Financial Policies Overview and DSCR Update

Resolution No. R2026-26

Executive Committee
11/5/2026

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Why we are here

Resolution No. R2026-26

Seek the Executive Committee's recommendation to forward Resolution No. R2026-26, which lowers the net Debt Service Coverage Ratio from 1.5x to 1.35x in the minimum year.

Review Key Financial Policies

This action is consistent with Board direction via Resolution No. R2026-11, to review key financing policies and planning assumptions.

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 be 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

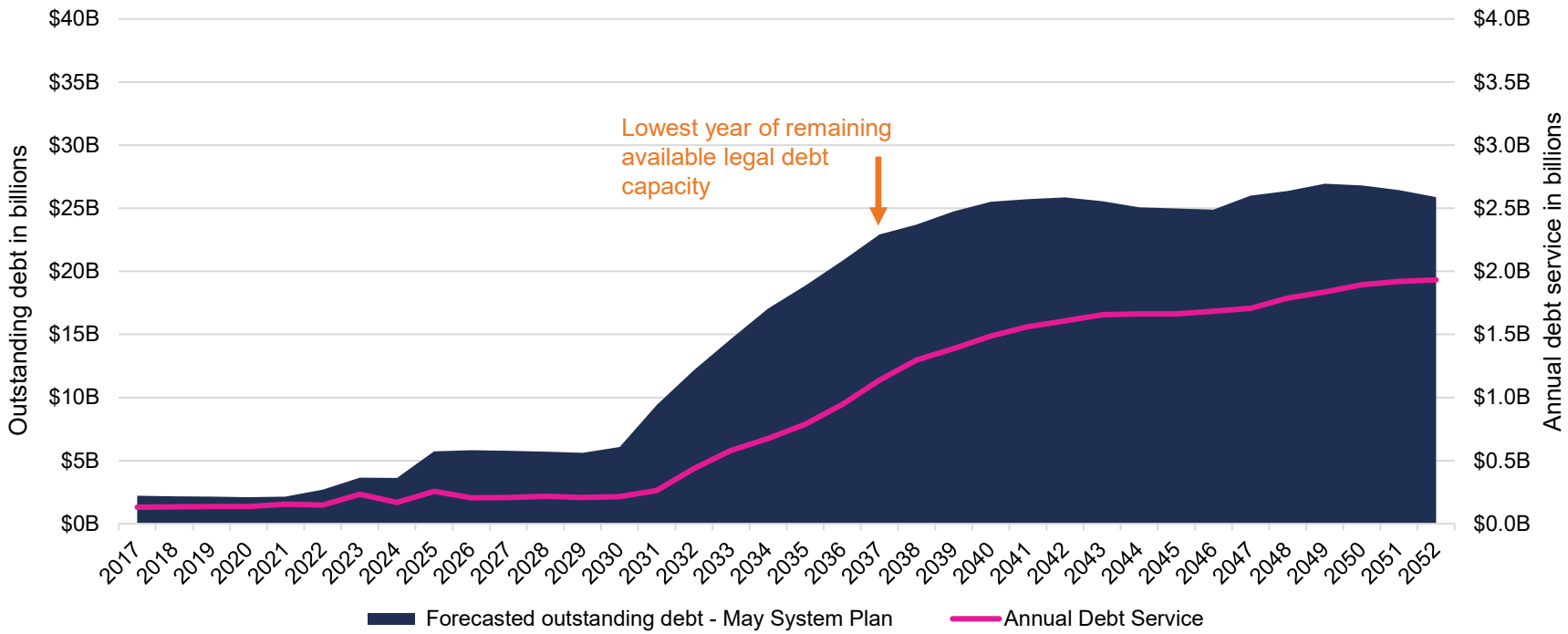
- **Net debt service coverage ratio** (DSCR) – Board policy
- **Liquidity / days' cash on hand** (DCOH) – Board policy and planning assumption
- **Debt capacity** – Statutory limit
- **Debt payback terms** – Statutory limit

