



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

*Financial Statements and Independent
Auditors' Report for the Years Ended
December 31, 2020 and 2019*

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TABLE OF CONTENTS

Statement of Management’s Responsibility	i
Report of Independent Auditors.....	ii
Management’s Discussion and Analysis.....	1
Basic Financial Statements	
Statements of Net Position.....	15
Statements of Revenues, Expenses and Changes in Net Position.....	16
Statements of Cash Flows.....	17
Notes to Financial Statements.....	19

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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 2020 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*

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 statements of net position as of December 31, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 2 of the financial statements, Sound Transit adopted the provisions of GASB Statement No. 87, Leases, and made a change in its accounting policy related to net position. The financial statements have been retroactively restated for these changes. Our opinion is not modified with respect to these matters.

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 28, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2020 and 2019

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, 2020 and 2019. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities 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 continues to progress.

Sound Transit financial results for the year ended December 31, 2020 reflect the challenges of the global COVID-19 pandemic. The varied impacts of the pandemic on the agency range from decreased ridership and lower farebox collections, decreased tax revenues to increased grant revenue through certain government stimulus programs. The effect of the pandemic on agency results is highlighted in each section of the discussion of results.

The Agency's pandemic response included the slowdown of project spending due to both government mandated COVID restrictions and a decision to pause certain project actions in order to further evaluate capital expansion affordability. The Agency maintains long-range financial projections and regularly assesses potential long-term changes to the capital expansion program. Sound Transit is actively engaged in realignment activities with the Agency's Board of Directors to align future projected available resources with the tax payer approved capital expansion program.

Financial Highlights

- Sound Transit's financial statements reflect an increase in net position of \$1.8 billion in 2020. The increase reflects continued progress on the voter approved capital expansion programs. The increase, despite the pandemic, highlights the agency's diversified tax revenues and the positive impact of federal COVID –19 grant programs. The 2019 net position grew by \$1.7 billion, also reflecting progress on the voter approved capital expansion programs funded primarily via taxes.
- System expansion continued in all corridors (North, Central, South and East) and across all modes, most significantly light rail in 2020 and 2019. Capital assets increased 15.9% in 2020 as a result of \$2,134.1 million of capital project spending related primarily to the East, Lynnwood, Federal Way,

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Redmond and Northgate Link extension projects, as well as the Operations Maintenance Facility East project. Non-operating revenues, net of expenses, were \$1,934.8 million, a 2.4% increase from 2019, primarily due to Coronavirus Aid, Relief, & Economic Security (CARES) Act revenue offset by a slight decrease in sales and use tax revenues due to COVID-19, which negatively impacted the regional economy.

- Capital contributions from federal, state and local funding arrangements were \$431.8 million, a net increase from 2019 of \$171.4 million or 65.8%, primarily reflecting increased grant revenue associated with Lynnwood and Tacoma Link extension projects.
- Total operating subsidy increased by \$78.6 million or 17.8% to \$519.8 million primarily due to lower ridership and passenger fare revenues related to the COVID-19 stay at home orders and higher depreciation expense, partially offset by a small decrease in operations and maintenance 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 2020 and 2019 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 and other 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.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Financial Analysis

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 as of December 31, 2020 was \$13.9 billion, an increase of \$1.8 billion or 15.4% from 2019. Total assets increased \$1.7 billion or 11.3% and total liabilities decreased \$133.1 million or 4.2%. The increase in total assets reflects the continued capital program spending primarily funded by tax revenues and federal grants.

The table below summarizes Sound Transit's net position:

Statements of Net Position					
<i>(in millions)</i>	December 31			% Change	
	2020	2019	2018	2020-2019	2019-2018
		(Restated)	(Restated)		
Assets					
Current assets, excluding restricted assets	\$ 1,777.4	\$ 1,988.4	\$ 2,178.9	(10.6)%	(8.7)%
Restricted assets	110.6	108.9	97.3	1.5	12.0
Capital assets	13,984.1	12,067.2	10,436.0	15.9	15.6
Other non-current assets	1,018.0	1,008.9	397.8	0.9	153.6
Total assets	16,890.1	15,173.4	13,110.0	11.3	15.7
Deferred Outflows of Resources	29.7	33.0	37.4	(10.2)	(11.7)
Liabilities					
Current liabilities, excluding interest payable from restricted assets	440.6	515.0	352.7	(14.4)	46.0
Interest payable from restricted assets	30.3	27.0	24.9	12.5	8.2
Long-term debt	2,378.0	2,443.7	2,398.2	(2.7)	1.9
Other long-term liabilities	189.4	185.7	74.2	2.0	150.4
Total liabilities	3,038.3	3,171.4	2,850.0	(4.2)	11.3
Deferred Inflows of Resources	18.4	18.7	-	(1.5)	100.0
Net Position					
Net investment in capital assets	11,463.8	9,473.0	7,774.4	21.0	21.8
Restricted net position	76.9	75.3	70.5	2.0	6.9
Unrestricted net position	2,322.4	2,468.0	2,452.5	(5.9)	0.6
Total net position	\$13,863.1	\$ 12,016.3	\$ 10,297.4	15.4%	16.7%

Current assets, excluding restricted assets, decreased 10.6% and 8.7% in 2020 and 2019, respectively. The decrease in 2020 and 2019 were primarily due to the use of cash to support capital activities and transfers of cash to non-current assets.

Capital assets increased 15.9% from 2019 and 15.6% between 2019 and 2018. Total capital project spending for 2020 was \$2,134.1 million, versus \$2,023.8 million in 2019, reflecting continued increased construction spending on the various Link extension projects, as well as the Operations Maintenance Facility East project.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Total capital spending for light rail in 2020 was \$2,134.1 million or 92.3% of total capital spending (\$1,874.0 million or 92.6% in 2019). Capital spending on Sounder and Regional Express projects, as a percentage of total capital spending, was 1.5% and 5.1%, respectively (0.9% and 5.0% in 2019).

Other non-current assets increased 0.9% or \$9.1 million and 153.6% or \$611.1 million in 2020 and 2019, respectively. The increase in 2019 was primarily due to the recognition of right-of-use assets related to the retroactive application of adoption of GASB 87 *Leases* in 2020, and higher capital replacement investment requirements as a result of capital project expansion.

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 decreased 4.2% between 2020 and 2019 due to the decrease in current liabilities and long-term debt; and increased 11.3% between 2019 and 2018 primarily due to the recognition of lease related obligations and increased long-term debt in the form of Transportation Infrastructure Finance and Innovation Act (TIFIA) loans. Current liabilities, excluding interest payable from restricted assets, decreased \$74.4 million or 14.4% in 2020 and increased \$162.3 million or 46.0% in 2019. The decrease in 2020 was primarily due to less operating costs while the increases in 2019 were due to increased spending on planning, construction and operating costs.

Deferred inflows of resources includes unrecognized lease revenues related to leases in which the agency is the lessor.

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. Balances include capital asset related payables, bonds and debt under the TIFIA program, as well as lease related assets and liabilities. The inclusion of TIFIA loans represents a reclassification from prior year presentations. Net investment in capital assets increased 21.0% from 2019 and 21.8% between 2019 and 2018 as capital program spending continued to increase, net of debt.

Restricted net position is comprised of assets net of liabilities externally restricted by legal or contractual obligations for a specific purpose related to a third party.

Unrestricted net position is the remainder of assets and deferred outflows of resources, net of liabilities and deferred inflows of resources, not invested in capital assets nor contractually restricted for a specific purpose. Unrestricted net position decreased 5.9% in 2020 and increased 0.6% in 2019 as capital spending increased faster than cash and investments. Borrowing under the agency's TIFIA program is now included in net investment in capital assets as a result of a change in accounting policy from prior year presentations. This change has been made for all reporting periods presented.

Changes in Net Position

Changes in net position reflect the excess or deficit of revenues over expenses for a given year. In 2020, revenues exceeded expenses by \$1,846.8 million, an increase from the prior year of 8.1%. In 2019 revenues exceeded expenses by \$1,708.8 million, a 1.4% increase from 2018. The 2020 increase primarily reflects the receipt of CARES Act funding which offset reduced passenger fares revenues, and an increase in federal capital contributions as a result of system expansion project advancements funded

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

by federal grants. The 2019 increases reflect regional economic growth, which drives tax revenues, and exceeded the growth in expenses during the year.

