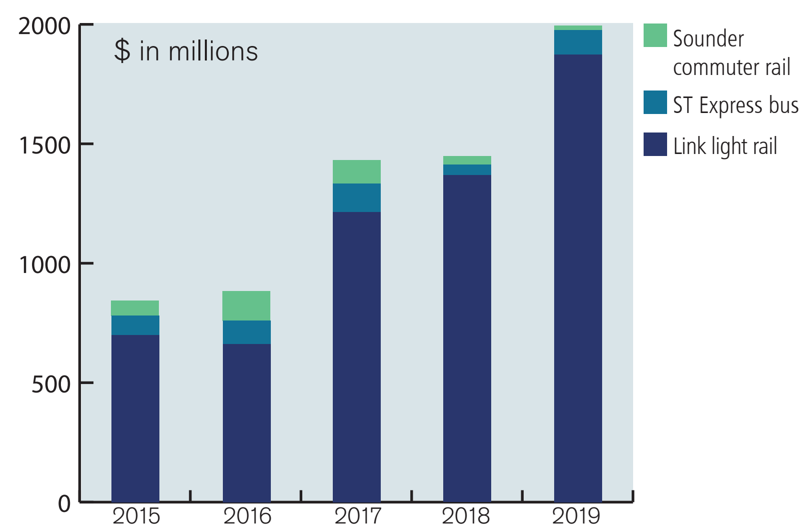
# Financial and operating highlights

In 2019, Sound Transit made significant progress on voter-approved capital projects, including the East Link, Federal Way Link, Northgate Link and Lynnwood Link light rail extensions, and the Operations Maintenance Facility East along with other projects. 2019 capital project spending totaled approximately $2.0 billion.

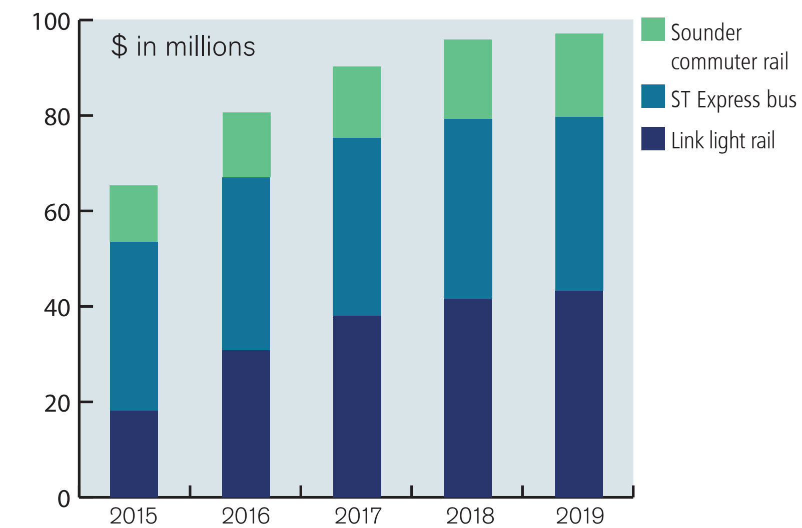
2019 ridership across the entire Sound Transit system was comparable to 2018 ridership (approximately 47.8 million), while fare revenue increased slightly by 1.1%, or $1.1 million, to $97.1 million. Total operating expenses in 2019 increased 8.9%, or $44.4 million, to $545.6 million. The increase was largely driven by higher costs associated with our transportation partners. Sound Transit's net operating subsidy in 2019 was $440.4 million.

Voter-approved sales, use, motor vehicle excise and property taxes were the primary 2019 funding sources for Sound Transit's capital expansion and operating subsidy. These non-operating revenues, net of expenses, were approximately $1.9 billion. Grant revenues also contributed approximately $260.4 million in 2019, primarily related to federal grants for Lynnwood Link Extension and Tacoma Link extension.

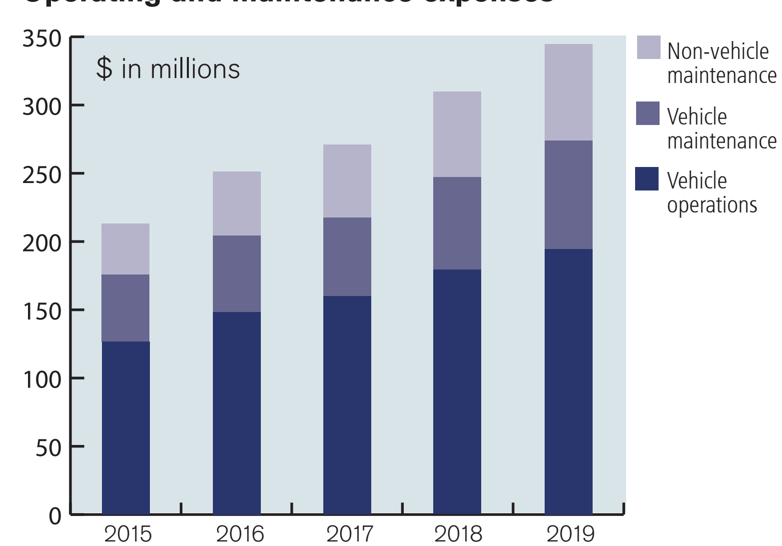
### Capital expense by line of business



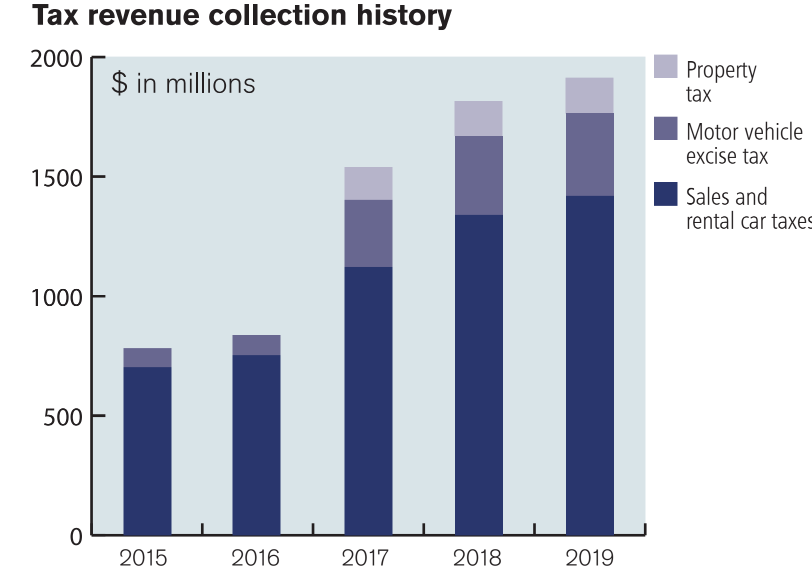

### Fare revenue




### Operating and maintenance expenses




### Tax revenue collection history



# Statement of management's responsibility

The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit or the agency) have been prepared from its 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 2019 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.

Peter M. Rogoff
*Chief Executive Officer*

Tracy Butler
*Chief Financial Officer*

Jeff Clark
*Deputy Executive Director*
*Financial Operations Controller*



Link departs Columbia City Station.

MOSSADAMS

# Report of Independent Auditors

Finance and Audit Committee
Central Puget Sound Regional Transit Authority

## Report on the Financial Statements

We have audited the accompanying financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit), which comprise the statement of net position as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

*Required Supplementary Information*

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

Moss Adams LLP

Seattle, Washington
May 22, 2020

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## For the years ended December 31, 2019 and 2018

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of Sound Transit for the years ended December 31, 2019 and 2018. 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 notes to the financial statements as a whole.

Sound Transit is a regional transit authority implementing and operating a high-capacity transportation system throughout parts of King, Pierce and Snohomish counties including commuter rail (Sounder), light rail (Link), a regional express bus system (ST Express) and a bus rapid transit system (Stride). Sound Transit was established by the legislature in 1993, and authorized to collect taxes to fund, build and operate a comprehensive transit system by voter approved plans in 1996 (Sound Move), 2008 (ST2) and 2016 (ST3).

*Sound Move* – a 10-year regional transit system plan, which authorized tax collections to fund operations and the first set of regional transit projects was completed in 2016. *ST2* – a 15-year program authorizing additional tax collections to fund additional bus and commuter rail service, as well as 36 miles of new Link light rail service, continues to progress. *ST3* – a 25-year program authorizing additional tax collections and a new property tax to fund 62 new miles of light rail, bus rapid transit, expanded capacity and service on Sounder south line, ST Express bus service and improved access to stations is now underway.

Sound Transit's financial statements reflect an increase in net position of $1.7 billion in 2019. The increase reflects continued progress on the voter approved capital expansion programs funded via tax revenues - driven by the strong regional economy. The 2018 net position grew by $1.7 billion, also reflecting progress on the voter approved capital expansion programs and new voter approved tax funding.

## Financial highlights

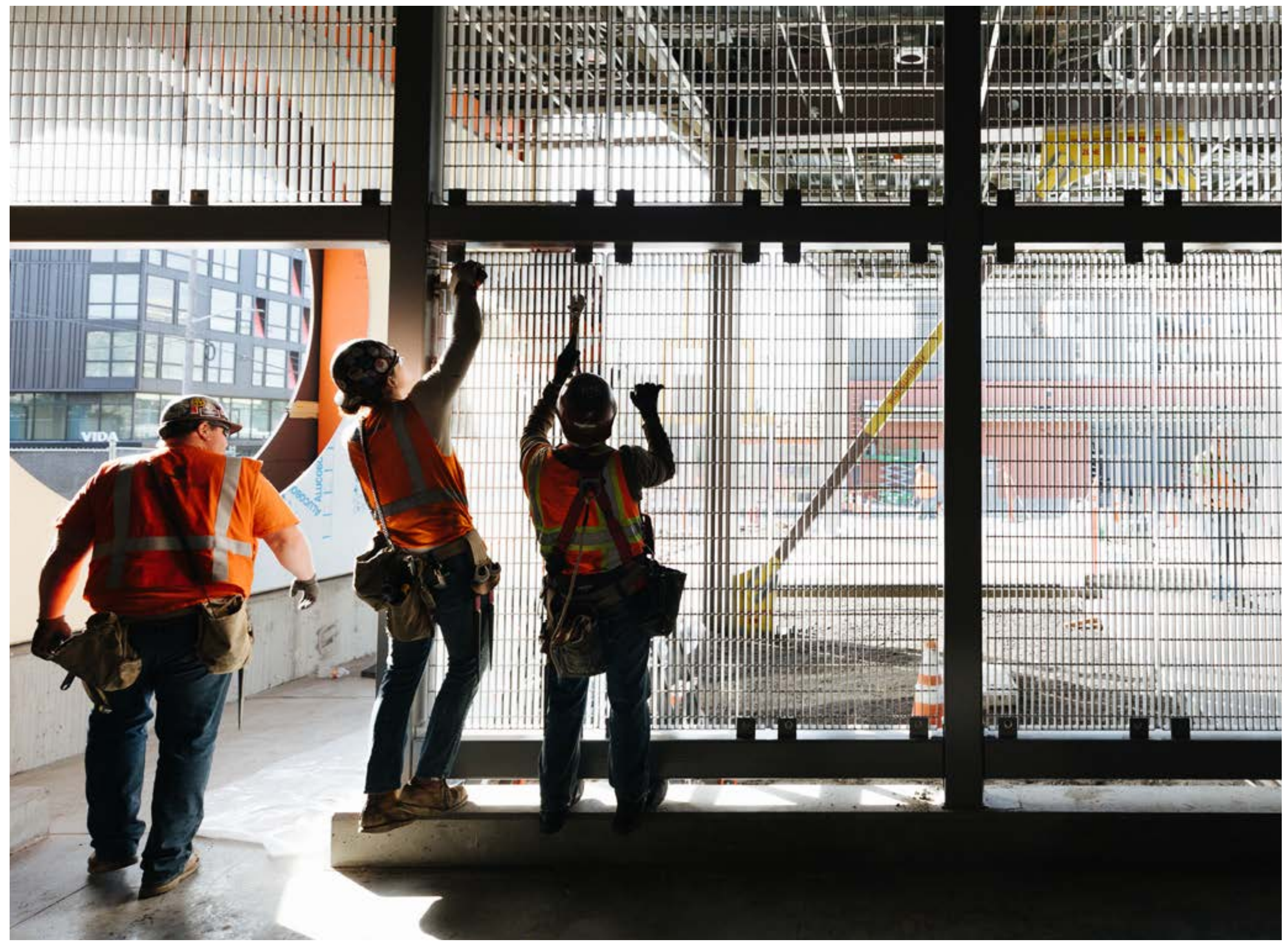
- System expansion continued in all corridors (North, Central, South and East) and across all modes, most significantly light rail in 2019 and 2018. Capital assets increased 17.2% in 2019 as a result of $2,023.8 million of capital project spending related primarily to the East, Federal Way, Northgate and Lynnwood Link extension projects, as well as the Operations Maintenance Facility East project. Non-operating revenues, net of expenses, were $1,897.0 million, a 2.6% increase from 2018, primarily due to increases in sales, use and motor vehicle excise tax revenues driven by the strength of the regional economy and increased interest income earned on investments, partially offset by the recognition of interest expense.
- Capital contributions from federal, state and local funding arrangements were $260.4 million, a net increase from 2018 of $26.1 million or 11.2%, primarily reflecting increased grant revenue associated with the full funding grant agreements for Lynnwood and Tacoma Link extension projects.
- Total operating subsidy increased by $42.2 million or 10.6% to $440.4 million due to primarily to higher costs associated with purchased transportation, partially offset by a small increase in passenger fare revenue.
- Total net position at December 31, 2019 was $12.0 billion, an increase of 16.7% from 2018, primarily reflecting progress on the capital expansion programs, partially offset by increases in operating expenses.

## Overview of the financial statements

Sound Transit's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The 2019 and 2018 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, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of Sound Transit are included in the Statements of Net Position. Depreciation and amortization of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Position.

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 position, segregated by net investment in capital assets, restricted and unrestricted. Net position is the difference between Sound Transit's assets, deferred outflows of resources, liabilities and deferred inflows of resources 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.



Workers install bike cage at future Roosevelt Station.

## Net position

Sound Transit's net position represents the cumulative effect of the excess of revenues over expenses together with the impact of Sound Transit's financing decisions.

Sound Transit's total net position at December 31, 2019 was $12.0 billion, an increase of $1.7 billion or 16.7% from 2018. Total assets increased $1.9 billion or 14.7% and total liabilities increased $214.7 million or 7.5%. The increase in total assets primarily reflects the continued capital program spending funded by tax revenues.

The table below summarizes Sound Transit's net position:

**Statements of net position**

| *(in millions)* | 2019 | December 31 2018 | 2017 | % Change 2019-2018 | 2018-2017 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets, excluding restricted assets | $ 1,988.4 | $ 2,178.9 | $ 1,731.9 | (8.7)% | 25.8% |
| Restricted assets | 108.9 | 97.3 | 94.7 | 12.0 | 2.8 |
| Capital assets | 12,231.3 | 10,436.0 | 9,130.1 | 17.2 | 14.3 |
| Other non-current assets | 713.7 | 397.8 | 393.6 | 79.4 | 1.1 |
| **Total assets** | **15,042.3** | **13,110.0** | **11,350.3** | **14.7** | **15.5** |
| **Deferred outflows of resources** | **33.0** | **33.6** | **37.1** | **(1.8)** | **(9.5)** |
| **Liabilities** | | | | | |
| Current liabilities, excluding interest payable from restricted assets | 519.1 | 352.7 | 288.2 | 47.2 | 22.4 |
| Interest payable from restricted assets | 27.0 | 24.9 | 23.9 | 8.2 | 4.2 |
| Long-term debt | 2,443.7 | 2,398.2 | 2,393.1 | 1.9 | 0.2 |
| Other long-term liabilities | 71.1 | 70.4 | 69.2 | 1.0 | 1.7 |
| **Total liabilities** | **3,060.9** | **2,846.2** | **2,774.4** | **7.5** | **2.6** |
| **Net position** | | | | | |
| Net investment in capital assets | 9,625.5 | 7,831.0 | 6,738.6 | 22.9 | 16.2 |
| Restricted net position | 75.3 | 70.5 | 69.3 | 6.9 | 1.7 |
| Unrestricted net position | 2,313.6 | 2,395.9 | 1,805.1 | (3.4) | 32.7 |
| **Total net position** | **$ 12,014.4** | **$ 10,297.4** | **$ 8,613.0** | **16.7%** | **19.6%** |

**Current assets, excluding restricted assets**, decreased from the prior year by 8.7% in 2019 and increased from the prior year by 25.8% in 2018. The decrease in 2019 was primarily due to the use of cash to support capital activities and non-current investments. The increase in 2018 relates to higher cash, investments and tax receivables resulting from increased sales and use and motor vehicle excise tax revenues, which benefited from a growing regional economy and exceeded capital expenditures.

