

# ***Key Financial Policies Overview***

*Finance and Audit Committee  
10/8/2026*



# ***Why we are here***

- Consistent with Board direction via Resolution No. R2026-11, review key financing policies and planning assumptions
  - » Long-term debt profile and debt service coverage ratio
  - » Comparison to peer agencies
  - » Purpose of each financing assumption
- Impact of policies on long-range financial planning
- Next steps

***Today we are here to provide information on our key financial policies and opportunities to increase financing capacity***

# *The importance of our financing policies*

- Maximize financing to deliver the ST3 expansion plan.
- Optimize cash to pay back debt and maintain a safe and reliable system
- Ensure ratings stay at our current high levels and minimize interest costs to the taxpayer

*The agency strives to maximize the benefit to the region AND is responsible with taxpayer dollars*

# *Opportunities in financing policies*

- Allow for maximum flexibility to use cash available well into the future
- Maintain strong coverage ratios without negatively impacting credit ratings unnecessarily
- Take advantage of lower interest rates if/when they occur in future cycles

***Why now? The agency currently has a strong balance sheet, with a position of strength, and a history of active financial governance***

# ***Key Financial Policies***

# ***Key financing policies and planning assumptions that impact financial capacity***

## ***Planning assumptions: assumptions in plan related to issuing debt***

- **Interest rates**
- **Debt service reserve fund (DSRF)**

## ***Statutes or policies: regulations in place to ensure responsible debt issuance***

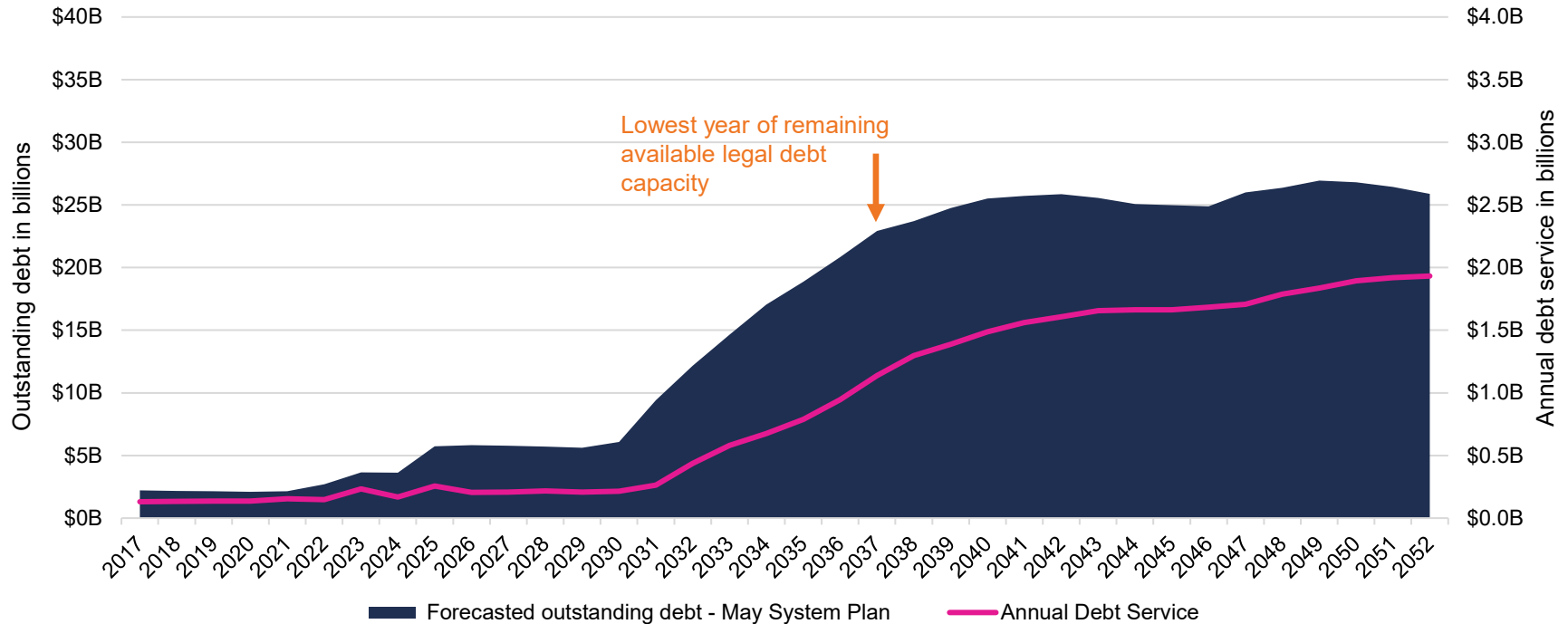
- **Liquidity / days' cash on hand (DCOH)** – Board policy and planning assumption
- **Net debt service coverage ratio (DSCR)** – Board policy
- **Debt capacity** – Statutory limit
- **Debt payback terms** – Statutory limit