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

Changes in Net Position <i>(in millions)</i>	For the Year Ended December 31			% Change	
	2020	2019 (Restated)	2018	2020-2019	2019-2018
Operating revenues					
Passenger fares	\$ 30.8	\$ 97.1	\$ 96.0	(68.3)%	1.1%
Other	7.3	8.3	7.0	(11.5)	18.5
Total operating revenues	38.1	105.4	103.0	(63.9)	2.3
Operating expenses					
Total operating expenses, before depreciation	360.5	360.3	334.1	0.1	7.8
Depreciation and amortization	197.4	186.3	167.1	5.9	11.5
Total operating expenses	557.9	546.6	501.2	2.1	9.1
Loss from operations	(519.8)	(441.2)	(398.2)	17.8	10.8
Non-operating revenues, net of expenses	1,934.8	1,889.6	1,848.3	2.4	2.2
Income before capital contributions	1,415.0	1,448.4	1,450.1	(2.3)	0.1
Capital contributions	431.8	260.4	234.3	65.8	11.2
Change in net position	1,846.8	1,708.8	1,684.4	8.1	1.4
Total net position, beginning	12,016.3	10,297.4	8,613.0	16.7	19.6
Cumulative adjustment for adoption of GASB 87	-	10.1	-	(100.0)	100.0
Total net position, ending	\$ 13,863.1	\$ 12,016.3	\$ 10,297.4	15.4%	16.7%

Operating Revenues

Operating revenues are comprised of passenger fares and other revenues related to operations, such as advertising, rental of facilities, and other miscellaneous revenues.

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 decreased 68.3% and increased 1.1% in 2020 and 2019, respectively. The decrease in 2020 was primarily due to COVID-19, which significantly impacted passenger fare revenue on all modes via temporary suspended fares and reduction in ridership. The increase in 2019 was primarily due to continued boardings growth on Link, growth in the ORCA Business Passport program, and the

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

introduction of the Permit Parking program. In 2020 ST Express contributed 44.5% of total passenger fare revenue, Link contributed 37.0% and Sounder commuter rail contributed 18.5%.

Passenger fare revenue by mode are as follows:

Passenger Fare Revenue					
<i>(in millions)</i>				% Change	
	2020	2019	2018	2020-2019	2019-2018
ST Express	\$ 13.7	\$ 36.4	\$ 37.7	(62.4)%	(3.4)%
Link	11.4	43.3	41.6	(73.8)	4.1
Sounder	5.7	17.4	16.7	(67.1)	4.0
Total	\$ 30.8	\$ 97.1	\$ 96.0	(68.3)%	1.1%

Ridership

Sound Transit provided 15.9 million rides in 2020, a decrease of 66.8%, compared to 47.8 million rides in 2019. Changes in ridership by mode were as follows:

- Link ridership decreased 67.9% from 2019 and increased 1.3% between 2019 and 2018. The decline in ridership in 2020 is attributable to COVID-19 ridership decline as public health measures were implemented to control the virus and more people worked remotely.
- ST Express ridership decreased 64.2% from 2019 and 3.8% between 2019 and 2018. The decline in ridership in 2020 is attributable to COVID-19 ridership decline as public health measures were implemented to control the virus and more people worked remotely.
- Sounder commuter rail ridership decreased 72.6% from 2019 and was comparable between 2019 to 2018. The decline in ridership in 2020 is attributable to COVID-19 ridership decline as public health measures were implemented to control the virus and more people worked remotely.

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

Ridership					
<i>(in millions)</i>				% Change	
	2020	2019	2018	2020-2019	2019-2018
Link	8.3	25.7	25.4	(67.9)%	1.3%
ST Express	6.3	17.5	18.2	(64.2)	(3.8)
Sounder	1.3	4.6	4.6	(72.6)	-
Total	15.9	47.8	48.2	(66.8)%	(0.8)%

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Average Fare per Boarding (AFB)

The combined AFB decreased by 3.9% in 2020 due to COVID-19. Link's AFB decreased by 18.0% in 2020 mainly due to temporary fare suspensions and reduction in ridership, while ST Express and Sounder's increases of 5.0% and 19.7%, respectively, were primarily driven by reduction in ridership.

Average Fare per Boarding

	2020	2019	2018	% Change	
				2020-2019	2019-2018
Link	\$ 1.43	\$ 1.73	\$ 1.70	(18.0)%	1.5%
ST Express	2.18	2.08	2.07	5.0	0.4
Sounder	4.51	3.76	3.60	19.7	4.5
Combined average fare per boarding	\$ 1.99	\$ 2.06	\$ 2.03	(3.9)%	1.4%

Other Operating Revenues

Other operating revenues consist of vehicle advertising, rental of facilities, and other miscellaneous revenues.

Operating Expenses

Operating expenses

(in millions)

	2020	2019	2018	% Change	
				2020-2019	2019-2018
		(Restated)			
Operating expenses					
Operations and maintenance	\$ 332.3	\$ 335.6	\$ 309.7	(1.0)%	8.4%
Agency administration	15.1	16.0	14.1	(5.8)	13.7
Fare and regional planning	13.1	8.7	10.3	51.4	(15.9)
Depreciation, amortization	197.4	186.3	167.1	5.9	11.5
Total	\$ 557.9	\$ 546.6	\$ 501.2	2.1%	9.1%

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, short-term 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 53.6% of operating expenses in 2020 (58.1% in 2019). 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 23.1% in 2020 (20.5% in 2019) of total operating and maintenance expenses.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Operations and Maintenance Expenses by Mode

The following table presents operating and maintenance expenses by mode:

Operations and Maintenance Expenses by Mode (in millions)	2020	2019 (Restated)	2018	% Change	
				2020-2019	2019-2018
Link	\$ 144.3	\$ 138.5	\$ 122.4	4.8%	12.6%
ST Express	135.4	142.8	136.1	(5.2)%	5.0
Sounder	52.6	54.3	51.2	(3.3)	6.0
Total	\$ 332.3	\$ 335.6	\$ 309.7	(1.0)%	8.4%

Link operations and maintenance expenses include both Link and Tacoma Link light rail and increased \$5.8 million or 4.8% in 2020 and \$16.1 million or 12.6% in 2019. The majority of cost increases in 2020 and 2019 are related to increases in negotiated operator rates, security and maintenance on facilities, rails and vehicles.

ST Express operations and maintenance expenses decreased \$7.4 million or 5.2% in 2020 and increased \$6.7 million or 5.0% in 2019. Decreases in 2020 were mainly due to service level reductions from lower demand caused by the COVID-19 pandemic and lower fuel prices. 2019 increases primary due to negotiated partner rate increase which 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 decreased \$1.7 million or 3.3% in 2020 and increased \$3.1 million or 6.0% in 2019. The decreases in 2020 were primarily due to service level reductions from lower demand caused by the COVID-19 pandemic and lower fuel prices. Increases in 2019 primarily relate to higher negotiated operating rates, increased use of maintenance parts and fuel costs.

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 decreased \$0.9 million or 5.8% in 2020 and increased \$1.9 million or 13.7% in 2019. The decrease in 2020 was due internal organization realignment.

Fare and Regional Planning

Fare and regional planning expense increased \$4.4 million or 51.4% in 2020 and decreased \$1.6 million or 15.9% in 2019. Increases in 2020 primarily due to continued growth in the ORCA team, creation of an innovation team and increased consulting services across multiple fare and regional planning projects.

Depreciation and Amortization

Depreciation and amortization comprise non-cash expenses that reflect the reduction in the value of capital and intangible assets over time. Depreciation and amortization increased \$11.1 million or 5.9% in 2020 (\$19.2 million or 11.5% in 2019) reflecting increased expense related to capital assets placed in

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

service during the year and the full year impact of capital assets placed in service in 2019, as well as amortization of right-of-use assets related to leases.