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	⇆	✓

Legend ✓ Beneficial + Potentially beneficial ⇆ Neutral

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% ▪ Bay Area Toll Authority: 5.0% - 5.25% ▪ Dallas Area Rapid Transit: 5.5% ▪ 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

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

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

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	▪ ***Board action*** to lower current policy to 1.35x for minimum year, keeping average in place at 2.0x ***(Being considered via Resolution No. R2026-26)***

Debt capacity

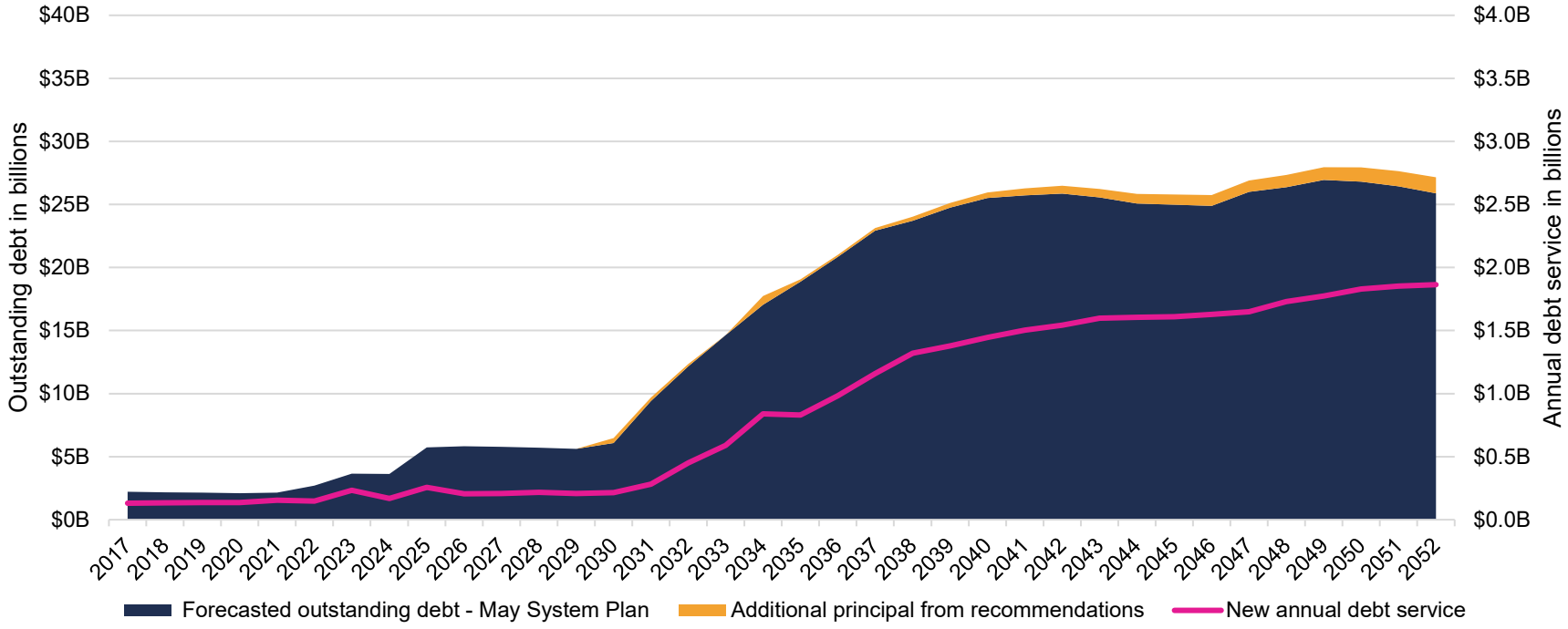
Current Policy	▪ **Definition:** Washington state law limits the agency in total bonds outstanding to 1.5% of assessed value of the Sound Transit district.
Rating Impact	▪ Debt capacity is a control that limits total indebtedness of the agency and is a factor to point to in governance of the agency's 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 between $500M-$1B in additional expenditures