# Impact on financial capacity

| Recommendations                                            | Effect on ratings | Impact to funds for System Expansion |
|------------------------------------------------------------|-------------------|--------------------------------------|
| Keep current interest rate for borrowing                   | ↔                 | ↔                                    |
| Lower net debt service coverage ratio                      | ↔                 | +                                    |
| Target minimum liquidity (days' cash on hand)              | ✓                 | ↔                                    |
| Eliminate debt service reserve                             | ↔                 | ✓                                    |
| Identify debt capacity opportunities                       | ↔                 | ✓                                    |
| Pursue longer debt payback terms through legislative cycle | ↔                 | ✓                                    |



# Debt profile – forecast during program



# Interest rates

## Current Assumption

- **Long Range Financial Plan assumption:** Future interest rate assumption **decreased to 5.0%** from 5.3% in Fall 2025 long range financial plan

## Rating Impact

- No rating impact if interest rate assumption is defensible and not unusually aggressive

## Peer Context

- Bay Area Rapid Transit: 5.0%
- Dallas Area Rapid Transit: 5.5%
- Bay Area Toll Authority: 5.0% - 5.25%
- New York MTA: 4.42% - 4.67%

## Recommend

- Retain existing **5.0%** rate. Based on the range of historical rates, refinancing buffer, and capacity implications, the current rate remains conservative while not unnecessarily constraining capacity

# *Minimum liquidity/days' cash on hand*

## Current Policy

- **Purpose:** Ensure cash on hand for operating and maintenance needs and advancing capital projects
- **Board Policy:** Minimum of two months of operating expenses in reserve

## Rating Impact

- Rating agencies expect liquidity to maintain operations and maintenance in a stress scenario, although the amount is issuer-specific

## Peer Context

- Peer agencies have moved from specific reserves, instead use flexible cash on hand
- Peers with large capital programs have 120 to 348 days cash on hand (WMATA, NY MTA & BART)

## Recommend

- Implement an internal target longer than two months, along with utilization of short-term debt tools (i.e., commercial paper) to have multiple tools accessible

# Debt service reserve fund

## Current Assumption

- **Long Range Financial Plan assumption:** ST maintains an assumption in the financial plan for Debt Service Reserve Fund (DSRF), not currently required by policy

## Rating Impact

- Debt service reserves are generally not considered as a unique credit factor
- ST has issued bonds without DSRF and has not experienced a negative rating result

## Peer Context

- Very few transit issuers maintain a DSRF

## Recommend

- Remove the DSRF, implement an internal liquidity target

# Net debt service coverage ratio (DSCR)

## Current Policy

- **Definition:** dictates borrowing capacity. Total Revenue minus operating costs, divided by debt service
- **Voter-Approved Financial Policy:** Net Coverage of at least 2.0x on average and 1.5x minimum in any year over the plan period

## Rating Impact

- Rating agencies assess Sound Transit's ability to pay bond debt service, which has a gross pledge
- Net Coverage can fall to 1.0x without affecting credit ratings and market access if Gross Coverage > 2.0x

## Peer Context

- Peer agencies use 1.0x minimum net coverage for planning; in practice actual coverage is 1.3x-1.5x
- Gross Coverage targets are more common: DART 2.0x, TriMet debt service at 7.5% of "Continuing Revenues"

## Recommend

- Lower current policy to 1.35x for minimum year, keeping average in place at 2.0x

# Debt capacity

## Current Policy

- **Definition:** Washington state law limits the agency in total bonds outstanding to 1.5% of assessed value of the Sound Transit district.