Non-Operating Revenues and Expenses

Net non-operating revenues increased \$45.2 million or 2.4% in 2020 and \$41.3 million or 2.2% in 2019. The overall increase in 2020 was primarily due to \$166.3 million of CARES Act revenue from the Federal Transit Administration (FTA), partially offset by a decrease in tax revenues. Net non-operating revenues and expenses are summarized in the table. Additional commentary is provided below for select items with significant year over year changes.

Non-Operating Revenue / Expenses

<i>(in millions)</i>	2020	2019 (Restated)	2018	% Change	
				2020-2019	2019-2018
Non-operating revenues					
Sales and use tax	\$ 1,324.5	\$ 1,415.7	\$ 1,337.6	(6.4)%	5.8%
Motor vehicle excise tax	361.7	345.8	338.5	4.6	2.1
Property tax	155.3	150.3	146.3	3.3	2.8
Rental car tax	1.9	3.8	3.8	(50.4)	-
Investment income	45.3	70.2	37.8	(35.5)	85.8
Other revenues	209.6	66.3	20.1	216.1	228.0
Total	2,098.3	2,052.1	1,884.1	2.2	8.9
Non-operating expenses					
Interest expense	100.1	100.5	-	(0.3)	100.0
Contributions to other governments	21.7	33.7	24.5	(35.7)	37.6
Contributions to affordable housing	11.0	-	4.1	100.0	(100.0)
Other expenses	25.8	16.2	7.2	58.9	126.3
Loss (gain) on disposal of assets	0.9	12.1	-	(92.3)	100.0
Impairment	4.0	-	-	100.0	-
Total	163.5	162.5	35.8	0.6	354.2
Non-operating revenues, net	\$ 1,934.8	\$ 1,889.6	\$ 1,848.3	2.4%	2.2%

Sales and use tax revenues decreased by \$91.2 million or 6.4% in 2020 and increased \$78.1 million or 5.8% in 2019. The 2020 decrease is primarily due to COVID-19, which negatively impacted the regional economy, while the primary driver of the 2019 increase is reflective of regional economic growth.

Investment income decreased \$24.9 million or 35.5% in 2020 and increased \$32.4 million or 85.8% in 2019. Decrease in investment income in 2020 was primarily due to lower investment balances and lower interest rates. Investment income includes the impact of market adjustments to fair market value at year-end and interest income from leasing transactions.

Other revenues are comprised primarily of funds received from federal agencies to support light rail and bus operations and in relation to the Build America Bond program. Other revenues increased in 2020 by \$143.3 million or 216.1% mainly due to \$166.3 million from the CARES Act and offset by lower light rail and ST Express preventative maintenance funds. Other revenues increased in 2019 by \$46.2 million or 228.0% due to higher light rail and ST Express preventative maintenance funds.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Contributions to other governments decreased \$12.0 million or 35.7% in 2020 and increased \$9.2 million or 37.6% in 2019. Contributions relate primarily to decrease in 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 other governments and contributions to affordable housing 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 2020 and 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 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. Interest expense also includes interest from leasing transactions. Total interest incurred in 2020 and recognized as expense was \$100.1 million, as compared to \$100.5 million in 2019. 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.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Capital Contributions

Capital contributions include federal grant funding and state and local contributions to Sound Transit. Capital contributions increased in 2020 by \$171.4 million or 65.8% and by \$26.1 million or 11.2% in 2019 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					
<i>(in millions)</i>	% Change				
	2020	2019	2018	2020-2019	2019-2018
Federal	\$ 411.5	\$ 216.0	\$ 156.4	90.6%	38.1%
State and local governments	20.3	44.4	77.9	(54.4)	(42.9)
Total	\$ 431.8	\$ 260.4	\$ 234.3	65.8%	11.2%

Capital contributions of \$431.8 million in 2020 were \$171.4 million or 65.8% higher than 2019 primarily as a result of \$143.5 million in federal contributions related to the Federal Way Link extension full funding grant agreement (FFGA) and \$40.6 million related to Lynnwood Link extension. Federal contributions in 2019 were \$216.0 million or 38.1% higher than 2018, also 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.

Projects receiving federal funding in excess of \$5.0 million in 2020 and 2019 included Lynnwood, Northgate, Federal Way and Tacoma Dome Link extensions and the Sounder South Capacity expansion project.

State and local government contributions decreased \$24.1 million in 2020 and \$33.5 million in 2019. \$12.4 million and \$33.7 million of WSDOT land bank credits were utilized to fund temporary construction easements and access rights related to the Lynnwood Link Extension project in 2020 and 2019, respectively, and represent nearly all of the state and local government contributions for those years (see also note 12).

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Capital Assets

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

Capital Assets, net <i>(in millions)</i>	2020	December 31 2019 (Restated)	2018	% Change	
				2020-2019	2019-2018
Land	\$ 1,029.8	\$ 913.7	\$ 836.3	12.7%	9.2%
Permanent easements	549.4	546.3	543.8	0.6	0.5
Capital projects in progress	7,759.7	5,839.3	3,981.7	32.9	46.7
Total non-depreciable assets	9,338.9	7,299.3	5,361.8	27.9	36.1
Transit facilities, rail and heavy equipment	3,842.2	3,949.4	4,056.9	(2.7)	(2.6)
Access rights	311.8	330.8	499.8	(5.8)	(33.8)
Revenue vehicles	470.8	461.2	498.0	2.1	(7.3)
Other depreciable assets	20.4	26.5	19.5	(23.1)	35.7
Total depreciable assets	4,645.2	4,767.9	5,074.2	(2.6)	(6.0)
Total capital assets, net	\$13,984.1	\$12,067.2	\$10,436.0	15.9%	15.6%

In 2020, spending on capital projects in progress was \$2,134.1 million while in 2019 it was \$2,023.8 million. Project spending on light rail projects increased 5.1% in 2020 as construction spending grew on Link light rail extensions projects including the East, Lynnwood, Federal Way and Redmond Link extension projects. In 2019, the same projects and the Operations & Maintenance Facility East contributed most to capital spending.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Capital projects with major spending activity in excess of \$5 million in 2020 and 2019 are summarized in the following table:

Year	Link	Souder	Regional Express / Stride
2020	Downtown Redmond Link Extension East Link Extension Federal Way Link Extension Hilltop Tacoma Link Extension Light Rail Vehicle Expansion Lynnwood Link Extension Northgate Link Extension Operations & Maintenance Facility East Tacoma Dome Link Extension West Seattle-Ballard Link Extension	Puyallup Station	I-405 Bus Rapid Transit Bus Rapid Transit Stations Fleet Replacement
2019	Downtown Redmond Link Extension East Link Extension Federal Way Link Extension Hilltop Tacoma Link Extension Light Rail Vehicle Expansion Lynnwood Link Extension Northgate Link Extension Operations & Maintenance Facility East Tacoma Dome Link Extension West Seattle-Ballard Link Extension		I-405 Bus Rapid Transit I-90 Two-Way Transit and HOV Operations, Stage 3 Bus Rapid Transit Stations

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

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Long-Term Debt

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

Long-Term Debt <i>(in millions)</i>	December 31			% Change	
	2020	2019	2018	2020-2019	2019-2018
Long-term debt					
Bonds payable	\$ 2,275.7	\$ 2,330.0	\$ 2,381.1	(2.3)%	(2.1)%
TIFIA Loans	156.6	156.6	56.6	-	176.7
Total long-term debt	\$ 2,432.3	\$ 2,486.6	\$ 2,437.7	(2.2)%	2.0%

The reduction in bonds payable in 2020 and 2019 is due to regular scheduled principal payments. No additional bonds were issued during 2020 or 2019. 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 2019 assessed valuations for collection of 2020 taxes, Sound Transit's current approved remaining debt capacity is \$6.6 billion and its additional remaining debt capacity subject to voter approval is \$34.8 billion.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

BASIC FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

(in thousands)