**Capital assets** increased 17.2% from 2018 and 14.3% between 2018 and 2017. Total capital project spending for 2019 was $2,023.8 million, versus $1,469.0 million in 2018, reflecting increased construction spending on the various Link extension projects, as well as the Operations Maintenance Facility East project. In 2018 capital spending was 1.5% higher than 2017 reflecting continued construction spending on the East Link extension, the Operations Maintenance Facility East and light rail vehicles for ST3.

Total capital spending for light rail in 2019 was $1,874.0 million or 92.6% of total capital spending ($1,368.4 million or 93.1% in 2018). Capital spending on Sounder and Regional Express projects, as a percentage of total capital spending, was 0.9% and 5.0%, respectively (2.4% and 3.1% in 2018).

**Deferred outflows of resources** includes the excess of the price paid on debt refunding and the net carrying amount of the old debt, which is amortized over the remaining life of the old debt or the new debt, whichever is shorter, and the unamortized deferred outflow of costs related to asset retirement obligations.

**Total liabilities** increased 7.5% between 2019 and 2018; and 2.6% between 2018 and 2017 primarily due to the increase in current liabilities and long-term debt in the form of Transportation Infrastructure Finance and Innovation Act (TIFIA) loans. Current liabilities, excluding interest payable from restricted assets, increased $166.4 million or 47.2% in 2019 and $64.3 million or 22.4% in 2018, both reflective of increased spending on planning, construction and operating costs. An additional $100 million was borrowed under the TIFIA loan program in 2019.

**Net investment in capital assets** reflects investment in construction in progress, non-depreciable assets and depreciable assets, net of related debt used to support the capital program. Net investment in capital assets increased 22.9% from 2019 and 16.2% between 2018 and 2017 as capital program spending continued to increase, net of debt.

**Restricted net position** is comprised of assets net of liabilities restricted by contract or resolution for a specific purpose related to a third party. Restricted net position is comparable between years presented.

**Unrestricted net position** is the remainder of assets net of liabilities not invested in capital assets nor contractually restricted for a specific purpose. Unrestricted net position decreased 3.4% in 2019, as capital spending increased faster than cash and investments during the same period, and increased 32.7% in 2018 reflecting the increase in cash and investments from higher tax revenues.

## Changes in net position

Changes in net position reflect the excess or deficit of revenues over expenses for a given year. In 2019, revenues exceeded expenses by $1,717.0 million, an increase from the prior year of 1.9%. In 2018 revenues exceeded expenses by $1,684.4 million, a 30.4% increase from 2017. The 2019 increase primarily reflects regional economic growth, which drives tax revenues, and exceeded the growth in expenses during the year. The 2018 increases reflect the additional and new taxes approved by the voters as a part of the ST3 ballot initiative.


Sounder riders arrive at Edmonds Station.

Sound Transit's Statement of Revenue, Expenses and Changes in Net Position is summarized in the table below:

**Changes in net position**

| *(in millions)* | For the year ended December 31 2019 | 2018 | 2017 | % Change 2019-2018 | 2018-2017 |
|---|---|---|---|---|---|
| **Operating revenues** | | | | | |
| Passenger fares | $ 97.1 | $ 96.0 | $ 90.3 | 1.1% | 6.3% |
| Other | 8.1 | 7.0 | 6.2 | 15.8 | 12.7 |
| **Total operating revenues** | **105.2** | **103.0** | **96.5** | **2.1** | **6.7** |
| **Operating expenses** | | | | | |
| Total operating expenses, before depreciation | 369.2 | 334.1 | 289.2 | 10.5 | 15.5 |
| Depreciation and amortization | 176.4 | 167.1 | 160.4 | 5.6 | 4.1 |
| **Total operating expenses** | **545.6** | **501.2** | **449.6** | **8.9** | **11.5** |
| **Loss from operations** | **(440.4)** | **(398.2)** | **(353.1)** | **10.6** | **12.8** |
| Non-operating revenues, net of expenses | 1,897.0 | 1,848.3 | 1,273.4 | 2.6 | 45.2 |
| **Income before capital contributions** | **1,456.6** | **1,450.1** | **920.3** | **0.4** | **57.6** |
| Capital contributions | 260.4 | 234.3 | 371.9 | 11.2 | (37.0) |
| **Change in net position** | **1,717.0** | **1,684.4** | **1,292.2** | **1.9** | **30.4** |
| Total net position, beginning | 10,297.4 | 8,613.0 | 7,320.8 | 19.6 | 17.7 |
| **Total net position, ending** | **$ 12,014.4** | **$ 10,297.4** | **$ 8,613.0** | **16.7%** | **19.6%** |

## Operating revenues

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

## Passenger fare revenue

Passenger fares are derived from the sale of Sounder commuter rail and Link light rail tickets at ticket vending machines (TVMs), fare box receipts on ST Express and use of One Regional Card for All (ORCA) products on all modes. Fares are charged on each service, except Tacoma Link. Passenger fare revenue increased 1.1% and 6.3% in 2019 and 2018, respectively. Increases in 2019 are primarily due to continued boardings growth on Link, growth in the ORCA Business Passport program, and the introduction of the Permit Parking program. Increases in 2018 are primarily due to continued growth in ridership from system expansions such as the opening of the University Link and Angle Lake light rail extensions in March and September 2016, respectively and the full-year impact of two new round trips added to Sounder south line in September 2017. The continued growth in ridership on Link in conjunction with a higher average fare per boarding (AFB) on all modes, contributed to the increases. In 2019 Link contributed 44.6% of total passenger fare revenue, ST Express contributed 37.5% and Sounder commuter rail contributed 17.9%.

Passenger fare revenue by mode are as follows:

**Passenger fare revenue**

| *(in millions)* | 2019 | 2018 | 2017 | % Change 2019-2018 | 2018-2017 |
|---|---|---|---|---|---|
| Link | $ 43.3 | $ 41.6 | $ 38.0 | 4.1% | 9.5% |
| ST Express | 36.4 | 37.7 | 37.3 | (3.4) | 1.2 |
| Sounder | 17.4 | 16.7 | 15.0 | 4.0 | 11.3 |
| **Total** | **$ 97.1** | **$ 96.0** | **$ 90.3** | **1.1%** | **6.3%** |

## Ridership

Sound Transit provided 47.8 million rides in 2019, a slight decrease of 0.8%, compared to 48.2 million rides in 2018. Changes in ridership by mode were as follows:

- Link ridership increased 1.3% from 2019 and 5.8% between 2018 and 2017. The 2019 and 2018 growth reflected the continued maturation related to the opening of the University Link extension in March 2016, servicing the high-density area of Capitol Hill. 2018 also benefited from the opening of the Angle Lake extension in September 2016, together with the addition of a parking garage at the Angle Lake station, adding capacity to the southernmost terminus.

- ST Express ridership decreased 3.8% from 2018 and 1.0% between 2018 and 2017. Both years were affected by East Link construction impacting routes. 2019 was also affected by the shift of buses to surface streets from the Downtown Seattle Transit Tunnel (DSTT) and winter weather.

- Sounder commuter rail ridership in 2019 was comparable to 2018 and increased 4.2% between 2018 and 2017. The 2018 increase reflects the full-year impact from adding two mid-day round trips in 2017 on the South line between Lakewood and Seattle.

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

**Ridership**

| *(in millions)* | 2019 | 2018 | 2017 | % Change 2019-2018 | 2018-2017 |
|---|---|---|---|---|---|
| Link | 25.7 | 25.4 | 24.0 | 1.3% | 5.8% |
| ST Express | 17.5 | 18.2 | 18.4 | (3.8) | (1.0) |
| Sounder | 4.6 | 4.6 | 4.4 | - | 4.2 |
| **Total** | **47.8** | **48.2** | **46.8** | **(0.8)%** | **3.0%** |

## Average fare per boarding (AFB)

The combined AFB increased by 1.4% in 2019 primarily driven by ORCA Business Passport renewal pricing, which was partially offset by additional reduced fare programs.

**Average fare per boarding**

| | 2019 | 2018 | 2017 | % Change 2019-2018 | % Change 2018-2017 |
|---|---|---|---|---|---|
| Link | $ 1.73 | $ 1.70 | $ 1.65 | 1.5% | 2.9% |
| ST Express | 2.08 | 2.07 | 2.03 | 0.4 | 2.2 |
| Sounder | 3.76 | 3.60 | 3.38 | 4.5 | 6.4 |
| **Combined average fare per boarding** | **$ 2.06** | **$ 2.03** | **$ 1.97** | **1.4%** | **3.0%** |

## Other operating revenues

Other operating revenues consist of vehicle advertising, insurance recoveries, rental of facilities, operating grants and other miscellaneous revenue.

## Operating expenses

**Operating expenses**

| *(in millions)* | 2019 | 2018 | 2017 | % Change 2019-2018 | % Change 2018-2017 |
|---|---|---|---|---|---|
| **Operating expenses** | | | | | |
| Vehicle operations | $ 194.5 | $ 179.0 | $ 160.0 | 8.7% | 11.8% |
| Vehicle maintenance | 79.3 | 67.8 | 57.4 | 16.9 | 18.2 |
| Non-vehicle maintenance | 70.7 | 62.9 | 53.8 | 12.5 | 16.9 |
| Agency administration | 16.0 | 14.1 | 10.7 | 13.7 | 32.0 |
| Fare and regional planning | 8.7 | 10.3 | 7.3 | (15.9) | 41.9 |
| Depreciation, amortization | 176.4 | 167.1 | 160.4 | 5.6 | 4.1 |
| **Total** | **$ 545.6** | **$ 501.2** | **$ 449.6** | **8.9%** | **11.5%** |

Operating expenses are comprised of operations and maintenance costs, agency administration, fare and regional planning, depreciation and amortization. Major operations and maintenance expense categories consist of services, materials, utilities, insurance, taxes, purchased transportation, allocated overhead from general and agency administration divisions, operating leases and rentals. Purchased transportation includes amounts paid for the operation of Sound Transit's express bus service to Community Transit, King County Metro and Pierce Transit, for the operation of Link light rail and associated paratransit services to King County Metro and for the operation of Sounder commuter rail services to BNSF Railway Company (BNSF). Purchased transportation services accounts for 56.5% of operating expenses in 2019 (57.0% in 2018). Services are the next largest expenditure category and include the Sounder vehicle maintenance, contracted to the National Railroad Passenger Corporation (Amtrak), as well as various contracts for facility maintenance, policing services and security at Sound Transit's owned and shared facilities. Services were 19.9% in 2019 (19.7% in 2018) of total operating and maintenance expenses.

The following two sections discuss changes in operating expenses, first by function, then by mode.

## Operations and maintenance expenses by function

Operations and maintenance expenses by function are classified using National Transit Database (NTD) definitions as prescribed by the Federal Transit Administration into vehicle operations, vehicle maintenance and non-vehicle maintenance and include allocated general administration costs. Vehicle operations expense consists of fuel, costs to dispatch and operate vehicles while in revenue service, including security and fare collection. Vehicle maintenance expense includes costs associated with ensuring the revenue vehicles are operational, fueled, inspected, repaired and remain in state of good repair. Non-vehicle maintenance expense includes costs necessary to ensure buildings, equipment, transit structures and systems are operational.

See the following table for the operating and maintenance expense impact by function:

**Operations and maintenance expenses by function**

| *(in millions)* | 2019 | 2018 | 2017 | % Change 2019-2018 | % Change 2018-2017 |
|---|---|---|---|---|---|
| Vehicle operations | $ 194.5 | $ 179.0 | $ 160.0 | 8.7% | 11.8% |
| Vehicle maintenance | 79.3 | 67.8 | 57.4 | 16.9 | 18.2 |
| Non-vehicle maintenance | 70.7 | 62.9 | 53.8 | 12.5 | 17.0 |
| **Total** | **$ 344.5** | **$ 309.7** | **$ 271.2** | **11.2%** | **14.2%** |

Total functional cost categories increased $34.8 million or 11.2% in 2019 and $38.5 million or 14.2% in 2018. Increases in both years primarily relate to higher purchased transportation costs across all modes, including negotiated operator rate increases in 2019. Higher service costs also impacted 2019 increases. The 2018 increase reflects the full-year impact of 2 additional Sounder round trips added in 2017 as well as higher cost for purchased transportation primarily on ST Express. Major impacts by functional category are as follows:

- Vehicle operations expenses increased $15.5 million or 8.7% in 2019 and reflect higher purchased transportation costs. Purchased Transportation expenses increased to fund additional bus service hours and operating partner rate increases. Public safety costs increased due to contractor rate increases to improve security personnel retention and to take over security and policing of the DSTT. ST Express provided 821 thousand annual service hours in 2019, 802 thousand annual service hours in 2018 and 785 thousand annual service hours in 2017. Service hour increases provide additional capacity, alleviate overcrowding and mitigate impacts from East Link Extension construction and offset the negative impacts of traffic congestion necessary to maintain the schedule. Link vehicle operations increased to support supervision in the rail only DSTT and to support increases in special event service. The 2018 increase also included the full year impact of the expanded Sounder service on the south line which added two additional round trips in September 2017.

- Vehicle maintenance expenses increased $11.5 million or 16.9% in 2019. Additional Link vehicle maintenance expenses in 2018 and 2019 included increased staffing to support mid-life overhauls on the existing Light Rail Vehicle (LRV) fleet and establishing a swing shift to support increased maintenance demands. Link spare part costs have also increased to support the overhaul project. Other vehicle maintenance cost increases are due to partner rate increases, and increased maintenance associated with higher bus platform hours.

- Non-vehicle maintenance expenses increased $7.8 million or 12.5% in 2019 and $9.1 million or 17.9% in 2018. The 2019 increase primarily relates to increased DSTT maintenance and Link light rail grinding. The agency also procured an agency-wide elevator and escalator contract to improve reliability and uptime at Link stations, further increasing maintenance costs. Non-vehicle maintenance costs may fluctuate from year to year depending upon major facility repair projects.

## Operations and maintenance expenses by mode

The following table presents operating and maintenance expenses by mode:

**Operations and maintenance expenses by mode**

| *(in millions)* | 2019 | 2018 | 2017 | % Change 2019-2018 | % Change 2018-2017 |
|---|---|---|---|---|---|
| Link | $ 141.8 | $ 122.4 | $ 100.4 | 15.8% | 21.9% |
| ST Express | 146.8 | 136.1 | 125.0 | 7.9 | 8.8 |
| Sounder | 55.9 | 51.2 | 45.8 | 9.2 | 11.8 |
| **Total** | **$ 344.5** | **$ 309.7** | **$ 271.2** | **11.2%** | **14.2%** |

Link operations and maintenance expenses include both Link and Tacoma Link light rail and increased $19.4 million or 15.8% in 2019 and $22.0 million or 21.9% in 2018. The majority of cost increases in 2019 are related to increases in negotiated operator rates, security and maintenance on facilities, rails and vehicles. The 2018 cost increases were related to increased staffing to train and prepare for expansion related activity and to support the mid-life overhaul of 62 LRVs.

ST Express operations and maintenance expenses increased $10.7 million or 7.9% in 2019 and $11.1 million or 8.8% in 2018. Increases in both years relate to negotiated partner rate increases. 2018 increases also include costs for additional platform hours to relieve overcrowding, mitigate construction related obstacles, and maintain the service schedule despite increased traffic.