## Rating Impact

- Debt capacity is a control that limits total indebtedness of the agency and is a factor to point to in governance of the agency's overall debt profile.

## Peer Context

- Under the California Public Utilities Code, BART could borrow up to 3.75% of the assessed value in the district.
- Most other use cases are limited by absolute dollar value debt limits.

## Recommend

- Continue to identify financing opportunities that expand the agency's capacity.

# Debt payback terms

## Current Policy

- **Definition:** Washington state law limits general obligation bond terms to 40 years

## Rating Impact

- Ratings agencies expect payback terms to align with the useful economic life of the asset, in-line with federal loan expectations

## Peer Context

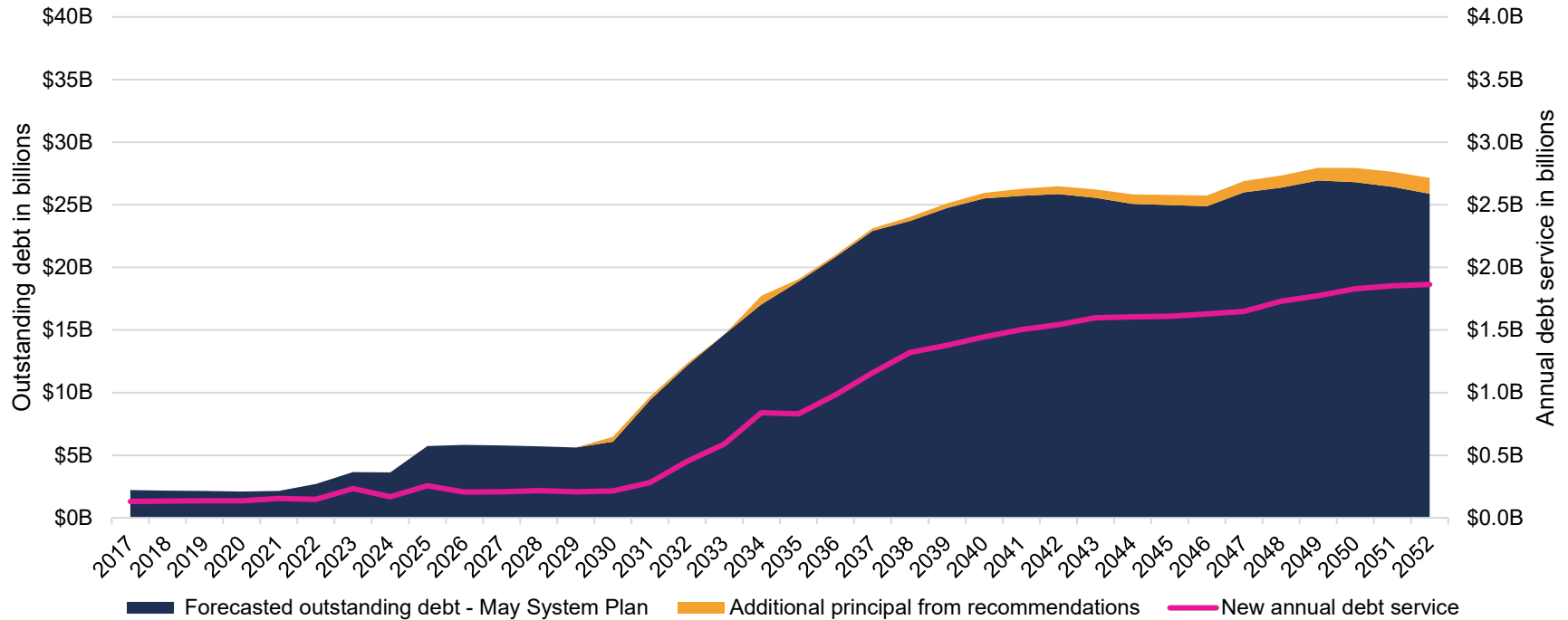
- Currently TIFIA or RRIF loans for longer than 40 years have not been exercised with the federal shift very recent (2021)