	December 31	
	2020	2019 (Restated)
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	\$ 425,848	\$ 282,921
Restricted assets (note 3)	79,331	78,093
Investments (note 3)	867,751	1,200,150
Taxes and other receivables (note 4)	428,420	448,843
Inventory, land held for disposition and prepaids	42,902	56,451
Total current assets	1,844,252	2,066,458
Non-current assets		
Restricted assets (note 3)	31,268	30,823
Investments (note 3)	668,168	647,565
Prepaid expenses and deposits	-	2,154
Lease related assets, net (note 5)	362,309	359,212
Capital assets, net (note 6)	13,984,144	12,067,193
Total non-current assets	15,045,889	13,106,947
Total assets	16,890,141	15,173,405
DEFERRED OUTFLOWS OF RESOURCES		
Asset retirement obligations	2,592	2,724
Unamortized costs on bond refunding	27,063	30,301
Total deferred outflows of resources	29,655	33,025
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	373,005	452,902
Unearned revenue	12,508	13,494
Interest payable	30,330	26,961
Current portion, long-term debt (note 8)	54,300	42,915
Other claims and short-term obligations	776	5,659
Total current liabilities	470,919	541,931
Non-current liabilities		
Long-term debt (note 8)	2,377,960	2,443,729
Lease obligations (note 5)	175,733	179,518
Other long-term obligations (note 9)	13,661	6,234
Total non-current liabilities	2,567,354	2,629,481
Total liabilities	3,038,273	3,171,412
DEFERRED INFLOWS OF RESOURCES		
Unrecognized lease revenue	18,429	18,708
Total deferred inflows of resources	18,429	18,708
NET POSITION		
Net investment in capital assets	11,463,783	9,472,986
Restricted (note 10)	76,880	75,342
Unrestricted	2,322,431	2,467,982
Total net position	\$ 13,863,094	\$ 12,016,310

See accompanying notes to financial statements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(in thousands)

	Year ended, December 31	
	2020	2019 (Restated)
Operating revenues		
Passenger fares	\$ 30,758	\$ 97,101
Other operating revenue	7,312	8,258
Total operating revenues	38,070	105,359
Operating expenses		
Operations and maintenance	332,332	335,594
Agency administration	15,090	16,022
Fare and regional planning	13,129	8,674
Depreciation, amortization and accretion	197,375	186,324
Total operating expenses	557,926	546,614
Loss from operations	(519,856)	(441,255)
Non-operating revenues (expenses)		
Sales tax	1,324,465	1,415,704
Motor vehicle excise tax	361,749	345,757
Property tax	155,306	150,310
Rental car tax	1,880	3,792
Other revenues	209,594	66,301
Investment income	45,280	70,246
Interest expense	(100,149)	(100,500)
Contributions to other governments	(21,655)	(33,689)
Contributions to affordable housing	(10,992)	-
Other expenses	(25,770)	(16,220)
(Loss) gain on disposal of assets	(934)	(12,144)
Impairment	(3,976)	-
Total non-operating revenues, net	1,934,798	1,889,557
Income before capital contributions	1,414,942	1,448,302
Federal capital contributions	411,562	215,956
State and local capital contributions	20,280	44,493
Total capital contributions	431,842	260,449
Change in net position	1,846,784	1,708,751
Total net position, beginning of year	12,016,310	10,297,390
Cumulative adjustment for adoption of GASB 87	-	10,169
Total net position, end of year	\$ 13,863,094	\$ 12,016,310

See accompanying notes to financial statements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended, December 31	
	2020	2019 (Restated)
Cash flows from operating activities		
Cash receipts from fares	\$ 39,602	\$ 97,759
Cash receipts from other operating revenue	9,312	5,771
Payments to employees for wages and benefits	(50,612)	(36,102)
Payments to suppliers	(168,239)	(127,278)
Payments to transportation service providers	(228,710)	(156,379)
Net cash used by operating activities	(398,647)	(216,229)
Cash flows from non-capital financing activities		
Preventative maintenance grants received	27,392	30,329
Taxes received	1,849,801	1,900,137
Tax collection fees paid	(7,542)	(7,672)
Net cash provided by non-capital financing activities	1,869,651	1,922,794
Cash flows from capital and related financing activities		
Capital contributions from grants	424,970	261,267
Contributions to other government	(5,000)	(5,000)
Proceeds from insurance recoveries and sale of assets	6,857	3,645
Proceeds from TIFIA loans	-	100,000
Receipts from lessees	2,265	2,076
(Payments) proceeds for betterments and recoverable costs	(8,237)	285
Payments for bond principal	(42,915)	(39,520)
Payments for interest and bond related costs	(98,322)	(100,051)
Payments to employees capitalized to projects	(123,670)	(112,180)
Payments to suppliers for capital activities	(1,714,294)	(1,660,856)
Purchase of property	(116,618)	(100,564)
Payments for lease obligations	(12,721)	(15,825)
Net cash used by capital and related financing activities	(1,687,685)	(1,666,723)
Cash flows from investing activities		
Investment income	44,345	48,755
Proceeds from sales or maturities of investments	1,170,918	933,420
Purchases of investments	(854,710)	(1,087,884)
Net cash used by investing activities	360,553	(105,709)
Net (decrease) increase in cash and cash equivalents	143,872	(65,867)
Cash and cash equivalents		
Beginning of year	369,214	435,081
End of year	\$ 513,086	\$ 369,214
Cash and cash equivalents (note 3)		
Unrestricted	\$ 425,848	\$ 282,921
Current restricted	78,799	77,569
Non-current restricted	8,439	8,724
	\$ 513,086	\$ 369,214

See accompanying notes to financial statements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS, continued

<i>(in thousands)</i>	Year ended, December 31	
	2020	2019 (Restated)
Loss from operations	\$ (519,856)	\$ (441,255)
Adjustments to reconcile loss from operations to net cash used by operating activities		
Decrease in bad debt expense	10	1
Decrease in tenant improvement credits	-	(1,569)
Depreciation, amortization and accretion	197,375	186,324
Decrease in inventory allowance	-	(117)
Non-operating expense	(1,814)	(70)
Lease expense transferred to amortization	-	(9,115)
Changes in operating assets and liabilities		
Decrease (increase) in other receivables	10,743	(2,973)
Increase in inventory, prepaid and deposits	(20,239)	(1,800)
(Decrease) increase in accounts payable and accrued liabilities	(63,881)	54,089
(Decrease) increase in unearned revenue	(699)	1,302
Decrease in other current liabilities	(286)	(1,046)
Net cash used by operating activities	\$ (398,647)	\$ (216,229)

<i>(in thousands)</i>	Year ended, December 31	
	2020	2019 (Restated)
Supplemental disclosures of non-cash operating, investing and financing activities		
Capital assets financed with tenant improvement credits	-	1,569
Capital contribution from Land Bank	13,504	33,683
Contributions to other governments	(16,655)	(28,689)
Construction in progress in current liabilities	304,362	329,660
Increase in fair value of investments	1,885	14,896
Additions to lease related assets, net	9,514	150,026
Additions to lease obligations, net	(9,588)	(130,977)
Additions to deferred inflows of resources, net	-	(19,049)
Spare parts previously capitalized	(1,139)	(41)
Start-up costs previously capitalized	(14,991)	(7,213)

See accompanying notes to financial statements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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 levy rate up to \$0.25 per \$1,000 of assessed property value. The additional motor vehicle tax came into effect March 1, 2017 and the additional sales and use tax came into effect April 1, 2017. The first property tax levy was authorized for calendar year 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

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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.

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 consist of cash on hand, demand deposits and short-term investments with maturities of three months or less at the time of purchase. 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— The agency has historically had separate programs for Employee Vacation and Sick leave. Effective December 21, 2020 these two programs were combined into one Personal Time Off (PTO) program. The conversion to the PTO program resulted in certain payouts to employees of accrued amounts under the old programs. These payouts were dependent on the employee's tenure and accrued balances. Under the new program, PTO is earned based on tenure and job level. PTO is payable at 50% upon employee termination. Certain accrued balances relating to the legacy programs will continue to be presented as liabilities until utilized or forfeited.