Sounder operations and maintenance expenses increased $4.7 million or 9.2% in 2019 and $5.4 million or 11.8% in 2018. The increases in 2019 primarily relate to higher negotiated operating rates, increased use of maintenance parts and fuel costs. Increases in 2018 are primarily attributed to the impact of additional crews needed to operate two additional round trips added in September 2017, preparation and in service costs associated with nine new cab cars and fuel price increases.

## Agency administration

Agency administration expenses are comprised of costs not allocated to capital projects or operations and include costs attributable to the general cost of government, such as the costs of the Chief Executive Office, Government Relations and Marketing. Agency administration expenses increased $1.9 million or 13.7% in 2019 and $3.4 million or 32.0% in 2018 due to increased staffing and services necessary to support the implementation of the voter approved ST3 plan.

## Fare and regional planning

Fare and regional planning expense decreased $1.6 million or 15.9% in 2019 and increased $3.0 million or 41.9% in 2018. Decreases in 2019 reflect fewer planning costs than 2018, in which increases reflected additional costs related to regional fare planning, policy research and development and planning with regional agencies to develop new markets and policies regarding regional and system-wide projects and issues.

## Depreciation and amortization

Depreciation and amortization comprises non-cash expenses that primarily reflect the reduction in the value of capital assets over time. Depreciation and amortization increased $9.3 million or 5.6% in 2019 ($6.7 million or 4.1% in 2018) reflecting increased expense related to capital assets placed in service during the year and the full year impact of capital assets placed in service in 2018.

## Non-operating revenues and expenses

Net non-operating revenues increased $48.7 million or 2.6% in 2019 and $574.9 million or 45.2% in 2018. Tax revenues are the largest component of non-operating revenues and expenses, increasing in both 2019 and 2018 as a result of regional economic growth and the full year impact in 2018 of the implementation of additional ST3 tax revenues. Net non-operating revenues and expenses are summarized as follows:

**Non-operating revenue/expenses**

| *(in millions)* | 2019 | 2018 | 2017 | % Change 2019-2018 | % Change 2018-2017 |
|---|---|---|---|---|---|
| **Non-operating revenues** | | | | | |
| Sales and use tax | $ 1,415.7 | $ 1,337.6 | $ 1,119.7 | 5.8% | 19.5% |
| Motor vehicle excise tax | 345.8 | 338.5 | 280.4 | 2.1 | 20.7 |
| Property tax | 150.3 | 146.3 | 140.9 | 2.8 | 3.8 |
| Rental car tax | 3.8 | 3.8 | 3.6 | - | 5.6 |
| Investment income | 69.1 | 37.8 | 16.9 | 82.9 | 123.7 |
| Other revenues | 66.3 | 20.1 | 18.5 | 228.0 | 8.5 |
| **Total** | **2,051.0** | **1,884.1** | **1,580.0** | **8.9** | **19.3** |
| **Non-operating expenses** | | | | | |
| Interest expense | 97.5 | - | 15.6 | 100.0 | (100.0) |
| Contributions to other governments | 33.7 | 24.5 | 279.3 | 37.6 | (91.2) |
| Contributions to affordable housing | - | 4.1 | - | (100.0) | 100.0 |
| Other expenses | 16.2 | 7.2 | 9.4 | 126.3 | (23.4) |
| Loss (gain) on disposal of assets | 6.6 | - | 0.4 | 100.0 | (100.0) |
| Impairment | - | - | 1.9 | - | (100.0) |
| **Total** | **154.0** | **35.8** | **306.6** | **330.2** | **(88.3)** |
| **Non-operating revenues, net** | **$ 1,897.0** | **$ 1,848.3** | **$ 1,273.4** | **2.6%** | **45.2%** |

Sales and use tax revenues increased by $78.1 million or 5.8% in 2019 and $217.9 million or 19.5% in 2018. The 2019 increase is reflective of regional economic growth while the primary driver of the 2018 increase is the full year impact of a 0.5% increase in the sales and use tax rate that went into effect April 1, 2017. Excluding the impact of the rate increase, sales and use tax revenues would otherwise have increased 9.7% in 2018.

The motor vehicle excise tax (MVET) increased $7.3 million or 2.1% in 2019 and $58.1 million or 20.7% in 2018. In positive economic conditions, consumers are more likely to replace existing or purchase additional vehicles. As the MVET is computed on the depreciated vehicle value, this results in a higher average collected tax, as newer vehicles tend to have greater taxable values. The 2018 increase reflects the full year impact of a 0.8% additional MVET on assessed value that went into effect March, 2017. Excluding the impact of the rate increase, MVET would otherwise have increased 4.4% in 2018.

Property taxes generated $150.3 million and $146.3 million of revenue in 2019 and 2018, respectively.

Investment income increased $31.3 million or 82.9% and $20.9 million or 123.7% in 2019 and 2018, respectively, as investment balances increased with growing tax revenues as well as growing interest rates. Investment income includes the impact of market adjustments to fair market value at year-end.

Other revenues are comprised primarily of funds received from federal agencies to support preventative maintenance programs related to light rail and bus operations and in relation to the Build America Bond program. The other revenue increased in 2019 by $46.2 million or 228.0% due to higher light rail and ST Express preventative maintenance funds. Other revenues in 2018 and 2017 were comparable.

Contributions to other governments increased $9.2 million or 37.6% in 2019 and decreased $254.8 million or 91.2% in 2018. Contributions relate primarily to funding I-90 and I-405 highway transit improvement projects under agreements with the Washington State Department of Transportation (WSDOT). Funding for I-405 BRT project started in 2019, and funding for Phase 3 of the I-90 Two-Way Transit project peaked in 2017 and declined in 2018 and 2019 as the project nears completion. The agency receives credit from WSDOT under a land bank agreement for funding highway improvement projects. Sound Transit recognizes land bank credits when they are used to fund the purchase or lease of WSDOT property necessary for transit projects (see also note 12). Contributions to others are dependent upon the timing and scope of project activities. As such, there may be significant fluctuations from year to year depending upon the timing and scope of capital improvement or funding arrangements for other governments.

In 2019, all incurred interest was expensed due to adoption of GASB Statement No.89, *Accounting for Interest Cost Incurred Before the End of A Construction Period.* Sound Transit has elected to adopt Statement No. 89 effective January 1, 2019. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. Total interest incurred in 2019 and recognized as expense was $97.5 million, as compared to $98.4 million in 2018, nearly all of which was capitalized to capital projects in progress.


Entrance to the Beacon Hill Station.

## Capital contributions

Capital contributions include federal grant funding and state and local contributions to Sound Transit. Capital contributions increased in 2019 by $26.1 million or 11.2% and decreased by $137.6 million or 37.0% in 2018 as a result of fluctuations in federal grants and the timing of utilization of WSDOT land bank credits for temporary construction easements and airspace leases. The following table summarizes capital contributions by major category:

**Capital contributions**

| *(in millions)* | 2019 | 2018 | 2017 | % Change 2019-2018 | % Change 2018-2017 |
|---|---|---|---|---|---|
| Federal | $ 216.0 | $ 156.4 | $ 77.4 | 38.1% | 102.0% |
| State and local governments | 44.4 | 77.9 | 294.5 | (42.9) | (73.5) |
| **Total** | **$ 260.4** | **$ 234.3** | **$ 371.9** | **11.2%** | **(37.0)%** |

Federal capital contributions of $216.0 million in 2019 were $59.6 million or 38.1% higher than 2018 primarily as a result of $141.8 million in federal contributions related to the Lynnwood Link extension full funding grant agreement (FFGA) and $19.7 million related to Tacoma Link FFGA, executed in 2019. Federal contributions in 2018 were $156.4 million or 102.0% higher than 2017 due to $100.8 million in federal contributions related to the Lynnwood Link extension FFGA, executed in late 2018.

Projects receiving federal funding in excess of $5.0 million in 2019 and 2018 included Lynnwood, Northgate and Tacoma Dome Link extensions and the Sounder South Capacity expansion project.

State and local government contributions decreased $33.5 million in 2019 and $216.6 million in 2018 respectively. $33.7 million and $73.3 million of WSDOT land bank credits were utilized to fund temporary construction easements and access rights related to the Lynnwood Link Extension projects in 2019 and 2018, and represent nearly all of the state and local government contributions for those years (see also note 12).

Sounder near South Boeing Access Road.

## Capital assets

As of December 31, 2019, Sound Transit had invested $12.2 billion in capital assets, net of accumulated depreciation and amortization, an increase of $1.8 billion or 17.2% in 2019 and an increase of $1.3 billion, or 14.3% in 2018. Non-depreciable assets increased $1.9 billion or 36.1% in 2019 and increased $1.1 billion or 24.8% in 2018, primarily driven by additions to capital projects in progress and related land purchases. Depreciable assets decreased $142.2 million or 2.8% in 2019, and increased $240.4 million or 5.0% in 2018.

A summary of Sound Transit's capital assets are presented in the following table:

**Capital assets, net**

| *(in millions)* | December 31 2019 | 2018 | 2017 | % Change 2019-2018 | 2018-2017 |
|---|---|---|---|---|---|
| Land | $ 913.7 | $ 836.3 | $ 753.2 | 9.2% | 11.0% |
| Permanent easements | 546.3 | 543.8 | 541.5 | 0.5 | 0.4 |
| Capital projects in progress | 5,839.3 | 3,981.7 | 3,001.6 | 46.7 | 32.7 |
| **Total non-depreciable assets** | **7,299.3** | **5,361.8** | **4,296.3** | **36.1** | **24.8** |
| Transit facilities, rail and heavy equipment | 3,949.3 | 4,056.9 | 3,885.9 | (2.6) | 4.4 |
| Access rights | 495.0 | 499.8 | 481.3 | (1.0) | 3.8 |
| Revenue vehicles | 461.2 | 498.0 | 446.8 | (7.4) | 11.5 |
| Other depreciable assets | 26.5 | 19.5 | 19.8 | 35.7 | (1.5) |
| **Total depreciable assets** | **4,932.0** | **5,074.2** | **4,833.8** | **(2.8)** | **5.0** |
| **Total capital assets, net** | **$ 12,231.3** | **$ 10,436.0** | **$ 9,130.1** | **17.2%** | **14.3%** |

In 2019, spending on capital projects in progress was $2,023.8 million while in 2018 it was $1,469.0 million. Project spending on light rail projects increased 36.9% in 2019 as construction spending grew on Link light rail extensions projects including the East, Northgate, Lynnwood and Federal Way. In 2018, the same projects and the Operations & Maintenance Facility East contributed most to capital spending.


Tacoma Dome Station.

Capital projects with major spending activity in excess of $5 million in 2019 and 2018 are summarized in the following table:

| Year | Link | Sounder | Regional Express / Stride |
|---|---|---|---|
| 2019 | Downtown Redmond Link Extension<br>East Link Extension<br>Federal Way Link Extension<br>Hilltop Tacoma Link Extension<br>Light Rail Vehicle Expansion<br>Lynnwood Link Extension<br>Northgate Link Extension<br>Operations & Maintenance Facility East<br>Tacoma Dome Link Extension<br>West Seattle-Ballard Link Extension | | I-405 Bus Rapid Transit<br>I-90 Two-Way Transit and HOV Operations, Stage 3<br>Bus Rapid Transit Stations |
| 2018 | Downtown Light Rail Tunnel<br>Downtown Redmond Link Extension<br>East Link Extension<br>Federal Way Link Extension<br>Hilltop Tacoma Link Extension<br>Light Rail Vehicle Expansion<br>Lynnwood Link Extension<br>Northgate Link Extension<br>Operations & Maintenance Facility East<br>Tacoma Dome Link Extension<br>West Seattle-Ballard Link Extension | Tacoma Trestle Track & Signal | I-405 Bus Rapid Transit<br>I-90 Two-Way Transit and HOV Operations, Stage 3<br>ST Express Fleet Replacement |

See note 6 to the Financial Statements for additional information about Sound Transit's capital assets.

## Long-term debt

A summary of Sound Transit's long-term debt is presented in the following table:

**Long-term debt**

| *(in millions)* | December 31 2019 | 2018 | 2017 | % Change 2019-2018 | 2018-2017 |
|---|---|---|---|---|---|
| **Long-term debt** | | | | | |
| Bonds payable | $ 2,330.0 | $ 2,381.1 | $ 2,428.6 | (2.1)% | (2.0)% |
| TIFIA loans | 156.6 | 56.6 | - | 176.7 | 100.0 |
| **Total long-term debt** | **$ 2,486.6** | **$ 2,437.7** | **$ 2,428.6** | **2.0%** | **0.4%** |

The reduction in bonds payable in 2019 and 2018 reflects regular scheduled principal payments. No additional bonds were issued during 2019 or 2018. Under state law, issuance of bonds payable from any type of taxes is subject to statutory debt limitations. Sound Transit is currently authorized to incur debt in an amount equal to 1.5% of the value of taxable property within the service area, without securing additional voter approval. With the approval of 60.0% of the region's voters, Sound Transit may incur aggregate indebtedness of up to 5.0% of the value of taxable property within the service area. Based on the 2018 assessed valuations for collection of 2019 taxes, Sound Transit's current non-voter approved remaining debt capacity is $6.2 billion and its additional remaining debt capacity subject to voter approval is $33.4 billion.

In December 2019, Sound Transit closed the TIFIA Federal Way Agreement, its fourth loan under the TIFIA Master Credit Agreement with the United States Department of Transportation for up to $629.5 million of borrowings with a fixed rate of 2.36%. In December 2018, Sound Transit closed the TIFIA Lynnwood Loan Agreement, its third loan under the TIFIA Master Credit Agreement with the United States Department of Transportation for up to $657.9 million of borrowings with a fixed rate of 3.06%. As of December 31, 2019, S&P rated Sound Transit's TIFIA loans as AA+. During the year ended December 31, 2019, $100.0 million was drawn on TIFIA loans associated with the East Link Extension, Northgate Link Extension and Operations & Maintenance Facility East projects.

See note 8 to the Financial Statements for additional information about Sound Transit's long-term debt.

## Economic conditions

Sound Transit's 2019 tax revenues increased by 4.9% over 2018. Sales and Use Taxes which accounted for 73.9% of total tax revenue in 2019, increased by 5.8% over 2018. Motor Vehicle Excise Taxes which accounted for 18.0% of total tax revenues in 2019, increased by 2.1% over 2018.

Retail trade remained the largest industry sector generating 38% of sales taxes, followed by the construction sector at 22%, and accommodation and food services sector at 10%. Together, these three industries generated approximately 70% of all sales taxes within the Sound Transit jurisdiction.

Regional employment for 2019 is estimated to have increased by 2.4%, unchanged from final employment growth in 2018, while the projected unemployment rate decreased to 3.6%, compared to 3.9% in 2018.

Regional inflationary pressures have eased with the consumer price index for the region declining to 2.6% in 2019, compared to 3.2% in 2018.

The continued strength of the regional economy and associated tax revenues will be materially impacted by the Coronavirus pandemic. Beginning in March 2020, Sound Transit operations, construction activities and revenues have been significantly affected by the Coronavirus pandemic. In response to health and safety concerns, and Washington State Governor Inslee's Proclamation 20-25 (Stay Home-Stay Healthy), Sound Transit has reduced service on all modes, temporarily suspended fares, and slowed or temporarily halted work at construction sites. The agency has been actively developing measures to tactically respond to the loss of fares and tax revenues. While these events and actions do not affect the financial position of Sound Transit as represented in these financial statements as of December 31, 2019, they will have an impact on operations, construction activities and the financial position of the agency in 2020, the magnitude of which is not yet known.


The pedestrian bridge at future Overlake Village Light Rail Station.