## Recommend

- Pursue legislative agenda to align Washington State limits with federal government limits on infrastructure projects up to 75-year payback

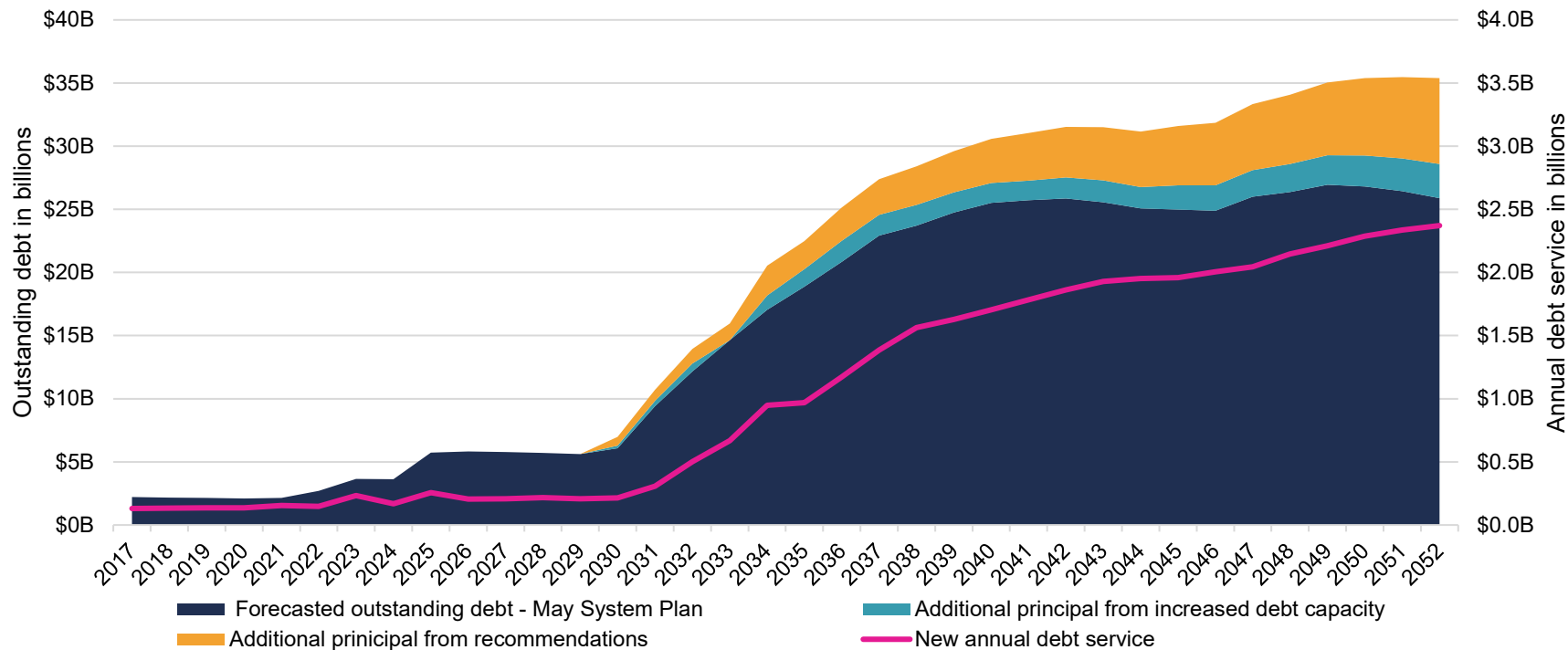
# Debt profile – forecast with recommendations

- Implementing recommendations allows \$500M in additional expenditures



# Recommendations + increased debt capacity

- Increasing debt capacity and implementing recommendations – \$3.5B in additional expenditures
- Increasing debt capacity without implementing recommendations – \$1.4B in additional expenditures



# ***Next Steps***

# ***Discussion and next steps***

## ***Feedback requested from committee***

- Do you have any questions or feedback about our existing financing policies and assumptions?

## ***Proposed next steps***

- Brief Executive Committee on November 5th
- Seek FAC recommendation on potential policy changes on November 19th
- Potential Board action on potential policy changes on November 19th

*Thank you.*



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