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

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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, 2020 and 2019, inventory reflects an allowance of \$0.8 million and \$0.8 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, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, effective for reporting periods beginning after June 15, 2022. This statement provides guidance on the accounting for SBITAs based on the concept that certain SBITAs result in a right-to-use intangible asset and corresponding liability that should be recognized on the financial statements, that certain costs may be capitalizable and that governments should make certain relevant disclosures. Sound Transit is evaluating the applicability and potential financial impact of the standard.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for reporting periods beginning after June 15, 2022. This statement provides guidance on the accounting for partnerships involving the operation of nonfinancial assets in an exchange or exchange-like transaction and availability payment arrangements. Sound Transit is evaluating the applicability and potential financial impact of the standard.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

In June 2017, the GASB issued Statement No. 87 (GASB 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 has implemented this Statement and its various provisions in 2020 with a conversion date of January 1, 2019 and has restated the 2019 financial statements presented herein, and indicated any previous years' impact as a cumulative adjustment for adoption of GASB 87, as required by the Statement.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for reporting periods beginning after December 15, 2018. This Statement, along with its related Implementation Guide 2019-2, establishes criteria for identifying fiduciary activities of state and local governments based on certain criteria including control of the activities and relationship with the beneficiaries. 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 trust funds. In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-An Amendment of GASB Statements No. 14 and No. 84, and Supersession of GASB Statements. No. 32*, effective for reporting periods beginning after June 15, 2021. Sound Transit has considered these statements and the related implementation guide, along with the structural details of the defined contribution plans in place at the agency for the benefit of agency employees, and has determined that Sound Transit does not have any qualifying fiduciary activities, and therefore, is not subject to the fiduciary reporting requirements within the Statement.

Restatements— The 2019 financial statements have been restated to reflect the impact of the adoption of a new accounting standard and change in accounting principle.

The agency adopted GASB 87 during 2020 resulting in the restatement of 2019 amounts in various line items related to the accounting of leases. Lease related line items that were significantly impacted include right-of-use assets, lease receivables, lease liabilities and deferred inflows of resources on the Statements of Net Position and the reduction of lease expense and increase of amortization expense related to right-of-use assets on the Statements of Revenues, Expenses and Changes in Net Position.

Additionally, the agency has changed its accounting policy related to the presentation of the TIFIA program to reflect that the program has resulted in long-term debt that is being utilized to fund capital asset acquisitions, therefore including it in the net position category of net investment in capital assets, rather than as unrestricted net position, as previously reported.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

The following schedules illustrate the affected line items as a result of the aforementioned activities:

<i>(in thousands)</i>	As Previously Reported 2019	Effect of Restatement 2019	As Restated 2019
STATEMENT OF NET POSITION			
Non-current assets			
Prepaid expenses and deposits	\$ 1,267	\$ 887	\$ 2,154
Lease related assets, net (note 5)	\$ 64,876	\$ 294,336	\$ 359,212
Capital assets, net (note 6)	\$ 12,231,306	\$ (164,113)	\$ 12,067,193
Current liabilities			
Accounts payable and accrued liabilities (note 7)	\$ 457,025	\$ (4,123)	\$ 452,902
Non-current liabilities			
Lease obligations (note 5)	\$ 64,876	\$ 114,642	\$ 179,518
Deferred inflows of resources			
Unrecognized lease revenue	\$ -	\$ 18,708	\$ 18,708
Net position			
Net investment in capital assets	\$ 9,625,461	\$ (152,475)	\$ 9,472,986
Unrestricted	\$ 2,313,624	\$ 154,358	\$ 2,467,982

<i>(in thousands)</i>	As Previously Reported 2019	Effect of Restatement 2019	As Restated 2019
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
Operating revenues			
Other operating revenue	\$ 8,071	\$ 187	\$ 8,258
Operating expenses			
Operations and maintenance	\$ 344,522	\$ (8,928)	\$ 335,594
Depreciation, amortization and accretion	\$ 176,377	\$ 9,947	\$ 186,324
Non-operating revenues (expenses)			
Investment income	\$ 69,131	\$ 1,115	\$ 70,246
Interest expense	\$ (97,491)	\$ (3,009)	\$ (100,500)
(Loss) gain on disposal of assets	\$ (6,584)	\$ (5,560)	\$ (12,144)

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

<i>(in thousands)</i>	As Previously Reported 2019	Effect of Restatement 2019	As Restated 2019
STATEMENT OF CASH FLOWS			
Cash flows from capital and related financing activities			
Receipts from lessees	\$ -	\$ 2,076	\$ 2,076
Payments for interest and bond related costs	\$ (97,042)	\$ (3,009)	\$ (100,051)
Payments to suppliers for capital activities	\$ (1,677,614)	\$ 16,758	\$ (1,660,856)
Payments for lease obligations	\$ -	\$ (15,825)	\$ (15,825)
Loss from operations	\$ (440,423)	\$ (832)	\$ (441,255)
Adjustments to reconcile loss from operations to net cash used by operating activities			
Depreciation, amortization and accretion	\$ 176,377	\$ 9,947	\$ 186,324
Lease expense transferred to amortization	\$ -	\$ (9,115)	\$ (9,115)
Supplemental disclosures of non-cash operating, investing and financing activities			
Additions to lease related assets, net	\$ 4,777	\$ 145,249	\$ 150,026
Additions to lease obligations, net	\$ (4,777)	\$ (126,200)	\$ (130,977)
Additions to deferred inflows of resources, net	\$ -	\$ (19,049)	\$ (19,049)

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, 2020 and 2019, 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 2020 and 2019, 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 taxpayers.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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:

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

<i>(in thousands)</i>	December 31	
	2020	2019
Cash and cash equivalents - current		
LGIP *	\$ 422,568	\$ 274,573
FDIC or PDPC insured bank deposits	1,757	2,388
Cash on hand	1,523	5,960
	425,848	282,921
Restricted assets - current		
Cash and cash equivalents - LGIP	78,799	77,569
Investments - KCIP	532	524
	79,331	78,093
Investments - current	867,751	1,200,150
Restricted assets - non-current		
Cash and cash equivalents		
LGIP	-	285
FDIC or PDPC Insured Bank Deposits	435	435
Escrow funds	8,004	8,004
	8,439	8,724
Investments - Debt service and OCIP reserve	22,740	21,974
Other	89	125
	31,268	30,823
Investments - non-current	668,168	647,565
Total cash, cash equivalents, investments and restricted assets	\$ 2,072,366	\$ 2,239,552

* 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

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Unrestricted investments consist of the following:

(in thousands)	2020			2019		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Investments – current						
Commercial Paper	\$ 74,922	\$ -	\$ 74,922	\$ -	\$ -	\$ -
KCIP *	65,872	-	-	64,695	-	-
U.S. Agency Securities	197,537	-	197,537	286,206	-	286,206
U.S. Treasury Securities	465,414	465,414	-	849,249	849,249	-
Municipal Bonds	20,000	-	20,000	-	-	-
Corporate Bonds	44,006	-	44,006	-	-	-
Total investments – current	867,751	465,414	336,465	1,200,150	849,249	286,206
Investments – non-current						
Investments – undesignated						
U.S. Agency Securities	226,653	-	226,653	146,894	-	146,894
U.S. Treasury Securities	40,575	40,575	-	130,512	130,512	-
Municipal Bonds	12,111	-	12,111	-	-	-
Corporate Bonds	27,848	-	27,848	24,968	-	24,968
Total investments - undesignated	307,187	40,575	266,612	302,374	130,512	171,862
Investments – capital replacement						
U.S. Agency Securities	221,378	-	221,378	200,271	-	200,271
U.S. Treasury Securities	76,208	76,208	-	109,959	109,959	-
Municipal Bonds	42,985	-	42,985	29,768	-	29,768
Corporate Bonds	20,410	-	20,410	5,193	-	5,193
Total investments – capital replacement	360,981	76,208	284,773	345,191	109,959	235,232
Total investments – non-current	\$ 668,168	\$ 116,783	\$ 551,385	\$ 647,565	\$ 240,471	\$ 407,094

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

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Restricted investments consist of the following:

<i>(in thousands)</i>	2020			2019		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Restricted assets - current						
KCIP *	\$ 532	\$ -	\$ -	\$ 524	\$ -	\$ -
Total restricted assets - current	532	-	-	524	-	-
Restricted assets - non-current						
Municipal bonds	10,167	-	10,167	19,525	-	19,525
U.S. Agency securities	12,573	-	12,573	2,449	-	2,449
Total restricted assets - non-current	\$ 22,740	\$ -	\$ 22,740	\$21,974	\$ -	\$ 21,974