# Basic Financial Statements

## STATEMENTS OF NET POSITION

| (in thousands) | December 31 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents (note 3) | $ 282,921 | $ 360,221 |
| Restricted assets (note 3) | 78,093 | 66,100 |
| Investments (note 3) | 1,200,150 | 1,345,021 |
| Taxes and other receivables (note 4) | 448,843 | 433,879 |
| Inventory, land held for disposition and prepaids | 56,451 | 39,804 |
| **Total current assets** | **2,066,458** | **2,245,025** |
| **Non-current assets** | | |
| Restricted assets (note 3) | 30,823 | 31,150 |
| Investments (note 3) | 647,565 | 329,872 |
| Prepaid expenses and deposits | 1,267 | 4,093 |
| Investment held to pay capital lease obligation (note 5) | 64,876 | 63,817 |
| Capital assets, net (note 6) | 12,231,306 | 10,436,004 |
| **Total non-current assets** | **12,975,837** | **10,864,936** |
| **Total assets** | **15,042,295** | **13,109,961** |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Asset retirement obligations | 2,724 | 3,800 |
| Unamortized costs on bond refunding | 30,301 | 33,614 |
| **Total deferred outflows of resources** | **33,025** | **37,414** |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 7) | 457,025 | 292,328 |
| Unearned revenue | 13,494 | 12,084 |
| Interest payable | 26,961 | 24,920 |
| Current portion, long-term debt (note 8) | 42,915 | 39,520 |
| Other claims and short-term obligations | 5,659 | 8,723 |
| **Total current liabilities** | **546,054** | **377,575** |
| **Non-current liabilities** | | |
| Long-term debt (note 8) | 2,443,729 | 2,398,224 |
| Capital lease obligations (note 5) | 64,876 | 63,817 |
| Other long-term obligations (note 9) | 6,234 | 10,369 |
| **Total non-current liabilities** | **2,514,839** | **2,472,410** |
| **Total liabilities** | **3,060,893** | **2,849,985** |
| **Commitments and contingencies (notes 5, 8, 9, 11 and 12)** | | |
| **NET POSITION** | | |
| Net investment in capital assets | 9,625,461 | 7,831,011 |
| Restricted (note 10) | 75,342 | 70,480 |
| Unrestricted | 2,313,624 | 2,395,899 |
| **Total net position** | **$ 12,014,427** | **$ 10,297,390** |

*See accompanying notes to financial statements.*

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

| (in thousands) | Year ended, December 31 2019 | 2018 |
|---|---|---|
| **Operating revenues** | | |
| Passenger fares | $ 97,101 | $ 96,018 |
| Other operating revenue | 8,071 | 6,969 |
| **Total operating revenues** | **105,172** | **102,987** |
| **Operating expenses** | | |
| Vehicle operations | 194,456 | 178,974 |
| Vehicle maintenance | 79,335 | 67,852 |
| Non-vehicle maintenance | 70,731 | 62,890 |
| Agency administration | 16,022 | 14,095 |
| Fare and regional planning | 8,674 | 10,312 |
| Depreciation, amortization and accretion | 176,377 | 167,055 |
| **Total operating expenses** | **545,595** | **501,178** |
| **Loss from operations** | **(440,423)** | **(398,191)** |
| **Non-operating revenues (expenses)** | | |
| Sales tax | 1,415,704 | 1,337,601 |
| Motor vehicle excise tax | 345,757 | 338,538 |
| Property tax | 150,310 | 146,284 |
| Rental car tax | 3,792 | 3,802 |
| Investment income | 69,131 | 37,801 |
| Other revenues | 66,301 | 20,079 |
| Interest expense | (97,491) | (6) |
| Contributions to other governments | (33,689) | (24,483) |
| Contributions to affordable housing | - | (4,121) |
| Other expenses | (16,220) | (7,167) |
| (Loss) gain on disposal of assets | (6,584) | - |
| Impairment | - | (14) |
| **Total non-operating revenues, net** | **1,897,011** | **1,848,314** |
| **Income before capital contributions** | **1,456,588** | **1,450,123** |
| Federal capital contributions | 215,956 | 156,370 |
| State and local capital contributions | 44,493 | 77,937 |
| **Total capital contributions** | **260,449** | **234,307** |
| **Change in net position** | **1,717,037** | **1,684,430** |
| **Total net position, beginning of year** | **10,297,390** | **8,612,960** |
| **Total net position, end of year** | **$ 12,014,427** | **$ 10,297,390** |

*See accompanying notes to financial statements.*

## STATEMENTS OF CASH FLOWS

| *(in thousands)* | Year ended, December 31 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash receipts from fares | $ 97,759 | $ 96,925 |
| Cash receipts from other operating revenue | 5,771 | 7,860 |
| Payments to employees for wages and benefits | (36,102) | (30,896) |
| Payments to suppliers | (127,278) | (131,657) |
| Payments to transportation service providers | (156,379) | (144,823) |
| **Net cash used by operating activities** | **(216,229)** | **(202,591)** |
| **Cash flows from non-capital financing activities** | | |
| Preventative maintenance grants received | 30,329 | 13,331 |
| Taxes received | 1,900,137 | 1,806,343 |
| Cash overdraft position | - | (6,603) |
| Tax collection fees paid | (7,672) | (6,597) |
| **Net cash provided by non-capital financing activities** | **1,922,794** | **1,806,474** |
| **Cash flows from capital and related financing activities** | | |
| Capital contributions from grants | 261,267 | 33,013 |
| Contributions to other government | (5,000) | - |
| Proceeds from insurance recoveries and sale of assets | 3,645 | 2,457 |
| Proceeds from TIFIA loan | 100,000 | 56,606 |
| Proceeds (payments for) betterments and recoverable costs | 285 | (1,616) |
| Payments for bond principal | (39,520) | (35,560) |
| Payments for interest and bond related costs | (97,042) | (99,121) |
| Payments to employees capitalized to projects | (112,180) | (92,842) |
| Payments to suppliers for capital activities | (1,677,614) | (1,102,001) |
| Purchase of property | (100,564) | (85,945) |
| **Net cash used by capital and related financing activities** | **(1,666,723)** | **(1,325,009)** |
| **Cash flows from investing activities** | | |
| Investment income | 48,755 | 31,944 |
| Proceeds from sales or maturities of investments | 933,420 | 694,720 |
| Purchases of investments | (1,087,884) | (908,627) |
| **Net cash used by investing activities** | **(105,709)** | **(181,963)** |
| **Net (decrease) increase in cash and cash equivalents** | **(65,867)** | **96,911** |
| **Cash and cash equivalents** | | |
| Beginning of year | 435,081 | 338,170 |
| **End of year** | **$ 369,214** | **$ 435,081** |
| **Cash and cash equivalents (note 3)** | | |
| Unrestricted | $ 282,921 | $ 360,221 |
| Current restricted | 77,569 | 65,594 |
| Non-current restricted | 8,724 | 9,266 |
| | **$ 369,214** | **$ 435,081** |

*See accompanying notes to financial statements.*

## STATEMENTS OF CASH FLOWS, continued

| *(in thousands)* | Year ended, December 31 2019 | 2018 |
|---|---|---|
| **Loss from operations** | **$ (440,423)** | **$ (398,191)** |
| **Adjustments to reconcile loss from operations to net cash used by operating activities** | | |
| Decrease in bad debt expense | 1 | 18 |
| Decrease in tenant improvement credits | (1,569) | (613) |
| Depreciation, amortization and accretion | 176,377 | 167,055 |
| Decrease in inventory allowance | (117) | (28) |
| Non-operating expense | (70) | (515) |
| **Changes in operating assets and liabilities** | | |
| (Increase) decrease in other receivables | (2,973) | 9,035 |
| Increase in inventory, prepaid and deposits | (1,800) | (3,369) |
| Increase in accounts payable and accrued liabilities | 54,089 | 21,246 |
| Increase in unearned revenue | 1,302 | 1,561 |
| (Decrease) increase in other current liabilities | (1,046) | 1,210 |
| **Net cash used by operating activities** | **$ (216,229)** | **$ (202,591)** |

| *(in thousands)* | December 31 2019 | 2018 |
|---|---|---|
| **Supplemental disclosures of non-cash operating, investing and financing activities** | | |
| Capital assets financed with tenant improvement credits | 1,569 | 613 |
| Capital contribution from Land Bank | 33,683 | 73,210 |
| Contributions to other governments | (28,689) | (19,483) |
| Construction in progress in current liabilities | 329,660 | 222,122 |
| Increase in fair value of investments | 14,896 | 300 |
| Interest expense on capital leases | (4,777) | (4,703) |
| Interest income from investments held to pay capital leases, net | 4,777 | 4,703 |
| Spare parts previously capitalized | (41) | (1,032) |
| Start-up costs previously capitalized | (7,213) | - |

*See accompanying notes to financial statements.*

Environmental fieldwork in Kent.

# Notes to financial statements

**YEARS ENDED DECEMBER 31, 2019 AND 2018**

## 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, also referred to herein as “the agency”, was established in 1993. Sound Transit is implementing a high capacity transportation system throughout parts of King, Pierce, and Snohomish counties in the State of Washington through the design, construction, and operation of a commuter rail (Sounder), light rail (Link), regional express bus system (ST Express) and bus rapid transit system (Stride).

***Reporting entity*—**Sound Transit is a special purpose government supported primarily through sales and use, motor vehicle excise, property and rental car taxes assessed in Sound Transit’s operating jurisdiction (the District). In addition, Sound Transit receives capital and operating funding from federal, state and local agencies.

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

Accounting principles generally accepted in the United States of America (GAAP) require the financial statements of the reporting entity to 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 GAAP. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. 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, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of Sound Transit are included in the Statements of Net Position and depreciation and amortization of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Position.

Operating revenues are recognized in the period earned and consist primarily of passenger fares. Operating expenses are recognized in the period in which they are incurred and consist primarily of purchased transportation services.

Non-operating revenues, primarily tax revenues, are recorded in the period when the underlying transaction occurs on which the tax is imposed and include sales and use tax on goods and services, motor vehicle excise tax, property tax and rental car tax. Non-operating expenses are recognized in the period in which they are incurred and consist primarily of interest expense and contributions to other governments.

Sales, use and rental car taxes are collected on Sound Transit's behalf by the Washington State Department of Revenue and the motor vehicle excise tax by the Washington State Department of Licensing. Property tax is levied on a calendar year basis and is administered and collected by King, Pierce and Snohomish counties. Taxes are levied within the district at a rate of 1.4% for sales and use, 1.1% for motor vehicle excise and 0.8% on rental cars. In November 2016, voters approved an increase in the sales and use tax of 0.5%, an additional motor vehicle excise tax of 0.8%, both of which are included in the rates stated above, and a property tax in the amount of $0.21 per $1,000 of assessed property value. Property tax is levied annually, the first levy was authorized for calendar year 2017. The additional motor vehicle tax came into effect March 1, 2017 and the additional sales and use tax came into effect April 1, 2017.

***Bond discounts and premiums*—**Bond discounts and premiums are recorded net to long-term debt and amortized using the effective interest rate method over the life of the related debt issuance. Deferred outflows of resources includes the excess of the price paid on debt refunding and the net carrying amount of the old debt, which is amortized over the remaining life of the old debt or the new debt, whichever is shorter.

***Capital assets*—**Capital assets are stated at cost, except for capital assets contributed to Sound Transit, which are stated at the fair value on the date of contribution. Expenditures and contributions for additions and improvements with a value in excess of $5,000 and a useful life of more than one year are capitalized. Maintenance, repairs and minor improvement costs are charged to operations as incurred. Depreciation and amortization of capital and intangible assets are recorded using the straight-line method applied to each asset over its estimated useful life, except for the amortization associated with leasehold improvements which is recognized over the shorter of the life of the asset and the remaining length of the related lease agreement. Estimated useful lives are shown in the following table:

| | Estimated useful life |
|---|---|
| Access rights | 5 – 100 years |
| Buildings and leasehold improvements | 5– 30 years |
| Furniture, equipment and vehicles | 3 – 8 years |
| Revenue vehicles | 12 – 40 years |
| Software | 3 – 5 years |
| Transit facilities, rail and heavy equipment | 6 – 150 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 large permanent decline in the asset's service utility 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 and fair value of the affected asset. Impairment losses on assets that will continue to be used are measured using the method that best reflects the diminished service utility.

All qualifying costs, directly and indirectly, attributable to capital projects are capitalized. Construction In Progress (CIP) balances include costs incurred for 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.

Access rights include costs incurred or rights acquired that allow Sound Transit to operate its services in public and private right of ways. Access rights are amortized over the life of the underlying asset constructed or the term of the contractual agreement granting the related right.

Interest costs on funds borrowed through tax-exempt and taxable debt to finance the construction or acquisition of certain capital assets are expensed in the period in which they are incurred. Prior to 2019, interest costs, as described above, were capitalized during the period of construction or acquisition and depreciated over the life of the related assets once placed into service. Interest costs capitalized for the year ended December 31, 2018 were $98.4 million.

***Capital contributions to other governments*—**Pursuant to capital improvement agreements, Sound Transit has provided funding to, or constructed assets for, various governments for transit-related capital improvements. Costs incurred to construct assets for other governments are capitalized and included in CIP until the asset is substantially completed and accepted, at which time the costs are transferred out of CIP and recorded as contributions to other governments.

***Cash and cash equivalents*—**Cash and cash equivalents are carried at cost, which approximates fair value. Restricted cash and cash equivalents contain externally imposed legal and contractual obligations and are classified as current or non-current in accordance with their requirements.

***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 or in accordance with bi-annual elections within established policy. Sick leave is earned at the rate of 0.046 for each hour worked and is accrued at the rate of 50% up to 120 days for employees hired before January 1, 2004 or 25% up to 240 days for employees hired thereafter.

***Environmental remediation obligations*—**Environmental remediation activities are reviewed annually to determine whether an obligating event has occurred, as defined by GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* when the liability should be accrued, and whether the cost should be expensed or capitalized. Generally such costs are incurred in relation to properties that Sound Transit is preparing for use in operations, or in relation to properties acquired to support the construction of a project and which are subsequently resold. As such, these costs are recorded as incurred and capitalized to the project. Costs that are in excess of the property's fair market value, or that do not meet capitalization criteria under GAAP, are expensed as soon as a reasonable estimate can be obtained.

***Indirect cost allocation*—**Indirect costs relate to the overall costs of running the agency and include employee costs, office space, services and information technology costs. These indirect costs are allocated to capital projects, operating activities, agency administration and fare and regional planning using overhead rates that are based primarily on departmental headcount and budgeted expenditures. Overhead rates are designed to allocate all agency overhead costs except for certain executive divisions and marketing costs.

***Inventory*—**Inventory includes spare parts and is recorded at the lower of average purchase cost and net realizable value. Allowances for excess and obsolete parts are provided for spare parts currently identified as excess and obsolete. Allowances are reflected as a charge to operations and are based on management's estimate, which is subject to change. As of December 31, 2019 and 2018, inventory reflects an allowance of $0.8 million and $0.9 million, respectively.

***Investment valuation*—**Investments are stated at fair value.

***Land held for disposition*—**Properties determined to be excess to Sound Transit's use, authorized by the Board for disposition and intended to be disposed of within one year are classified as land held for disposition. Pursuant to RCW 81.112.350, surplus properties are evaluated for suitability as housing as 80% of such properties must be offered for either transfer at no cost, sale, or long-term lease first to qualified entities that agree to develop affordable housing on the property, consistent with local land use and zoning laws. Properties meeting such criteria and subject to an agreement or request for proposal are reclassified to land held for disposition at carrying cost until such time as the disposition closes, at which time a contribution to affordable housing is recorded. Properties not disposed as part of the 80% requirement are valued at the lower of purchase cost and net realizable value.