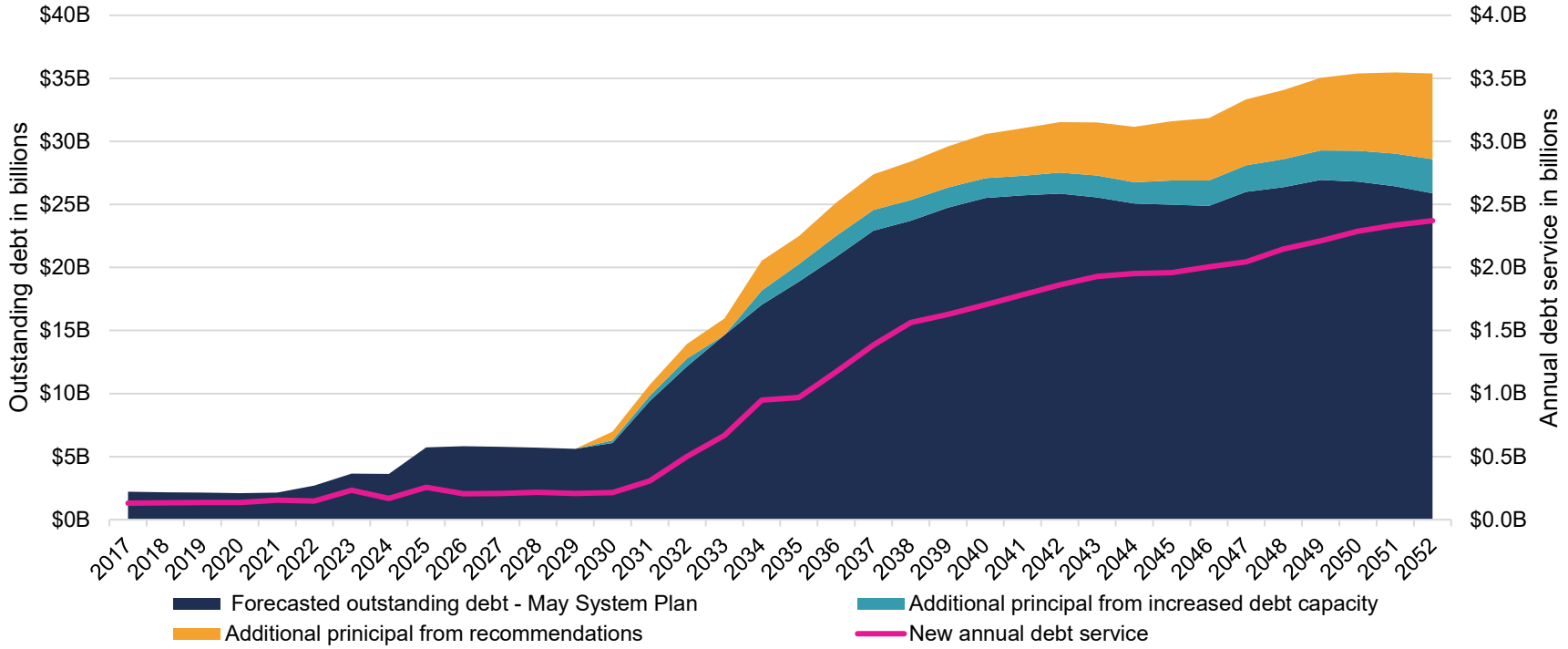


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Recommendations + increased debt capacity

Increasing debt capacity without implementing recommendations – $1.4B in additional expenditures

Increasing debt capacity and implementing recommendations – $3.5B in additional expenditures



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Next Steps

Discussion and next steps

Proposed next steps

- Brief Finance and Audit Committee on November 19th
- Board final action on Net Debt Service Coverage Ratio (Resolution No. R2026-26) policy change on November 19th

Thank you.

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