* 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. The agency manages duration as means of mitigating its exposure to interest rate risk. The greater the duration of a bond, or portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice versa. Sound Transit policy limits its maximum weighted portfolio duration to three years.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Modified duration

(in thousands)

	2020			2019		
	Total	Duration	Percent of total	Total	Duration	Percent of total
Investments – current						
Commercial Paper	\$ 74,922	0.46	8.6%	\$ -	-	-
KCIP	65,872	1.20	7.6%	64,695	0.92	5.4%
U.S. Agency Securities	197,537	0.09	22.8%	286,206	0.53	23.8%
U.S. Treasury Securities	465,414	0.29	53.6%	849,249	0.69	70.8%
Municipal Bonds	20,000	0.19	2.3%	-	-	0.0%
Corporate Bonds	44,006	0.46	5.1%	-	-	0.0%
Total investments - current	867,751	0.34	100.0%	1,200,150	0.66	100.0%
Investments – non-current						
Investments – undesignated						
U.S. Agency Securities	226,653	1.60	73.8%	146,894	2.10	48.6%
U.S. Treasury Securities	40,575	0.79	13.2%	130,512	0.92	43.2%
Municipal Bonds	12,111	2.46	3.9%	-	-	0.0%
Corporate Bonds	27,848	1.04	9.1%	24,968	1.09	8.3%
Total investments - undesignated	307,187	1.47	100.0%	302,374	1.51	100.0%
Investments – capital replacement						
U.S. Agency Securities	221,378	2.70	61.3%	200,271	3.11	58.0%
U.S. Treasury Securities	76,208	0.87	21.1%	109,959	1.69	31.9%
Municipal Bonds	42,985	4.47	11.9%	29,768	5.92	8.6%
Corporate Bonds	20,410	3.61	5.7%	5,193	3.82	1.5%
Total investments – capital replacement	\$ 360,981	2.57	100.0%	\$ 345,191	2.91	100.0%
Total investments – non-current	\$ 668,168			\$ 647,565		

Specific identification

(in thousands)

	December 31		Maturity	Call Date
	2020	2019		
Restricted assets - non-current				
Debt service reserve				
Municipal bonds:				
Georgia State GO Unlimited	-	10,005	4/1/2026	4/1/2017*
Georgia State GO Unlimited BAB	3,186	2,946	11/1/2027	11/24/2009*
New York City GO	6,981	6,574	8/1/2024	8/13/2019*
Federal Home Loan Mortgage Corporation	5,009	-	8/24/2023	
Federal Home Loan Mortgage Corporation	4,996	-	9/23/2025	
	20,172	19,525		
OCIP reserve				
U.S. agency securities:				
Federal Home Loan Mortgage Corporation	1,021	970	3/15/2023	
Federal National Mortgage Association	1,547	1,479	7/15/2022	
	2,568	2,449		
	\$ 22,740	\$ 21,974		

* Continuously callable from this date forward

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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 both December 31, 2020 and 2019, 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, 2020 and 2019, 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.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

4. TAXES AND OTHER RECEIVABLES

Taxes and other receivables consist of the following:

<i>(in thousands)</i>	December 31	
	2020	2019
Taxes receivable	\$ 285,239	\$ 292,251
Grants receivable	120,963	128,305
Due from other governments	15,034	16,361
Interest receivable	5,508	9,723
Accounts receivable, net	1,676	2,203
	<u>\$ 428,420</u>	<u>\$ 448,843</u>

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. LEASES

Sound Transit, as lessee, has entered into various leases for office space, parking, land, storage and equipment with lease terms expiring between 2021 and 2050, with some leases containing options to renew.

As lessor, Sound Transit has entered into leases for commercial space, equipment, and land for use in transportation-oriented development. Sound Transit's activities as lessor are generally intended to be temporary and relate mainly to property held for a period of time between acquisition for right of way, and other system assets and facilities, through the completion of construction of the related assets and eventually disposition of surplus property.

Sound Transit adopted GASB Statement No. 87, *Leases*, in 2020 with a conversion date of January 1, 2019. In accordance with the adopted standard, the agency, as a lessee, is required to recognize intangible right-of-use assets and corresponding lease liabilities, and as a lessor, lease receivables and deferred inflows of resources, for all leases that are not considered short-term. Sound Transit has adopted the following policies to assist in determining lease treatment according to the new standard (unless otherwise specified, the following policies pertain to agreements in which Sound Transit acts as lessee, and agreements in which Sound Transit acts as lessor):

Basis of lease classification – Leases that meet the following requirements will not be considered short-term: (1) the maximum possible lease term(s) is non-cancelable by both lessee and lessor, and is more than 12 months, and (2) the monthly lease payment is greater than \$5 thousand.

Term – At the time of lease commencement or conversion, the term of the lease will include possible extension periods that are deemed to be reasonably certain given all available information, regarding the

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

likelihood of renewal. For extension periods without explicit rent payment amounts in the lease agreement, the agency included an increase of 3% to prior rent payment amounts on an annual basis.

Discount rate – Unless explicitly stated in the lease agreement, known by the agency, or the agency is able to determine the rate implicit within the lease, the discount rate used to calculate lease right-of-use assets and liabilities in the case of agreements in which Sound Transit acts as lessee, or deferred inflow of resources and related lease receivable, in the case of agreements in which Sound Transit acts as lessor, will be the agency’s tax exempt market borrowing rate for 30 year fixed terms at the end of each year, which will be the rate utilized for the next calendar year. The published 30 year fixed tax exempt borrowing rate was 3.83% at December 31, 2018, and was the discount rate utilized for applicable leases beginning in 2019 and applicable lease conversions. The 30 year fixed tax exempt borrowing rate at December 31, 2019 was 3.30% and was used for applicable leases beginning in 2020.

Prepaid lease payments – Prepaid lease payments related to leases wherein Sound Transit acts as lessee, are not included in right-of-use assets until such time as the lease term commences.

Variable payments – Variable payments based on the future performance of the lessee or lessor or usage of the underlying asset are not included in the measurement of lease assets or liabilities. For the years ended December 31, 2020 and 2019, all leases are based on fixed payments and do not have variable payment components.

Residual value guarantees – There were no residual guarantees included in the measurement of lease assets and liabilities, or deferred inflow of resources and lease receivables, for the years ended December 31, 2020 and 2019.

Remeasurement – For the years ended December 31, 2020 and 2019, the agency remeasured lease liabilities for three leases in which Sound Transit acts as lessee, due to (1) early termination which included a termination fee, (2) reduction in monthly lease payment, and (3) a change in borrowing rate.

Total lease related assets consist of the following:

<i>(in thousands)</i>	December 31	
	2020	2019 (Restated)
Right-of-use assets	\$ 130,548	\$ 126,976
Accumulated amortization	(26,970)	(11,815)
Right-of-use assets, net	103,578	115,161
Prepaid lease payments	171,619	159,165
Lease receivables	21,098	20,010
Lease-leaseback investment account asset	66,014	64,876
Total lease related assets	\$ 362,309	\$ 359,212

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Lease related right-of-use assets by major class of underlying assets:

<i>(in millions)</i>	December 31	
	2020	2019
Office buildings	\$ 97.5	\$ 97.7
WSDOT land access rights (airspace leases)	14.9	14.9
Land	9.8	8.7
Warehouse space	6.9	4.3
Equipment	1.4	1.4
Total right-of-use assets	\$ 130.5	\$ 127.0

As lessee, the agency recognized \$15.5 million and \$11.8 million of amortization expense in the years ended December 31, 2020 and 2019, respectively. The agency also recognized \$4.3 million and \$3 million of interest expense in the years ended December 31, 2020 and 2019, respectively.

As lessor, the agency recognized \$1.2 million and \$1.1 million in interest revenue in the years ended December 31, 2020 and 2019, respectively. The agency also recognized revenues from deferred inflows of resources of \$0.2 million and \$0.3 million in the year ended December 31, 2020 and 2019, respectively.