### *New accounting pronouncements*

In May 2020, prior to the release of these financial statements, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which delays the effective date of various previously issued statements by either one year or eighteen months, several of which are directly applicable to Sound Transit. In accordance with the standard, and relevant to those standards not adopted by Sound Transit prior to 2019, Sound Transit has elected to defer the implementation of Statement No. 84 *Fiduciary Activities* and its related Implementation Guide 2019-2. As discussed below, Sound Transit has elected to adopt Statement No. 83, *Certain Asset Retirement Obligations*, and Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, in 2019, and plans to adopt Statement No. 87, *Leases*, in 2020.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of A Construction Period*, effective for reporting periods beginning after December 15, 2019, with the option of early adoption. This Statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will no longer be included in the historical cost of capital assets. Sound Transit elected to adopt Statement No. 89 effective January 1, 2019. During the year ended December 31, 2018, Sound Transit incurred $98.4 million of interest cost related to capital projects which were capitalized in accordance with previous guidance.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*. The standard requires additional debt related disclosures. Sound Transit elected to early adopt the provisions as of January 1, 2018, as allowed by the standard.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for reporting periods beginning after December 15, 2019. The standard establishes a single model for lease accounting based on the foundational principle that leases are a form of financing the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Sound Transit is implementing system changes and developing policies necessary to comply with the standard, and plans to report its annual financial statements in accordance with the standard, beginning with the year ending December 31, 2020.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for reporting periods beginning after December 15, 2018. This Statement establishes criteria for identifying fiduciary activities of state and local governments based on certain criteria including control, and relationship with the beneficiaries, of the activities. Governments with qualifying activities, should present a statement of fiduciary net position and a statement of changes in fiduciary net position together with the government's financial statements. The Statement includes provisions for pension and other employee benefit trust funds. Sound Transit is evaluating the applicability of the standard and has elected to defer adoption in accordance with Statement No. 95.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for reporting periods beginning after June 15, 2018. The standard requires that Asset Retirement Obligations (AROs) be recorded as a liability at the time it is incurred and reasonable estimable, and a corresponding deferred outflow of resources, adjusted annually for inflation or deflation. The deferred outflow of resources should be reduced and recognized over the estimated useful life of the underlying tangible capital asset. Sound Transit has elected to adopt the standard in the year ended December 31, 2019.

***Reclassifications*—**Certain reclassifications have been made to the 2018 financial statements to conform to the current year's presentation.

***Reserves*—**Sound Transit's financial policies require the agency to maintain certain internal reserves as follows: an operating expense reserve in the amount of two months average annual spending expenses; a capital replacement reserve supported by a specific investment fund; and an emergency loss fund to cover retention, deductible or excess loss due to an uninsured loss or portion of loss. As these cash and investment reserves are derived from internal restrictions, they are included in unrestricted net position.

***Restricted net position*—**Restricted net position consists of cash, cash equivalents and investments that contain externally imposed legal and contractual obligations. Assets comprising restricted net position are used in accordance with their requirements, and where both restricted and unrestricted resources are available for use, restricted resources are used first and then unrestricted resources as they are needed.

***Revenue and expense classification*—**Sound Transit distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing passenger services in connection with Sound Transit's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***Tax abatements***—As of December 31, 2019 and 2018, Sound Transit has no direct tax abatement agreements wherein taxes are decreased for a particular payer which contribute to economic development or otherwise benefits the government or its citizens. In 2019 and 2018, Sound Transit collected property tax revenue through Snohomish, King, and Pierce counties which have direct tax abatement agreements. However, the tax abatements do not result in reduction or loss of revenue to Sound Transit, pursuant to Washington State law, as these taxes are reallocated to other property tax payers.

***Undivided interests***—Sound Transit participates in a joint operation (or undivided interest), jointly governed with six other agencies for the provision of a regional fare coordination system (One Regional Card for All, ORCA). Sound Transit reports its undivided interest in assets, liabilities, expenses and revenues of ORCA within its financial statements, as they are specifically identifiable to Sound Transit. ORCA does not meet the definition of a component unit as defined in GASB No. 61 – *The Financial Reporting Entity: Omnibus.*

***Use of estimates***—The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## 3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less at the time of purchase. Cash in the Local Government Investment Pool (LGIP) is managed by the Washington State Treasurer's Office. Investments in the King County Investment Pool (KCIP) are managed by the King County Finance Division. The LGIP and the KCIP represent an interest in a group of securities and have no specific security subject to custodial risk.

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, cash equivalents, investments and restricted assets consist of the following:

| *(in thousands)* | December 31 2019 | 2018 |
|---|---|---|
| **Cash and cash equivalents - current** | | |
| LGIP * | $ 274,573 | $ 351,414 |
| FDIC or PDPC insured bank deposits | 2,388 | 3,049 |
| Cash on hand | 5,960 | 5,758 |
| | **282,921** | **360,221** |
| **Restricted assets - current** | | |
| Cash and cash equivalents - LGIP | 77,569 | 65,594 |
| Investments - KCIP | 524 | 506 |
| | **78,093** | **66,100** |
| **Investments - current** | **1,200,150** | **1,345,021** |
| **Restricted assets - non-current** | | |
| Cash and cash equivalents | | |
| LGIP | 285 | 1,262 |
| FDIC or PDPC Insured Bank Deposits | 435 | - |
| Escrow funds | 8,004 | 8,004 |
| | 8,724 | 9,266 |
| Investments - Debt service and OCIP reserve | 21,974 | 21,777 |
| Other | 125 | 107 |
| | **30,823** | **31,150** |
| **Investments - non-current** | **647,565** | **329,872** |
| **Total cash, cash equivalents, investments and restricted assets** | **$ 2,239,552** | **$ 2,132,364** |

* The balance includes amounts set aside in satisfaction of Sound Transit's financial policies for an operating expense reserve and an emergency loss fund.

All surplus cash is invested in accordance with Washington State statute and an Asset Liability Management policy approved by Sound Transit's Board. Qualifying investments under this policy include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit, corporate bonds & commercial paper, general obligation municipal bonds and repurchase agreements. Sound Transit's 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. Duration is presented in years.

Sound Transit holds a significant amount of investments that are measured at fair value on a recurring basis, within the following hierarchy:

- Level 1 – inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly
- Level 3 – inputs are unobservable inputs for an asset or liability

Unrestricted investments consist of the following:

| (in thousands) | 2019 Total | 2019 Level 1 | 2019 Level 2 | 2018 Total | 2018 Level 1 | 2018 Level 2 |
|---|---|---|---|---|---|---|
| **Investments – current** | | | | | | |
| Commercial paper | $ - | $ - | $ - | $ 24,897 | $ - | $ 24,897 |
| KCIP * | 64,695 | - | - | 109,424 | - | - |
| U.S. Agency Securities | 286,206 | - | 286,206 | 488,641 | - | 488,641 |
| U.S. Treasury Securities | 849,249 | 849,249 | - | 722,059 | 722,059 | - |
| **Total investments – current** | **1,200,150** | **849,249** | **286,206** | **1,345,021** | **722,059** | **513,538** |
| **Investments – non-current** | | | | | | |
| Investments – undesignated | | | | | | |
| U.S. Agency Securities | 146,894 | - | 146,894 | - | - | - |
| U.S. Treasury Securities | 130,512 | 130,512 | - | - | - | - |
| Corporate Bonds | 24,968 | - | 24,968 | - | - | - |
| Total investments - undesignated | 302,374 | 130,512 | 171,862 | - | - | - |
| Investments – capital replacement | | | | | | |
| Municipal Bonds | 29,768 | - | 29,768 | 17,172 | - | 17,172 |
| U.S. Agency Securities | 200,271 | - | 200,271 | 288,780 | - | 288,780 |
| U.S. Treasury Securities | 109,959 | 109,959 | - | 23,920 | 23,920 | - |
| Corporate Bonds | 5,193 | - | 5,193 | - | - | - |
| Total investments – capital replacement | 345,191 | 109,959 | 235,232 | 329,872 | 23,920 | 305,952 |
| **Total investments – non-current** | **$ 647,565** | **$ 240,471** | **$ 407,094** | **$ 329,872** | **$ 23,920** | **$ 305,952** |

* The KCIP is valued using amortized cost basis and is not included in the fair value hierarchy.

Restricted investments consist of the following:

| (in thousands) | 2019 Total | 2019 Level 1 | 2019 Level 2 | 2018 Total | 2018 Level 1 | 2018 Level 2 |
|---|---|---|---|---|---|---|
| **Restricted assets - current** | | | | | | |
| KCIP * | $ 524 | $ - | $ - | $ 506 | $ - | $ - |
| **Total restricted assets - current** | **524** | **-** | **-** | **506** | **-** | **-** |
| **Restricted assets - non-current** | | | | | | |
| Municipal bonds | 19,525 | - | 19,525 | 19,449 | - | 19,449 |
| U.S. Agency Securities | 2,449 | - | 2,449 | 2,328 | - | 2,328 |
| **Total restricted assets - non-current** | **$ 21,974** | **$ -** | **$ 21,974** | **$ 21,777** | **$ -** | **$ 21,777** |

* The KCIP is valued using amortized cost basis and is not included in the fair value hierarchy.

U.S Treasury securities are classified as Level 1 and are valued using prices in active markets for identical assets. Commercial paper, U.S. Agency securities, municipal bonds and corporate bonds are classified as Level 2 and are valued using inputs that are observable but not actively using the market approach.

The KCIP is valued using amortized cost basis. The objective of the KCIP investment policy is to invest public funds in a manner which will preserve the safety and liquidity of all investments while obtaining a reasonable rate of return. The redemption period for the KCIP is one to ten days, depending on the dollar amount redeemed.

***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 undesignated 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 benchmarks during 2019 and 2018 for the undesignated fund were 0.95 and 0.91, respectively, and for the capital replacement fund were 2.85 and 2.61, respectively. The weighted average modified duration for the undesignated fund across both current and non-current investments was 0.83 and 0.88 at December 31, 2019 and 2018, respectively. Investments in the KCIP are reported using effective duration. Duration estimates the sensitivity of a bond's price to interest rate changes. For the Debt Service Reserve funds and the Link Risk funds, interest rate risk is managed by using the specific identification method.

*Modification duration*

| (in thousands) | 2019 Total | 2019 Duration | 2019 Percent of total | 2018 Total | 2018 Duration | 2018 Percent of total |
|---|---|---|---|---|---|---|
| **Investments – current** | | | | | | |
| Commercial paper | $ - | - | - | $ 24,897 | 0.16 | 1.9% |
| KCIP | 64,695 | 0.92 | 5.4% | 109,424 | 0.94 | 8.1% |
| U.S. Agency Securities | 286,206 | 0.53 | 23.8% | 488,641 | 0.79 | 36.3% |
| U.S. Treasury Securities | 849,249 | 0.69 | 70.8% | 722,059 | 0.96 | 53.7% |
| **Total investments - current** | **1,200,150** | **0.66** | **100.0%** | **1,345,021** | **0.88** | **100.0%** |
| **Investments – non-current** | | | | | | |
| Investments – undesignated | | | | | | |
| U.S. Agency Securities | 146,894 | 2.10 | 48.6% | - | - | - |
| U.S. Treasury Securities | 130,512 | 0.92 | 43.2% | - | - | - |
| Corporate bonds | 24,968 | 1.09 | 8.3% | - | - | - |
| **Total investments - undesignated** | **302,374** | **1.51** | **100.0%** | **-** | **-** | **-** |
| Investments – capital replacement | | | | | | |
| Municipal bonds | 29,768 | 5.92 | 8.6% | 17,172 | 1.57 | 5.2% |
| U.S. Agency Securities | 200,271 | 3.11 | 58.0% | 288,780 | 2.71 | 87.5% |
| U.S. Treasury Securities | 109,959 | 1.69 | 31.9% | 23,920 | 1.43 | 7.3% |
| Corporate bonds | 5,193 | 3.82 | 1.5% | - | - | - |
| **Total investments – capital replacement** | **$ 345,191** | **2.91** | **100.0%** | **$ 329,872** | **2.55** | **100.0%** |
| **Total investments – non-current** | **$ 647,565** | | | **$ 329,872** | | |

*Specific identification*

| (in thousands) | December 31 2019 | 2018 | Maturity | Call Date |
|---|---|---|---|---|
| **Restricted assets - non-current** | | | | |
| **Debt service reserve** | | | | |
| Municipal bonds: | | | | |
| Florida State Public Education BAB | $ - | $ 5,053 | 6/1/30 | 6/1/2019* |
| Georgia State GO Unlimited | 10,005 | 9,847 | 4/1/26 | 4/1/2017* |
| Georgia State GO Unlimited BAB | 2,946 | 4,549 | 11/1/27 | 11/24/2009* |
| New York City GO | 6,574 | - | | |
| | **19,525** | **19,449** | | |
| **OCIP reserve** | | | | |
| U.S. Agency Securities: | | | | |
| Federal Home Loan Mortgage Corporation | 970 | 917 | 3/15/23 | |
| Federal National Mortgage Association | 1,479 | 1,411 | 7/15/22 | |
| | **2,449** | **2,328** | | |
| | **$ 21,974** | **$ 21,777** | | |

* Continuously callable from this date forward

***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. At December 31, 2019 and 2018, Sound Transit portfolios were within these guidelines.

| Investment type per investment policy | Maximum |
|---|---|
| Treasury securities and investments in the LGIP | 100% |
| Total U.S. Agency Securities | 75% |
| Single U.S. Agency and investments in the KCIP | 50% |
| Repurchase agreements, general obligation bonds, PDPC financial institution sponsored investment accounts | 25% |
| Deposit bank notes | 20% |
| Certificates of deposit, bankers' acceptances, reverse repurchase agreements and A1/P1 commercial paper | 10% |

***Credit risk***—Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. As of December 31, 2019 and 2018, all Treasury, U.S. Agency, general obligation bonds, and commercial paper securities are rated in one of the four highest credit rating categories of a nationally recognized statistical rating organization. After a bond has been purchased, if it is downgraded below one of the three highest ratings, a case-by-case review is conducted to determine the reason for the downgrade and to evaluate whether or not to continue to hold the bond. The LGIP and KCIP are unrated.

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

## 4. TAXES AND OTHER RECEIVABLES

Taxes and other receivables consist of the following:

| (in thousands) | December 31 2019 | 2018 |
|---|---|---|
| Taxes receivable | $ 292,251 | $ 276,870 |
| Grants receivable | 128,305 | 133,243 |
| Due from other governments | 16,361 | 14,994 |
| Interest receivable | 9,723 | 7,938 |
| Accounts receivable, net | 2,203 | 834 |
| | **$ 448,843** | **$ 433,879** |

Amounts due from other governments include amounts due from ORCA for fare revenues and reimbursable administration expenses (see also note 12) and amounts reimbursable under other 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 to 60 days. Where payment terms are not defined by agreement, they are due in accordance with the terms specified on the invoice, which is generally 30 days.

## 5. CAPITAL AND OPERATING LEASES

Capital lease obligations at December 31, 2019 and 2018 are $64.9 million and $63.8 million, respectively.

***Lease/Leaseback***—In May 2001, Sound Transit entered into a transaction to lease 22 rail passenger cab and coach cars and 5 locomotives (the head lease) to an investor and simultaneously sublease the vehicles back from the investor (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 head lease and sublease have been recorded as capital leases for accounting purposes. The current lease expires on September 17, 2040.

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 head lease obligations totaling $61.3 million. From those proceeds, $50.4 million was deposited with AIG-FP Special Finance Ltd. to partially meet Sound Transit's obligations under the sublease payments. In addition, $5.7 million was deposited with AIG Matched Funding Corp. and invested in securities, issued or guaranteed by the United States government, to meet the remaining obligations under the sublease. The remaining $4.9 million (net of closing costs of $363 thousand) was retained by Sound Transit and recorded as non-operating revenues during the year ended December 31, 2001.

The net present value of the future sublease payments has been recorded as a long-term capital lease obligation. The agreements with AIG-FP Special Finance Ltd. and AIG Matched Funding Corp. have been structured to meet all future obligations under the sublease when due and, as such, the corresponding investment account has been recorded to equal the sublease obligations on the accompanying statements of net position. As of December 31, 2019 and 2018, the fair value of the underlying securities was sufficient to satisfy the current required value as set forth in the related agreements.

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 Standard & Poor's and "Aaa" by Moody's Investment Service. However, starting in March 2005, AIG suffered a series of credit rating downgrades and as of December 31, 2019 was rated "BBB+" by Standard & Poor's and "Baa1" by Moody's Investment Service. As of December 31, 2019 and 2018, the defeasance accounts were unrated.

Because of credit 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. However, in January 2009, Sound Transit entered into a waiver agreement and temporary waiver of delivery of required items letter with the Owner Participant, Lessor, Lender, and Debt Payment Undertaker waiving any existing default or event of default based on a failure to comply with the ratings downgrade provisions of the Participation Agreement, Loan Agreement, Debt Payment Agreement, and Debt Payment Guarantee until March 1, 2009. Under the Fifth Extension Amendment to the waiver agreement and Fifth Temporary Waiver of Delivery of Required Items letter with the transaction participants, Sound Transit may request successive six-month extensions of the waiver agreements until September 30, 2020, unless extended by agreement of the parties. Sound Transit requested and has been granted an extension of the wavier agreements through September 30, 2020. If the default is not cured and the extension is not granted, the investor could demand a termination payment from Sound Transit of approximately $11.9 million.

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

| *(in thousands)* | 2019 | 2018 |
|---|---|---|
| Net sublease, January 1 | $ 63,817 | $ 62,832 |
| Accrued interest | 4,777 | 4,703 |
| Less payment | (3,718) | (3,718) |
| **Net sublease, December 31** | **$ 64,876** | **$ 63,817** |

***Operating rentals***—Sound Transit has entered into non-cancelable operating leases in excess of one year for the use of the Downtown Seattle Transit Tunnel, ground, office space, parking, land, storage at various locations, and equipment with lease terms expiring between 2020 and 2039, with some leases containing options to renew.

Minimum lease payments through 2039 are as follows (in thousands):

| | Year ending December 31 |
|---|---|
| 2020 | $ 12,438 |
| 2021 | 11,174 |
| 2022 | 10,941 |
| 2023 | 9,423 |
| 2024 | 1,379 |
| 2025-2029 | 2,391 |
| 2030-2034 | 1,130 |
| 2035-2039 | 56 |
| | **$ 48,932** |

Total rental expenses for the year ended December 31, 2019, which include non-cancelable leases as well as other month-to-month rentals, were $22.7 million, of which $4.6 million was capitalized for capital projects in progress. Total rental expenses for the year ended December 31, 2018, which include non-cancelable leases as well as other month-to-month rentals, were $19.3 million, of which $1.8 million was capitalized for capital projects in progress.

## 6. CAPITAL ASSETS

Capital assets are summarized as follows:

| *(in thousands)* | 2019 Beginning balance | Additions | Disposals / reductions | Transfers | 2019 Ending balance |
|---|---|---|---|---|---|
| **Non-depreciable assets** | | | | | |
| Land | $ 836,331 | $ - | $ (6,584) | $ 83,939 | $ 913,686 |
| Permanent easements | 543,784 | - | - | 2,500 | 546,284 |
| Capital projects in progress: | | | | | |
| Sound Transit - tangible | 3,956,567 | 1,995,254 | (31,180) | (120,813) | 5,799,828 |
| Sound Transit - intangible | 21,313 | 19,497 | (799) | (9,431) | 30,580 |
| Other governments - tangible | 3,841 | 9,024 | (3,923) | - | 8,942 |
| **Total non-depreciable assets** | **5,361,836** | **2,023,775** | **(42,486)** | **(43,805)** | **7,299,320** |
| **Depreciable assets** | | | | | |
| Access rights | 726,932 | 5,983 | - | 2,675 | 735,590 |
| Buildings and leasehold improvements | 38,219 | 1,570 | - | 710 | 40,499 |
| Furniture, equipment and vehicles | 17,862 | - | (422) | 6,267 | 23,707 |
| Revenue vehicles | 791,853 | - | - | 493 | 792,346 |
| Software | 26,165 | - | - | 8,019 | 34,184 |
| Transit facilities, rail and heavy equipment | 4,787,061 | - | - | 7,268 | 4,794,329 |
| **Total depreciable assets** | **6,388,092** | **7,553** | **(422)** | **25,432** | **6,420,655** |
| **Accumulated depreciation** | | | | | |
| Access rights | (227,114) | (13,520) | - | - | (240,634) |
| Buildings and leasehold improvements | (19,802) | (2,203) | - | 374 | (21,631) |
| Furniture, equipment and vehicles | (14,729) | (3,551) | 403 | - | (17,877) |
| Revenue vehicles | (293,848) | (37,340) | - | (1) | (331,189) |
| Software | (23,497) | (5,571) | - | 1,580 | (27,488) |
| Transit facilities, rail and heavy equipment | (734,934) | (117,858) | - | 2,942 | (849,850) |
| **Total accumulated depreciation** | **(1,313,924)** | **(180,043)** | **403** | **4,895** | **(1,488,669)** |
| **Total depreciable assets, net** | **5,074,168** | **(172,490)** | **(19)** | **30,327** | **4,931,986** |
| **Total capital assets, net** | **$ 10,436,004** | **$ 1,851,285** | **$ (42,505)** | **$ (13,478)** | **$ 12,231,306** |

| *(in thousands)* | 2018 Beginning balance | Additions | Disposals / reductions | Transfers | 2018 Ending balance |
|---|---|---|---|---|---|
| **Non-depreciable assets** | | | | | |
| Land | $ 753,230 | $ - | $ (6,527) | $ 89,628 | $ 836,331 |
| Permanent easements | 541,489 | - | - | 2,295 | 543,784 |
| Capital projects in progress: | | | | | |
| Sound Transit - tangible | 2,982,279 | 1,439,886 | (3,791) | (461,807) | 3,956,567 |
| Sound Transit - intangible | 15,151 | 13,339 | (2,230) | (4,947) | 21,313 |
| Other governments - tangible | 4,161 | 15,810 | (15,706) | (424) | 3,841 |
| **Total non-depreciable assets** | **4,296,310** | **1,469,035** | **(28,254)** | **(375,255)** | **5,361,836** |
| **Depreciable assets** | | | | | |
| Access rights | 695,509 | 28,800 | - | 2,623 | 726,932 |
| Buildings and leasehold improvements | 33,480 | 621 | - | 4,118 | 38,219 |
| Furniture, equipment and vehicles | 16,623 | - | (76) | 1,315 | 17,862 |
| Revenue vehicles | 710,994 | - | (3,047) | 83,906 | 791,853 |
| Software | 22,418 | - | - | 3,747 | 26,165 |
| Transit facilities, rail and heavy equipment | 4,504,871 | - | - | 282,190 | 4,787,061 |
| **Total depreciable assets** | **5,983,895** | **29,421** | **(3,123)** | **377,899** | **6,388,092** |
| **Accumulated depreciation** | | | | | |
| Access rights | (214,171) | (12,943) | - | - | (227,114) |
| Buildings and leasehold improvements | (17,983) | (1,819) | - | - | (19,802) |
| Furniture, equipment and vehicles | (13,211) | (1,587) | 69 | | (14,729) |
| Revenue vehicles | (264,250) | (32,644) | 3,046 | - | (293,848) |
| Software | (20,730) | (2,767) | - | - | (23,497) |
| Transit facilities, rail and heavy equipment | (619,775) | (115,159) | - | - | (734,934) |
| **Total accumulated depreciation** | **(1,150,120)** | **(166,919)** | **3,115** | **-** | **(1,313,924)** |
| **Total depreciable assets, net** | **4,833,775** | **(137,498)** | **(8)** | **377,899** | **5,074,168** |
| **Total capital assets, net** | **$ 9,130,085** | **$ 1,331,537** | **$ (28,262)** | **$ 2,644** | **$ 10,436,004** |

Pursuant to the adoption of GASB Statement No. 89 – *Accounting for Interest Costs Incurred Before the End of A Construction Period,* no interest costs were capitalized during 2019. During 2018, Sound Transit capitalized $98.4 million of interest costs, representing interest costs incurred related to Sound Transit's capital program for the year, net of premium, discounts and deferred amount on debt refunding, on its outstanding bonds (see note 8).

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

| *(in thousands)* | 2019 | 2018 |
|---|---|---|
| Accrued liabilities | $ 283,090 | $ 185,962 |
| Due to other governments | 119,880 | 55,095 |
| Accounts payable | 33,823 | 34,273 |
| Accrued salaries, wages and benefits | 20,012 | 16,272 |
| Retainage payable | 220 | 726 |
| | **$ 457,025** | **$ 292,328** |

## 8. LONG-TERM DEBT

Sound Transit's long-term debt is comprised of three categories: Prior Bonds, Parity Bonds and Second Tier Junior Obligations borrowed pursuant to the Transportation Infrastructure Finance and Innovation Act (TIFIA Loans). All bond issuances and borrowings are considered public debt. Prior Bonds have first claim upon the local option taxes of sales and use, rental car, and MVET. Parity Bonds are subordinate to the Prior Bonds and also have claim upon the local option taxes of sales and use, rental car, and MVET. TIFIA Loans are subordinate to both Prior Bonds and Parity Bonds and have claim on the local option taxes of sales and use, rental car, and MVET, as well. Proceeds from bond issues are used for funding Sound Transit's capital program or refunding prior bond issues. As of December 31, 2019 and 2018, Sound Transit had no direct borrowings.

As of December 31, 2019 and 2018, total outstanding long-term debt is as follows:

| *(in thousands)* | 2019 | 2018 |
|---|---|---|
| **Long-term debt** | | |
| Bonds payable | | |
| Prior bonds | $ 454,795 | $ 487,870 |
| Parity bonds | 1,717,020 | 1,723,465 |
| Premium | 160,737 | 172,698 |
| Discount | (2,514) | (2,895) |
| **Total bonds payable** | **2,330,038** | **2,381,138** |
| TIFIA Loans | 156,606 | 56,606 |
| **Total debt** | **2,486,644** | **2,437,744** |
| Amounts due within one year | (42,915) | (39,520) |
| **Total long-term debt** | **$ 2,443,729** | **$ 2,398,224** |

### *Bonds payable (prior and parity)*

| *(in thousands)* | 2019 Beginning balance | Additions | Reductions | 2019 Ending balance | Amounts due within one year |
|---|---|---|---|---|---|
| **Bonds payable** | | | | | |
| Series 1999 | $ 275,590 | $ - | $ (21,905) | $ 253,685 | $ 23,055 |
| Series 2009P-2T | 76,845 | - | - | 76,845 | 7,390 |
| Series 2009S-2T | 300,000 | - | - | 300,000 | - |
| Series 2012P-1 | 135,435 | - | (11,170) | 124,265 | 5,720 |
| Series 2012S-1 | 83,525 | - | (6,445) | 77,080 | 6,750 |
| Series 2015S-1 | 789,940 | - | - | 789,940 | - |
| Series 2015S-2A | 75,000 | - | - | 75,000 | - |
| Series 2015S-2B | 75,000 | - | - | 75,000 | - |
| Series 2016S-1 | 400,000 | - | - | 400,000 | - |
| | **2,211,335** | **-** | **(39,520)** | **2,171,815** | **42,915** |
| Plus unamortized premium | 172,698 | - | (11,961) | 160,737 | |
| Less unamortized discount | (2,895) | - | 381 | (2,514) | |
| **Total bonds payable** | **$ 2,381,138** | **$ -** | **$ (51,100)** | **$ 2,330,038** | **$ 42,915** |

| *(in thousands)* | 2018 Beginning balance | Additions | Reductions | 2018 Ending balance | Amounts due within one year |
|---|---|---|---|---|---|
| **Bonds payable** | | | | | |
| Series 1999 | $ 283,190 | $ - | $ (7,600) | $ 275,590 | $ 21,905 |
| Series 2009P-2T | 76,845 | - | - | 76,845 | - |
| Series 2009S-2T | 300,000 | - | - | 300,000 | - |
| Series 2012P-1 | 157,955 | - | (22,520) | 135,435 | 11,170 |
| Series 2012S-1 | 86,065 | - | (2,540) | 83,525 | 6,445 |
| Series 2015S-1 | 792,840 | - | (2,900) | 789,940 | - |
| Series 2015S-2A | 75,000 | - | - | 75,000 | - |
| Series 2015S-2B | 75,000 | - | - | 75,000 | - |
| Series 2016S-1 | 400,000 | - | - | 400,000 | - |
| | **2,246,895** | **-** | **(35,560)** | **2,211,335** | **39,520** |
| Plus unamortized premium | 185,005 | - | (12,307) | 172,698 | |
| Less unamortized discount | (3,276) | - | 381 | (2,895) | |
| **Total bonds payable** | **$ 2,428,624** | **$ -** | **$ (47,486)** | **$ 2,381,138** | **$ 39,520** |

Excluding unamortized premium and discount, Sound Transit had a total of $2,171.8 million Prior and Parity Bonds outstanding at December 31, 2019, compared to $2,211.3 million at December 31, 2018. A total of $39.5 million and $35.6 million of principal payments were made in 2019 and 2018, respectively.

Sound Transit maintains certain minimum deposit accounts pursuant to Sound Transit Board resolutions, the Prior Master Bond Resolution and the Parity Master Bond Resolution, to meet debt service requirements. A Prior Bond Account and a Parity Bond Account are funded with monthly deposits so that the balance will be sufficient to pay the interest, or principal and interest, next coming due on the bonds (see also note 3).

The following tables set forth average coupon and effective rates, rating agency information, principal payment commencement dates, fair value and minimum deposits currently restricted for debt service related to bonds.

***Prior bonds*—**Debt service requirements for Prior Bonds are payable in February and August of each year and are secured by local option taxes.

| (in millions) | | Average rate | | Ratings | | Principal | Fair value* | | Principal and interest restricted | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issue date | Coupon | Effective | Moody's | S&P | payment begins | 2019 | 2018 | 2019 | 2018 |
| Series 1999 | Dec 1, 1998 | 4.88 | 5.03 | Aaa | AAA | Feb 1, 2006 | $ 299.5 | $ 297.7 | $ 28.2 | $ 27.5 |
| Series 2009P-2T | Sep 29, 2009 | 5.01 | 3.31** | Aaa | AAA | Feb 1, 2020 | 84.7 | 83.8 | 9.0 | 1.6 |
| Series 2012P-1 | Aug 22, 2012 | 4.97 | 2.62 | Aaa | AAA | Feb 1, 2013 | 133.4 | 146.0 | 8.3 | 14.0 |

* Estimated using quoted market prices
**Effective rate reduced due to interest subsidy provided by U.S. Government for Build America Bonds

Sound Transit is also required, by covenant, to maintain a common debt service reserve account for all Prior Bonds. The common debt service reserve requirement for these bonds is met by a surety policy in the amount of $31.7 million purchased in 1999, a $7.9 million cash reserve, funded at the time the 2009P bonds were issued, and an $11.5 million cash reserve, funded at the time the 2012P-1 bonds were issued (see also note 3). Sound Transit is required to value, at market, the investments held in debt service reserve accounts annually and to make up any deficiency within six months after the date of the valuation. As of December 31, 2019, and 2018, the market value of the Prior debt service reserve exceeded the required reserve amount. Reserve account proceeds are invested in municipal bonds.

***Parity bonds*—**Debt service requirements for Parity Bonds are payable in May and November each year and are secured by local option taxes.

| (in millions) | | Average rate | | Ratings | | Principal | Fair value* | | Principal and interest restricted | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issue date | Coupon | Effective | Moody's | S&P | payment begins | 2019 | 2018 | 2019 | 2018 |
| Series 2009S-2T | Sep 29, 2009 | 5.49 | 3.62** | Aa1 | AAA | Nov 1, 2029 | $ 387.6 | $ 372.6 | $ 2.7 | $ 2.7 |
| Series 2012S-1 | Aug 22, 2012 | 4.91 | 2.73 | Aa1 | AAA | Nov 1, 2016 | 84.4 | 91.3 | 7.4 | 7.1 |
| Series 2015S-1 | Sep 10, 2015 | 4.67 | 3.89 | Aa1 | AAA | Nov 1, 2018 | 908.5 | 876.9 | 6.2 | 6.2 |
| Series 2015S-2A | Sep 10, 2015 | Var | Var | Aa1 | AAA | Nov 1, 2041 | 75.0 | 75.0 | 0.1 | 0.1 |
| Series 2015S-2B | Sep 10, 2015 | Var | Var | Aa1 | AAA | Nov 1, 2041 | 75.0 | 75.0 | 0.1 | 0.1 |
| Series 2016S-1 | Dec 19, 2016 | 5.00 | 3.60 | Aa1 | AAA | Nov 1, 2021 | 509.3 | 476.2 | 3.3 | 3.3 |

* Estimated using quoted market prices
** Effective rate reduced due to interest subsidy provided by U.S. Government for Build America Bonds

There are no externally imposed legal or contractual obligations requiring Sound Transit to establish a reserve account for Parity Bonds.