Total lease obligations consist of the following:

<i>(in thousands)</i>	December 31	
	2020	2019 (Restated)
Lease obligations	\$ 109,719	\$ 114,642
Lease-leaseback obligations	66,014	64,876
Total lease obligations	\$ 175,733	\$ 179,518

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Minimum lease payments, excluding lease-leaseback obligations, through 2050 are as follows (in thousands):

<i>(in thousands)</i>			
Year ending December 31	Interest Payments	Principal Payments	Total Payments
2021	\$ 3,979	\$ 10,294	\$ 14,273
2022	3,550	11,455	15,005
2023	3,120	11,088	14,208
2024	2,774	8,371	11,145
2025	2,440	7,972	10,412
2026-2030	7,599	40,439	48,038
2031-2035	2,778	8,657	11,435
2036-2040	1,821	5,721	7,542
2041-2045	688	3,910	4,598
2046-2050	75	1,812	1,887
	\$ 28,824	\$ 109,719	\$ 138,543

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 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 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. As of December 31, 2020 and 2019, the fair value of the underlying securities was sufficient to satisfy the current required value as set forth in the related agreements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Net changes in the lease-leaseback sublease are shown in the following table:

	2020	2019
<i>(in thousands)</i>		
Net sublease, January 1	\$ 64,876	\$ 63,817
Accrued interest	4,856	4,777
Less payment	(3,718)	(3,718)
Net sublease, December 31	\$ 66,014	\$ 64,876

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, 2020 was rated “BBB+” by Standard & Poor’s and “Baa1” by Moody’s Investment Service. As of December 31, 2020 and 2019, 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 waiver agreements through September 30, 2021. If the default is not cured and the extension is not granted, the investor could demand a termination payment from Sound Transit of approximately \$10.7 million.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

6. CAPITAL ASSETS

Capital assets are summarized as follows:

<i>(in thousands)</i>	2020				2020
	Beginning	Additions	Disposals /	Transfers	Ending
	balance		reductions		balance
Non-depreciable assets					
Land	\$ 913,686	\$ 1,050	\$ (20,857)	\$ 135,953	\$ 1,029,832
Permanent easements	546,284	-	-	3,123	549,407
Capital projects in progress:					
Sound Transit - tangible	5,799,948	2,112,882	(16,135)	(176,807)	7,719,888
Sound Transit - intangible	30,580	11,587	(8,632)	(4,034)	29,501
Other governments - tangible	8,822	9,593	(8,039)	(35)	10,341
Total non-depreciable assets	7,299,320	2,135,112	(53,663)	(41,800)	9,338,969
Depreciable assets					
Access rights	566,498	-	(5,983)	(4,979)	555,536
Buildings and leasehold improvements	40,499	-	-	945	41,444
Furniture, equipment and vehicles	23,707	-	(316)	3,487	26,878
Revenue vehicles	792,346	-	(19,082)	48,872	822,136
Software	34,184	-	-	1,059	35,243
Transit facilities, rail and heavy equipment	4,794,329	-	(123)	7,680	4,801,886
Total depreciable assets	6,251,563	-	(25,504)	57,064	6,283,123
Accumulated depreciation					
Access rights	(235,655)	(13,823)	-	5,725	(243,753)
Buildings and leasehold improvements	(21,631)	(1,899)	-	(492)	(24,022)
Furniture, equipment and vehicles	(17,877)	(4,072)	312	60	(21,577)
Revenue vehicles	(331,189)	(37,897)	17,713	-	(351,373)
Software	(27,488)	(4,729)	-	(60)	(32,277)
Transit facilities, rail and heavy equipment	(849,850)	(115,711)	123	492	(964,946)
Total accumulated depreciation	(1,483,690)	(178,131)	18,148	5,725	(1,637,948)
Total depreciable assets, net	4,767,873	(178,131)	(7,356)	62,789	4,645,175
Total capital assets, net	\$ 12,067,193	\$ 1,956,981	\$ (61,019)	\$ 20,989	\$ 13,984,144

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

<i>(in thousands)</i>	2019 Beginning balance	Additions	Disposals / reductions	Transfers (Restated)	2019 Ending balance (Restated)
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	1,995,374	(31,180)	(120,813)	5,799,948
Sound Transit - intangible	21,313	19,497	(799)	(9,431)	30,580
Other governments - tangible	3,841	8,904	(3,923)	-	8,822
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	-	(166,417)	566,498
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)	(143,660)	6,251,563
Accumulated depreciation					
Access rights	(227,114)	(13,520)	-	4,979	(235,655)
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	9,874	(1,483,690)
Total depreciable assets, net	5,074,168	(172,490)	(19)	(133,786)	4,767,873
Total capital assets, net	\$ 10,436,004	\$1,851,285	\$ (42,505)	\$ (177,591)	\$12,067,193

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

<i>(in thousands)</i>	2020	2019 (Restated)
Accrued liabilities	\$ 263,554	\$ 278,967
Due to other governments	56,723	119,880
Accounts payable	26,071	33,823
Accrued salaries, wages and benefits	26,440	20,012
Retainage payable	217	220
	<u>\$ 373,005</u>	<u>\$ 452,902</u>

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, 2020 and 2019, Sound Transit had no direct borrowings.

As of December 31, 2020 and 2019, total outstanding long-term debt is as follows:

<i>(in thousands)</i>	2020	2019
Long-term debt		
Bonds payable		
Prior bonds	\$ 418,630	\$ 454,795
Parity bonds	1,710,270	1,717,020
Premium	148,886	160,737
Discount	(2,132)	(2,514)
Total bonds payable	<u>2,275,654</u>	<u>2,330,038</u>
TIFIA Loans	156,606	156,606
Total debt	<u>2,432,260</u>	<u>2,486,644</u>
Amounts due within one year	(54,300)	(42,915)
Total long-term debt	<u>\$ 2,377,960</u>	<u>\$ 2,443,729</u>

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

Bonds Payable (Prior and Parity)

<i>(in thousands)</i>	2020			2020	Amounts due
	Beginning	Additions	Reductions	Ending	within
	balance			balance	one year
Bonds payable					
Series 1999	\$ 253,685	\$ -	\$ (23,055)	\$ 230,630	\$ 24,265
Series 2009P-2T	76,845	-	(7,390)	69,455	7,665
Series 2009S-2T	300,000	-	-	300,000	-
Series 2012P-1	124,265	-	(5,720)	118,545	7,455
Series 2012S-1	77,080	-	(6,750)	70,330	7,090
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	7,825
	2,171,815	-	(42,915)	2,128,900	54,300
Plus unamortized premium	160,737	-	(11,851)	148,886	
Less unamortized discount	(2,514)	-	382	(2,132)	
Total bonds payable	\$ 2,330,038	\$ -	\$ (54,384)	\$ 2,275,654	\$ 54,300

<i>(in thousands)</i>	2019			2019	Amounts due
	Beginning	Additions	Reductions	Ending	within
	balance			balance	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

Excluding unamortized premium and discount, Sound Transit had a total of \$2,128.9 million Prior and Parity Bonds outstanding at December 31, 2020, compared to \$2,171.8 million at December 31, 2019. A total of \$42.9 million and \$39.5 million of principal payments were made in 2020 and 2019, respectively.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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)

	Issue date	Average rate	Ratings		Principal Payment begins	Fair value*		Principal and interest restricted	
		Coupon	Moody's	S&P		2020	2019	2020	2019
Series 1999	Dec 1, 1998	4.75 - 5.25%	Aaa	AAA	Feb 1, 2006	\$231.4	\$299.5	\$28.9	\$ 28.2
Series 2009P-2T	Sep 29, 2009	4.85 - 5.15%	Aaa	AAA	Feb 1, 2020	80.2	84.7	9.1	9.0
Series 2012P-1	Aug 22, 2012	5.00%	Aaa	AAA	Feb 1, 2013	124.3	133.4	9.9	8.3

* Estimated using quoted market prices

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-2T 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, 2020, and 2019, the market value of the Prior debt service reserve exceeded the required reserve amount. Reserve account proceeds are invested in municipal bonds.

Additionally, Sound Transit has created a Bond Account to pay and secure the payment of the Bonds. The Bond Account is pledged to the payment of Bonds and is a trust account for the Owners of the Bonds. For as long as any Bonds remain outstanding, the agency has pledged to pay into the Bond Account from Local Option Taxes: (i) approximately equal monthly deposits such that the amounts projected to be on deposit on the next interest payment date will be sufficient to pay the interest scheduled to become due and redemption premium, if any, on Outstanding Bonds; and (ii) approximately equal monthly deposits such that the amounts projected to be on deposit on the next principal payment date will be sufficient to pay maturing principal for Bonds.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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)

	Issue date	Average Rate	Ratings		Principal Payment	Fair value*		Principal and interest restricted	
		Coupon	Moody's	S&P	begins	2020	2019	2020	2019
Series 2009S-2T	Sep 29, 2009	5.49%	Aa1	AAA	Nov 1, 2029	\$430.8	\$387.6	\$ 2.7	\$ 2.7
Series 2012S-1	Aug 22, 2012	3.25 - 5.00%	Aa1	AAA	Nov 1, 2016	76.1	84.4	7.7	7.4
Series 2015S-1	Sep 10, 2015	4.00 - 5.00%	Aa1	AAA	Nov 1, 2018	935.8	908.5	6.2	6.2
Series 2015S-2A	Sep 10, 2015	Var	Aa1	AAA	Nov 1, 2041	150.3	75.0	0.2	0.1
Series 2015S-2B	Sep 10, 2015	Var	Aa1	AAA	Nov 1, 2041	-	75.0	0.2	0.1
Series 2016S-1	Dec 19, 2016	5.00%	Aa1	AAA	Nov 1, 2021	531.8	509.3	11.2	3.3

* Estimated using quoted market prices

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

Sound Transit makes monthly deposits into a Parity Bond Account from pledged taxes so that the balance therein will be sufficient to pay: (i) the interest, or principal and interest, next coming due on the Parity Bonds and (ii) regularly scheduled payments under Parity Payment Agreements.

Long-term Bond Requirements

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

(in thousands)

Year ending December 31	Principal	Interest *	Total
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	82,720	89,226	171,946
2026-2030	378,295	385,753	764,048
2031-2035	410,040	301,733	711,773
2036-2040	467,240	189,215	656,455
2041-2045	347,730	90,763	438,493
2046-2050	188,895	24,241	213,136
	\$ 2,128,900	\$ 1,471,828	\$ 3,600,728

* 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 \$6.7 million, in 2020 and 2019, respectively. The 2009P-2T bonds and the 2009S-2T bonds are Build America Bonds.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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, 2020, the loan has accrued \$1.7 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, 2020 and 2019, the TIFIA Northgate Loan had a principal balance of \$81.6 million in both years and accrued interest of \$6.6 million and \$3.8 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, 2020, the loan has accrued \$0.6 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%.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

The following table sets forth TIFIA loan activity for the years ended December 31, 2020:

<i>(in thousands)</i>	Year executed	Credit line	Interest rate	Final maturity	Drawn amount	Interest	2020 Ending balance
TIFIA loans							
East Link Extension	2015	\$1,330,000	2.38%	2058	\$ 50,000	\$ 1,662	\$ 51,662
Northgate Link Extension	2016	615,300	3.13%	2056	81,606	6,618	88,224
OMFE	2016	87,700	2.73%	2055	25,000	603	25,603
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	\$ 8,883	\$ 165,489

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:

<i>(in thousands)</i>	2020 Beginning balance	Additions, accretion and changes in estimates	Reductions	2020 Ending balance	Amounts due within one year *
Asset retirement obligations	\$ 4,581	\$ -	\$ (48)	\$ 4,533	\$ -
Uninsured losses	3,072	16,502	(16,835)	2,739	762
Compensated absences	11,810	12,196	(7,103)	16,903	9,752
Total other long-term obligations	\$ 19,463	\$ 28,698	\$ (23,986)	\$ 24,175	\$ 10,514

<i>(in thousands)</i>	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

* 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.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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.

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/DIC) Primary and Excess Liability Commercial Auto / Excess Liability Pollution / Excess Liability Public Officials / Employer Liability Fiduciary Liability	\$400M (\$150M) / \$100K (\$3%) \$100M / \$350K \$11M / \$500 comprehensive or \$1K collision \$50M / \$100K * \$25M / \$250K \$10M / \$0
Rail Operation	Light Rail / Excess Liability Heavy Rail / Excess Liability Property – Rolling Stock	\$100M / \$5M \$295M / \$5M \$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, 2020 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, the Professional Liability coverage for final design having expired as of December 31, 2020.

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.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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 (extended reporting period)	\$50M / \$250K *
University Link OCIP	Primary and Excess Liability (completed operations) Pollution Liability (completed operations)	\$100M / \$100K \$50M / \$250K *
Northgate Link OCIP	Primary and Excess Liability Pollution Liability Builders Risk	\$100M / \$100K \$50M / \$250K * \$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.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

10. RESTRICTED NET POSITION

Restricted net position consists of the following:

	2020	2019
<i>(in thousands)</i>		
Debt service	\$ 65,230	\$ 58,044
Contractual arrangements	11,650	17,298
	<u>\$ 76,880</u>	<u>\$ 75,342</u>

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 2020 and 2019 was \$126.7 million and \$111.8 million, respectively, and total payroll was \$127.2 million and \$112.2 million, respectively. The required contribution rates, expressed as a percentage of covered payroll, and required Sound Transit contributions during 2020 and 2019 were as follows:

	Contribution rate		Contributions <i>(in thousands)</i>	
	2020	2019	2020	2019
Employer	12%	12%	\$ 15,206	\$ 13,412
Employee	10	10	12,672	11,176
Total	<u>22%</u>	<u>22%</u>	<u>\$ 27,878</u>	<u>\$ 24,588</u>

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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 June 30, 2021. 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. 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.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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 2030. 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. This agreement is renewed from time to time.

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

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

at the end of the leases, property interests revert to WSDOT. At December 31, 2020, the value of the unused land bank credits that have not been conveyed by WSDOT to Sound Transit was \$96.5 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 2020 and 2019:

<i>(in millions)</i>	2020	2019
Balance in Land Bank, beginning of year	\$ 90.0	\$ 50.1
Additions:		
I-90 Two-Way Transit & HOV	11.5	50.2
I-405 BRT Roadway	-	24.4
North Jackson 145th St. Park & Ride in Shoreline	1.0	-
Federal Way Link	0.9	-
Northgate	0.6	-
East Link	4.9	-
Draws:		
145th Street Park & Ride Parcel	-	(1.0)
Temporary Construction Airspace Lease (TCAL):		
Downtown Redmond Link	-	(21.8)
Federal Way Link	-	(5.9)
Airspace Lease:		
Federal Way Link	-	(6.0)
Downtown Redmond Link	(12.4)	-
Balance in Land Bank, end of year	\$ 96.5	\$ 90.0

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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. In June 2019, Sound Transit entered into an agreement to plan and implement activities necessary to transition the legacy ORCA system, as established in 2009, to the next generation ORCA system, and agreed with the other parties, to keep the 2009 amended agreement in place until termination of the legacy ORCA vendor contract, currently projected to take place in 2022. 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% in both 2020 and 2019.

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

<i>(in thousands)</i>	December 31	
	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 10,229	\$ 16,337
Accounts receivable	4,228	13,983
Total assets	14,457	30,320
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	5,806	17,496
Unearned revenue	8,651	12,824
Total liabilities	14,457	30,320
Net position	\$ -	\$ -
Total operating revenues	\$ 29,339	\$ 85,298
Total expenses	\$ 2,140	\$ 2,360

Purchases— At December 31, 2020 and 2019, Sound Transit had outstanding construction commitments of approximately \$4.4 billion and \$5.6 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, 2020 and 2019 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

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

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. In September 2020, the trial granted Sound Transit’s motion for summary judgement affirming its right to continue collecting the MVET as currently calculated. The Plaintiffs have appealed the trial court’s ruling, and the case remains appending before the Washington Court of Appeals.

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. On November 30, 2020 the Washington Supreme Court issued a final ruling holding I-976 violated Art. II, Sec. 19 of the Washington Constitution and invalidated the entire initiative, which barred it from taking effect.