The variable rate Series 2015S-2 Parity Bonds were issued as index floating rate bonds through May 1, 2018, at which time the issuance became subject to prior optional redemption or conversion to a new index floating rate period or to another interest rate mode. On July 18, 2018, Sound Transit closed the remarketing of the variable rate Series 2015S-2A and Series 2015S-2B Parity Bonds. The transaction reduced cost of Series 2015S-2A by 0.40%, and cost of Series 2015S-2B by 0.25%. Interest is payable on the first business day of each month at the Securities Industry and Financial Markets Association ("SIMFA") index rate plus a spread of 70 basis points.

### *Long-term bond requirements*

Long-term bond requirements are displayed in the table below:

| (in thousands) Year ending December 31 | Principal | Interest * | Total |
|---|---|---|---|
| 2020 | $ 42,915 | $ 104,322 | $ 147,237 |
| 2021 | 54,300 | 102,058 | 156,358 |
| 2022 | 58,390 | 99,275 | 157,665 |
| 2023 | 62,670 | 96,346 | 159,016 |
| 2024 | 78,620 | 93,218 | 171,838 |
| 2025-2029 | 407,730 | 404,562 | 812,292 |
| 2030-2034 | 370,240 | 319,053 | 689,293 |
| 2035-2039 | 500,550 | 215,558 | 716,108 |
| 2040-2044 | 331,805 | 105,517 | 437,322 |
| 2045-2049 | 229,150 | 34,622 | 263,772 |
| 2050-2053 | 35,445 | 1,620 | 37,065 |
| | $ 2,171,815 | $ 1,576,151 | $ 3,747,966 |

* Does not deduct 35% Build America Bonds subsidy on the interest payments.

The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) program, which authorized state and local governments to issue BABs as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt municipal bonds. Issuers receive a direct federal subsidy payment for a portion of their borrowing costs paid to investors of BABs. The direct federal subsidy, once earned, is considered a non-exchange transaction, separate from the interest payments made, and is recorded in other non-operating revenue when Sound Transit makes its interest payment. Sound Transit received subsidies of $6.7 million and $6.6 million, in 2019 and 2018, respectively. The 2009P-2T bonds and the 2009S-2T bonds are Build America Bonds.

### *Second tier Junior obligations (TIFIA loans)*

TIFIA loans are second tier junior obligations and as such, are subordinate to both the Parity and Prior bonds. The TIFIA loans are governed by two credit agreements, the TIFIA Master Credit Agreement and the East Link Loan Agreement, the details of which are presented below.

In December 2016, Sound Transit entered into a TIFIA Master Credit Agreement with the United States Department of Transportation with a contingent commitment of up to $1.99 billion for a program of four loans for the following projects: Northgate Link Extension, Lynnwood Link Extension, Federal Way Link Extension and Operations and Maintenance Facility East (OMFE). If funds are not drawn within one year of each project's respective substantial completion date, the contingent commitment and available credit, respectively, may be reduced.

With the execution of the TIFIA Master Credit Agreement, the East Link Loan Agreement was amended and restated to be consistent with the TIFIA Master Credit Agreement; however, it is not included in the scope of the Master Credit Agreement. Under the East Link Loan Sound Transit may borrow up to $1.33 billion. On August 15, 2019, Sound Transit made its first draw on the TIFIA East Loan for $50.0 million. As of December 31, 2019, the loan has accrued $0.5 million in interest. Principal and interest on the loan is payable semi-annually in May and November of each year commencing May 1, 2030.

Concurrent with the execution of the TIFIA Master Credit Agreement, Sound Transit executed the first loan under the TIFIA Master Credit Agreement for the Northgate Link Extension for a loan of up to $615.3 million with a fixed rate of 3.13% to fund up to 33% of the project costs for the Northgate Link Extension. As of December 31, 2019 and 2018, the TIFIA Northgate Loan had a principal balance of $81.6 million and $56.6 million and accrued interest of $3.8 million and $1.7 million, respectively. Principal and interest on the loan is payable semi-annually in May and November of each year commencing November 1, 2026.

On June 22, 2017, Sound Transit entered into the TIFIA OMFE Loan Agreement under the TIFIA Master Credit Agreement for up to $87.7 million with a fixed rate of 2.73% to fund a portion of the OMFE project costs. On August 15, 2019, Sound Transit made its first draw on the TIFIA OMFE Loan for $25.0 million. As of December 31, 2019, the loan has accrued $0.3 million in interest. Principal and interest on the loan is payable semi-annually in May and November of each year commencing November 1, 2025.

On December 19, 2018, Sound Transit closed the TIFIA Lynnwood Loan Agreement under the TIFIA Master Credit Agreement for up to $657.9 million with a fixed rate of 3.06%.

On December 16, 2019, Sound Transit closed the TIFIA Federal Way Loan Agreement under the TIFIA Master Credit Agreement for up to $629.5 million with a fixed rate of 2.36%.

The following table sets forth TIFIA loan activity for the years ended December 31, 2019 and 2018 combined:

| *(in thousands)* | Year executed | Credit line | Interest rate | Final maturity | Drawn amount | Interest | 2019 Ending balance |
|---|---|---|---|---|---|---|---|
| **TIFIA loans** | | | | | | | |
| East Link Extension | 2015 | $ 1,330,000 | 2.38% | 2058 | $ 50,000 | $ 453 | $ 50,453 |
| Northgate Link Extension | 2016 | 615,300 | 3.13% | 2056 | 81,606 | 3,830 | 85,436 |
| OMFE | 2016 | 87,700 | 2.73% | 2055 | 25,000 | 260 | 25,260 |
| Lynnwood Link Extension | 2018 | 657,900 | 3.06% | 2059 | - | - | - |
| Federal Way Link Extension | 2019 | 629,500 | 2.36% | 2059 | - | - | - |
| **Total TIFIA loans** | | $ 3,320,400 | | | $ 156,606 | $ 4,543 | $ 161,149 |

## 9. OTHER LONG-TERM OBLIGATIONS

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

| *(in thousands)* | 2019 Beginning balance | Additions, accretion and changes in estimates | Reductions | 2019 Ending balance | Amounts due within one year * |
|---|---|---|---|---|---|
| **Asset retirement obligations** | $ 3,800 | $ 781 | $ - | $ 4,581 | $ - |
| **Uninsured losses** | 4,002 | 6,771 | (7,701) | 3,072 | 1,419 |
| **Compensated absences** | 10,422 | 11,706 | (10,318) | 11,810 | 11,810 |
| **Total other long-term obligations** | $ 18,224 | $ 19,258 | $ (18,019) | $ 19,463 | $ 13,229 |

| *(in thousands)* | 2018 Beginning balance | Additions, accretion and changes in estimates | Reductions | 2018 Ending balance | Amounts due within one year * |
|---|---|---|---|---|---|
| **Asset retirement obligations** | $ 3,619 | $ 181 | $ - | $ 3,800 | $ - |
| **Uninsured losses** | 2,860 | 2,667 | (1,525) | 4,002 | 1,233 |
| **Compensated absences** | 9,131 | 9,880 | (8,589) | 10,422 | 10,422 |
| **Total other long-term obligations** | $ 15,610 | $ 12,728 | $ (10,114) | $ 18,224 | $ 11,655 |

* Amounts due within one year are included in current liabilities under the line items *Accounts payable and accrued liabilities,* and *Other claims and short-term obligations.*

***Asset retirement obligations (ARO)***—In the course of entering into agreements with other governments and rail providers to construct Sound Transit's capital assets, certain agreements contain clauses that impose a legal burden on Sound Transit to remove all or a portion of those constructed assets at the termination of those agreements.

The ARO liability is measured based on estimated costs to fulfill Sound Transit's ARO developed by internal resources with in depth knowledge of construction and demolition costs and adjusted annually for inflation. The corresponding deferred outflow of resources is amortized over the estimated remaining useful lives of the associated tangible capital assets and ranges from 20 to 33 years. There are no assets required to be restricted for the payment of these liabilities nor is there any legally required funding or assurance provisions associated with the AROs being met.

***Risk management***—In the ordinary course of planning, building and operating its regional transit systems and services, Sound Transit is exposed to various types of risks and exposures of loss including: torts; theft of, damage to and destruction of assets; errors and omissions; job related injuries to persons; natural disasters; and environmental occurrences.

Sound Transit has established a comprehensive risk management and insurance program to mitigate the potential for loss and for the administration of claims through a combination of commercial insurance and coverage under partner agency operating agreements. Sound Transit's agency operations and rail operations insurance policies are written on an occurrence or claims made basis, with a specific deductible or self-insured retention, renewing annually. Agency operation policies renew on May 1st and rail operation policies renew on November 1st. Worker's compensation is insured through the state of Washington.

Major coverages under these programs are as follows:

| Program | Major coverage | Limit / deductible or *retention |
|---|---|---|
| Agency operation | Property (earthquake)<br>Primary and excess liability<br>Commercial auto / excess liability<br><br>Pollution / excess liability<br>Public officials / employer liability<br>Fiduciary liability | $400M ($150M) / $100K ($2.5M)<br>$100M / $250K<br>$50M / $500 comprehensive or $1K collision<br>$50M / $100K *<br>$25M / $250K<br>$10M / $0 |
| Rail operation | Light rail / excess liability<br>Heavy rail / excess liability<br>Property – rolling stock (earthquake) | $100M / $3M<br>$295M / $3M<br>$40M / $50K or $500K derailment |
| Bus operation | Provided through partner agency operating agreements | N/A |

For certain larger capital projects, Sound Transit utilizes Owner Controlled Insurance Programs (OCIP's) to address general liability, builders risk and contractors' pollution liability claims related to project construction carried out by Sound Transit's third-party contractors, as well as professional liability coverage extending through December 31, 2019 for Central Link and University Link OCIP's.

Sound Transit's first OCIP was secured in 2001, for construction of the Central Link light rail project and subsequently amended to include the Airport Link light rail extension. Coverage for the Central Link OCIP is now expired, with the exception of Professional Liability which provides coverage for final design through December 31, 2019.

Sound Transit secured a second OCIP in October 2008 for the University Link Light rail extension project with coverage provided from October 20, 2008 through March 19, 2016. On-going operations coverage is now expired, but the University Link Light rail extension OCIP provides six years of completed operations coverage, which will expire March 19, 2022.

Sound Transit's third OCIP was secured in December 2012 for the North Link Light rail extension project with coverage provided from December 31, 2012 to December 31, 2021 and includes six years of completed operations coverage, which will expire December 31, 2027.

Major coverages under these programs are as follows:

| Program | Major Coverage | Limit / Deductible or *Retention |
|---|---|---|
| Central Link OCIP | Professional Liability | $50M / $250K * |
| University Link OCIP | Primary and Excess Liability<br>Pollution Liability | $100M / $100K<br>$50M / $250K * |
| Northgate Link OCIP | Primary and Excess Liability<br>Pollution Liability<br>Builders Risk | $100M / $100K<br>$50M / $250K *<br>$400M / $500K |

Sound Transit has deposited $1.0 million for the University Link OCIP and an additional $0.7 million for the North Link OCIP with the insurer, in an interest-bearing account with Wells Fargo Bank as collateral, to ensure Sound Transit's financial obligation for payment of any general liability claims resulting from these projects. While Sound Transit is directly responsible for payment of the deductible to the insurers, it has further transferred its risk of loss through its construction contracts, requiring contractors covered by these programs to be responsible for 100% of the deductible on general liability and pollution liability claims ($100 thousand and $250 thousand respectively) and the first $250 thousand of any builders risk loss.

Self-insured liabilities are recorded when probable that a loss has occurred and the amount can be reasonably estimated and includes estimates for claims that have been incurred but not yet reported. As actual liabilities depend on a number of complex factors the process used in estimating the claims liability does not necessarily result in an exact amount. Annually, Sound Transit engages an actuary to prepare an independent actuarial analysis and to prepare an actuarial report in order to estimate its total insurance claim exposure under all of its insurance and risk management programs. The insurance claim amount estimated to be paid within the next year is included in other claims and short-term obligations.

***Compensated balances***—Amounts estimated to be paid within the next year are included in accounts payable and accrued liabilities.

## 10. RESTRICTED NET POSITION

Restricted net position consists of the following:

| *(in thousands)* | 2019 | 2018 |
|---|---|---|
| Debt service | $ 58,044 | $ 57,453 |
| Contractual arrangements | 17,298 | 13,027 |
| | **$ 75,342** | **$ 70,480** |

## 11. EMPLOYEE BENEFITS

Sound Transit provides a defined contribution money purchase plan and trust (401(a) Plan) to its employees. Empower Retirement is the plan's administrator and trustee. This plan is a fixed employer system, and membership in the system includes all full time Sound Transit employees. 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.

Eligible employees are required to participate in the plan on the first day of employment. The amount of covered payroll during 2019 and 2018 was $111.8 million and $92.7 million, respectively, and total payroll was $112.2 million and $93.2 million, respectively. The required contribution rates, expressed as a percentage of covered payroll, and required Sound Transit contributions during 2019 and 2018 were as follows:

| | Contribution rate | | Contributions (in thousands) | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Employer | 12% | 12% | $ 13,412 | $ 11,126 |
| Employee | 10 | 10 | 11,176 | 9,272 |
| **Total** | **22%** | **22%** | **$ 24,588** | **$ 20,398** |

## 12. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

In the ordinary course of its operations, Sound Transit enters into a number of agreements with other governmental and quasi-governmental agencies, including: the operation and maintenance of buses and trains that it has purchased; right of way access and use; planning, building and operation of its facilities; and collection of its taxes. With the exception of Tacoma Link light rail, all services are operated by partner agencies. A summary of significant agreements follows:

***ST Express*****—**Agreements have been entered into with King County Metro, Community Transit and Pierce Transit for the operations and maintenance of bus service, covering vehicle maintenance, operations, coordination of service planning, revenue processing, customer service, personnel and performance standards, and information and compliance reporting. The agreements set forth the process for annual financial authorization for service and the basis of compensation, substantially comprised of a baseline cost rate for purchased transportation, as well as fuel and other costs provided for, but not included, as part of the baseline. Baseline cost rates, including allocated costs, are established by no later than December 15th for the upcoming year and are reconciled to actual incurred costs by no later than March 31st of the year following. The current agreements with Community Transit and Pierce Transit are for 1 year, expiring December 31, 2020. The current agreement with King County is for 5 years, expiring December 31, 2024.

***Link Light Rail*****—**Sound Transit contracts with King County Metro for the operation and maintenance of its light rail service, operating between the Angle Lake and the University of Washington stations. The agreement sets forth the process for annual financial authorization for service and the basis of compensation, substantially comprised of a baseline cost rate for purchased transportation, as well as other costs provided for, but not included, as part of the baseline. Baseline cost rates, including allocated costs, are established by no later than December 15th for the upcoming year and are reconciled to actual incurred costs by no later than March 31st of the year following. The current 2009 agreement expired on July 2014 and has been extended thereafter, currently through December 31, 2023.

Sound Transit has also entered into the following agreements related to light rail or station operations:

> ***Downtown Seattle Transit Tunnel (DSTT) Agreement*****—**This agreement with King County and City of Seattle provides for cost sharing with regard to the maintenance and operation in the DSTT in exchange for the right to use the tunnel for light rail operations. Sound Transit's ongoing obligations include reimbursement of maintenance costs and cost-sharing for future capital repairs or replacements as they arise. In 2019, light rail became the sole mode of transportation in the DSTT; as such, Sound Transit has entered into negotiations to transfer ownership of the tunnel from King County to Sound Transit.
>
> ***Light Rail Agreements*****—**Sound Transit has entered into a variety of agreements to secure the permanent right to operate light rail in the right of way (under, upon and over streets and property) owned by the City of Seattle, Tukwila, SeaTac, the Port of Seattle, Bellevue, Lynnwood, Shoreline, Mountlake Terrace, Federal Way, Kent, Des Moines and Tacoma. The cost of public right of way improvements have been capitalized to rail access rights and include those costs necessary to operate light rail service, such as costs to acquire real property and relocate existing residents and businesses, as well as certain improvements to the right of way required under those agreements.

***Sounder***—Agreements have been entered into with BNSF for the operation of Sounder commuter rail service and with Amtrak for operation and maintenance of the locomotives, cab and coach cars (rolling stock). Service between Everett and Seattle and Seattle and Tacoma is on rail right of way owned and operated by BNSF.

***South Line***—Service between Seattle and Lakewood is provided by BNSF under a 40-year service agreement for the operation of 26 daily one-way (13 round-way) commuter rail trips that expires in 2040. The agreement establishes the compensation paid to BNSF for train crews, maintenance of way and other expensed incurred in the operation of the Sounder Service and is based on actual cost of crew, dispatch and management, as well as cost for performance incentives. Upon expiration of the service agreement, Sound Transit's use of BNSF track will be bound by a dormant Joint Use Agreement for BNSF's Seattle-Tacoma corridor.

***North Line***—BNSF operates 4 daily commuter rail round trips between Seattle and Everett for Sound Transit under a service agreement. The service agreement expires in December 2020. Upon expiration of the service agreement, Sound Transit's use of BNSF track will be bound by a dormant Joint Use Agreement for BNSF's Seattle-Everett corridor.

***Rolling Stock***—In 2000, Sound Transit leased the initial portion of its rolling stock to 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, Amtrak subleased this rolling stock to BNSF for operation of Sounder Service. Both lease agreements are for a 40-year term, expiring in 2040.

***Maintenance Service Agreement***—In 2016 Sound Transit entered into an amended agreement with Amtrak, under which 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. A negotiated rate is also established for additional service above the baseline operating plan. The agreement expires in 2021.

***First Hill Streetcar***—In October 2010, Sound Transit agreed to fully fund $132.8 million of the costs necessary to design, construct and operate the First Hill Streetcar that was established in the November 2009 Funding and Cooperative Agreement, of which $5.0 million is payable annually through 2023 for annual operations and maintenance expenses. The City of Seattle owns and operates the First Hill Streetcar facilities and vehicles.

***Land Bank Agreement***—Sound Transit entered into an agreement called the Land Bank Agreement with WSDOT in July 2000 which was restated in December 2003. The purpose of the agreement is to establish a framework within which WSDOT can, from time to time, convey portions of WSDOT property through lease or sale to Sound Transit for non-highway use in consideration for Sound Transit's funding of highway purpose improvements. In August 2010, as part of the Umbrella Agreement with WSDOT to complete the R8A Project, the land bank agreement was extended to 2080. Sound Transit will continue to earn land bank credits for constructing projects containing highway improvements and use credits on projects that are located within the public highway right of way through July, 2080.

Sound Transit has light rail guideways located on WSDOT property governed under multiple 20-year and 40-year airspace leases issued under the Land Bank Agreement. These airspace leases have options to renew for an additional 20 to 35 years. Should Sound Transit and WSDOT not enter into a new agreement at the end of the leases, property interests revert to WSDOT. At December 31, 2019, the value of the unused land bank credits that have not been conveyed by WSDOT to Sound Transit was $90.0 million. This value is not recorded in the financial statements as there is not sufficient certainty that the credit will be utilized.

The following table provides information on additions to and uses of credits accruing to the benefit of Sound Transit in 2019 and 2018:

| *(in millions)* | 2019 | 2018 |
|---|---|---|
| Balance in Land Bank, beginning of year | $ 50.1 | $ 92.8 |
| Additions: | | |
| I-90 Two-Way Transit & HOV | 50.2 | 30.5 |
| I-405 BRT Roadway | 24.4 | - |
| Draws: | | |
| 145th Street Park & Ride Parcel | (1.0) | - |
| Temporary Construction Airspace Lease (TCAL): | | |
| Downtown Redmond Link | (21.8) | - |
| Federal Way Link | (5.9) | - |
| Lynnwood Link (L200) | - | (29.0) |
| Lynnwood Link (L300) | - | (15.4) |
| Airspace Lease: | | |
| Federal Way Link | (6.0) | - |
| Lynnwood Link (L200) | - | (17.4) |
| Lynnwood Link (L300) | - | (11.4) |
| **Balance in Land Bank, end of year** | **$ 90.0** | **$ 50.1** |

***Amended and restated agreement for regional fare coordination system*** *(One Regional Card for All, ORCA)***—** In April 2009, Sound Transit entered into an amended agreement to operate and maintain ORCA, a system that establishes a common, non-cash fare system throughout seven participating transit agencies' service areas and commits the agencies to using ORCA for a minimum of ten years. Each agency shares in operating and maintaining ORCA in accordance with the agreement. Sound Transit's proportionate share of ORCA operating and maintenance costs was 26.2% and 24.6% for years 2019 and 2018, respectively.

Sound Transit's proportionate share of ORCA's assets, liabilities, revenues and expenses are presented in these financial statements as follows:

| *(in thousands)* | December 31 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 16,337 | $ 14,720 |
| Accounts receivable | 13,983 | 13,123 |
| **Total assets** | **30,320** | **27,843** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 17,496 | 16,382 |
| Unearned revenue | 12,824 | 11,461 |
| **Total liabilities** | **30,320** | **27,843** |
| **Net position** | **$ -** | **$ -** |
| **Total operating revenues** | **$ 85,298** | **$ 82,112** |
| **Total expenses** | **$ 2,360** | **$ 2,030** |

***Purchases*****—**At December 31, 2019 and 2018, Sound Transit had outstanding construction commitments of approximately $5.6 billion and $2.7 billion, respectively.

***Grants*****—**Sound Transit participates in several federal, state and local grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Sound Transit has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2019 and 2018 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to noncompliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

***Motor-Vehicle Excise Tax Litigation*****—**Sound Transit collects a 0.3% motor-vehicle excise tax approved by voters in 1996. In September 2019, plaintiffs filed a lawsuit seeking a refund of approximately 25% of the taxes collected after September 2016, and an order permanently reducing the tax by 25% until the tax terminates in 2028. The suit alleges that the tax was improperly calculated using the wrong vehicle valuation schedule. The trial court has ruled that plaintiffs are unlikely to prevail in the case, but the case remains pending.

***Initiative 976*****—**In November 2019, Washington State voters passed Initiative 976 (I-976) which (1) requires Sound Transit to repay its bond debt, but does not require that the bonds be retired by a certain date, and (2) repeals the agency's statutory authority to collect the motor-vehicle excise taxes and the related rental-car tax on the date the bond debt is repaid. In accordance with previous voter approved measures, these funding sources, as they relate to Sound Transit, have been pledged to secure payment of existing Sound Transit bond issuances. As such, these taxes will continue to be collected until such time as the bond debt obligations are repaid in accordance with the repayment schedule in the bond contracts. No litigation is currently pending or threatened against Sound Transit related to I-976, but such litigation may be filed within the next year depending on the outcome of other litigation to which Sound Transit is not a party. As of December 31, 2019, Sound Transit's financial position has not been directly impacted by I-976. Sound Transit will continue to monitor the developments surrounding I-976 and any related financial impacts.

***Covid-19 Impact*****—**Beginning in March 2020, Sound Transit operations, construction activities and revenues have been significantly affected by the Coronavirus pandemic. In response to health and safety concerns, and Washington State Governor Inslee's Proclamation 20-25 (Stay Home-Stay Healthy), Sound Transit has reduced service on all modes, temporarily suspended fares, and slowed or temporarily halted work at construction sites. The agency has been actively developing measures to tactically respond to the loss of fares and tax revenues. While these events and actions do not affect the financial position of Sound Transit as represented in these financial statements as of December 31, 2019, they will have an impact on operations, construction activities and the financial position of the agency in 2020, the magnitude of which is not yet known.

# Statistical data


Link Control Center inside current Operations and Maintenance Facility.

# Statistical data (unaudited)

### ST Express operating & maintenance expenses

| (in thousands) | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Salaries & benefits | $ 1,414 | $ 1,222 | $ 1,029 | $ 687 | $ 692 |
| Services & materials | 6,656 | 8,503 | 8,242 | 8,374 | 8,221 |
| Utilities, insurance, taxes, leases & misc | 1,798 | 2,960 | 3,481 | 3,764 | 3,687 |
| Purchased transportation | 128,981 | 116,379 | 105,264 | 98,918 | 89,358 |
| | **138,849** | **129,064** | **118,016** | **111,743** | **101,958** |
| Depreciation, disposals & recoveries* | 22,901 | 23,511 | 22,397 | 24,844 | 22,417 |
| Indirect expenses* | 7,945 | 7,000 | 7,045 | 5,877 | 6,210 |
| **Total** | **$ 169,695** | **$ 159,575** | **$ 147,458** | **$ 142,464** | **$ 130,585** |

### Link operating & maintenance expenses

| (in thousands) | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Salaries & benefits | $ 10,250 | $ 7,937 | $ 5,723 | $ 4,369 | $ 3,641 |
| Services & materials | 45,780 | 35,338 | 29,252 | 26,185 | 18,127 |
| Utilities, insurance, taxes, leases & miscellaneous | 14,350 | 16,005 | 13,713 | 12,754 | 8,566 |
| Purchased transportation | 52,294 | 46,923 | 41,542 | 36,897 | 27,413 |
| | **122,674** | **106,203** | **90,230** | **80,205** | **57,747** |
| Depreciation, disposals & recoveries* | 112,744 | 108,397 | 108,009 | 83,050 | 51,594 |
| Indirect expenses* | 19,109 | 16,198 | 10,043 | 8,437 | 6,429 |
| **Total** | **$ 254,527** | **$ 230,798** | **$ 208,282** | **$ 171,692** | **$ 115,770** |

### Sounder operating & maintenance expenses

| (in thousands) | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Salaries & benefits | $ 2,796 | $ 2,290 | $ 2,135 | $ 1,913 | $ 1,824 |
| Services & materials | 27,300 | 26,019 | 24,070 | 21,910 | 21,046 |
| Utilities, insurance, taxes, leases & misc | 5,766 | 5,715 | 5,240 | 5,155 | 4,358 |
| Purchased transportation | 13,348 | 12,962 | 11,113 | 10,721 | 9,277 |
| | **49,210** | **46,986** | **42,558** | **39,699** | **36,505** |
| Depreciation, disposals & recoveries* | 40,732 | 35,147 | 30,022 | 28,854 | 31,089 |
| Indirect expenses* | 6,735 | 4,264 | 3,338 | 5,208 | 4,193 |
| **Total** | **$ 96,677** | **$ 86,397** | **$ 75,918** | **$ 73,761** | **$ 71,787** |

### Revenue by source (in thousands)

| Year | Passenger Fares | Sales & Use Taxes | Property Taxes | Motor Vehicle Excise Taxes | Rental Car Taxes | Grant Revenues | Investment Income | Other Revenues | Total |
|---|---|---|---|---|---|---|---|---|---|
| **2019** | 97,101 | 1,415,704 | 150,310 | 345,757 | 3,792 | 260,449 | 69,131 | 74,372 | 2,416,616 |
| **2018** | 96,018 | 1,337,601 | 146,284 | 338,538 | 3,802 | 234,307 | 37,801 | 27,048 | 2,221,399 |
| **2017** | 90,339 | 1,119,720 | 140,869 | 280,382 | 3,548 | 371,932 | 16,897 | 24,692 | 2,048,379 |
| **2016** | 80,563 | 749,735 | - | 85,515 | 3,506 | 202,668 | 12,630 | 35,696 | 1,170,313 |
| **2015** | 65,426 | 699,114 | - | 79,564 | 3,297 | 136,115 | 5,124 | 57,932 | 1,046,572 |

* Certain reclassifications have been made to conform to the current year presentation.



# Key operating performance measures (unaudited)

### ST Express

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Total ridership | 17,494,527 | 18,189,263 | 18,374,834 | 18,470,406 | 18,312,624 |
| Service hours | 653,012 | 644,156 | 626,347 | 609,559 | 584,393 |
| Boardings per service hour | 26.79 | 28.24 | 29.34 | 30.30 | 31.34 |
| Cost per service hour | $ 218.49 | $ 212.64 | $ 197.97 | $ 194.54 | $ 186.71 |
| Cost per boarding | $ 8.16 | $ 7.53 | $ 6.75 | $ 6.42 | $ 5.96 |

### Link

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Total ridership | 25,698,641 | 25,367,906 | 23,975,261 | 20,059,936 | 12,503,823 |
| Service hours | 275,024 | 274,214 | 261,192 | 214,213 | 155,661 |
| Boardings per service hour | 93.44 | 92.51 | 91.79 | 93.64 | 80.33 |
| Cost per service hour | $ 497.41 | $ 441.61 | $ 368.50 | $ 417.96 | $ 422.89 |
| Cost per boarding | $ 5.32 | $ 4.77 | $ 4.01 | $ 4.46 | $ 5.26 |

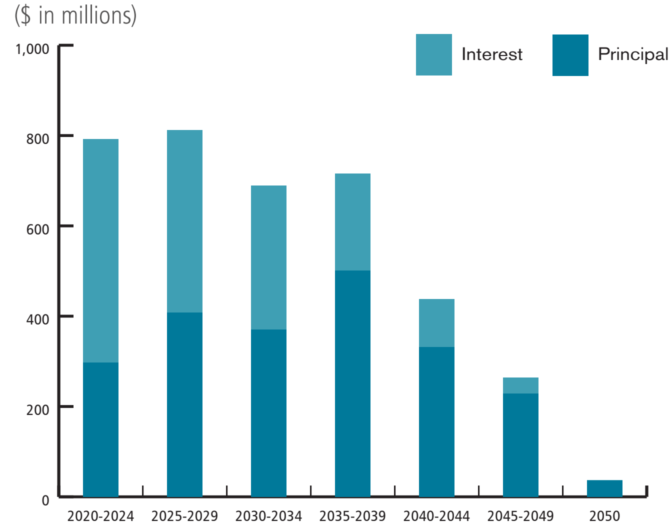
### Sounder

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Total ridership | 4,612,244 | 4,631,525 | 4,445,568 | 4,312,113 | 3,851,831 |
| Service hours | 75,641 | 75,807 | 63,935 | 59,275 | 58,760 |
| Boardings per service hour | 60.98 | 61.10 | 69.53 | 72.75 | 65.55 |
| Cost per service hour | $ 751.97 | $ 689.14 | $ 711.69 | $ 749.30 | $ 689.54 |
| Cost per boarding | $ 12.33 | $ 11.28 | $ 10.24 | $ 10.30 | $ 10.52 |

Source data - National Transit Database 1 Service hour = 1 Revenue vehicle mile hour

### Long-term service requirement to maturity** (unaudited)

($ in millions)




### 2019 debt capacity (unaudited)

| (in millions) | |
|---|---|
| Assessed valuation for collection of taxes | $ 777,233 |
| Maximum nonvoted debt (1.5% of assessed valuation) | $ 11,658 |
| Less: Series 1999, 2009, 2012, 2015, 2016 Bonds and Other Long-term debt | (5,504) |
| Nonvoted debt capacity remaining | **$ 6,154** |
| Maximum voted debt (5% of assessed valuation) | $ 38,862 |
| Less: Series 1999, 2009, 2012, 2015, 2016 Bonds and Other Long-term debt | (5,504) |
| Voted debt capacity remaining | **$ 33,358** |

### Long-term bond service coverage ratio** (unaudited)

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Prior bonds debt service coverage | 32.51x | 31.67x | 27.10x | 25.42x | 17.81x |
| Combined prior & parity bonds debt service coverage | 12.91x | 12.81x | 10.57x | 8.93x | 7.96x |

** Debt Service is reduced by Build America Bonds Federal subsidy payments.

The Sounder commute at Kent Station.



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