

Strategies to Increase Financial Capacity

Executive summary

This white paper reviews strategies developed by the Financial Planning & Analysis team to increase Sound Transit's financial capacity through 2046 and beyond, as directed by Board. The team has identified many actions that could generate additional expenditure capacity, enabling the agency to close the affordability gap needed for the ST3 system expansion program, run Sound Transit operations and maintain those systems in a state of good repair.

It is important to note that while these options could help close the affordability gap, some also come with specific risks.

Problem statement

Since 2021, Sound Transit's long-term capital and operating costs have been growing at a faster rate than assumed in the original ST3 Long-Range Financial Plan (LRFP 2016) and realigned LRFP (2021). Historic rates of inflation, interest rate increases, global supply chain issues stemming from the pandemic, and uncertainty due to tariff changes have underpinned the rate and scale of cost changes. Current capital cost estimates for completion of the ST3 program present major challenges to the affordability of the program as currently scheduled. Additionally, projected costs to run the system and maintain the system in a state-of-good repair are higher than when the original ST3 program was assessed for financial viability.

Evaluation methodology

The financial planning and analysis team has evaluated several options to expand financial capacity to fund the Sound Transit program. The evaluation included consultation with financial advisors, investment banking teams and other consultants.

Each strategy has been evaluated based on the following categories.

1. Benefit to the LRFP in terms of how each action affects two critical debt constraints:
 - Legal debt capacity: Total debt can never exceed 1.5% of the aggregate assessed property value
 - Net debt service coverage ratio: Must maintain minimum 1.5x coverage (revenue minus operating expenses must cover debt service 1.5 times annually)
2. Financial risk
 - Green. Additional revenue or reduced cost, very likely to occur based on historical trends or input from experts, and/or if not realized will not pose risk to the program (\$100 million or below).
 - Yellow. Reduced flexibility to withstand future financial changes, medium likelihood of occurring based on historical trends, and/or if not realized will pose some risk to the program (\$100M-\$1 billion).
 - Red. Dramatically reduced flexibility to withstand future financial challenges, including impact to credit score or increased borrowing cost, and/or highly uncertain/ unlikely (based on historical trends or input from experts) and if not realized will result in an unaffordable financial plan (\$1 billion or more).
3. Implementation
 - Green. Can be changed or implemented by ST staff
 - Yellow. Requires Board approval or other coordination with jurisdictions.
 - Red. Requires voter or state legislature approval.



Finance Opportunity Register – March 2026 Draft

Options	Description	Benefit to Financial Plan	Financial risk	Implementation
Already incorporated into long range financial plan (Fall 2025)				
Debt - borrowing rate	Adjust borrowing rate assumption from 5.3% to 5.0%	\$\$	●	●
Debt - issuance cost	Decrease issuance cost assumption from 1.25% to 1%.	\$	●	●
Interest earnings	Increase interest earnings assumption 50 basis points.	\$	●	●
Clean fuel standard revenue	Assume \$80 million in revenue through 2046 at \$40/credit.	\$	●	●
Property tax undercollection	Remove the undercollection assumption of 1%.	\$	●	●
Existing financial resources				
Board policy options				
Remove or reduce ST3 project scopes	Remove or reduce major ST3 system expansion projects.	\$ - \$\$\$\$	●	●
Delay ST3 project in-service dates	Delay WSLE 3 - 10 years.	\$ - \$\$\$	●	●
Decrease Assumed levels of future ST Express service levels	Decrease ST Express service levels.	\$\$	●	●
Fare compliance on Link	Increase fare compliance rate on Link to 80% versus current 75% assumption.	\$	●	●
Increase fare rates for all modes in 2025	Increase fares \$0.25 starting in 2025, rather than 2029 (next planned increase).	\$	●	●
Increase rental car tax rate	Increase 0.8% tax to 2.172%.	\$	●	●
Debt/financing				
Reduce net coverage ratio requirement (Board policy)	Reduce net coverage to 1.35x.	\$\$\$	●	●
Debt - loan term	Assume all future bond issuances have 35- to 40-year terms rather than 30-years.	\$ - \$\$	●	●
Securitizing federal funds	Securitize \$1.3B in federal funds, issue a 12- year GARVEE, with 5.8% interest rate	\$	●	●
Third party funding				
Federal funding				
Capital Investment Grants	Increase CIG assumptions in plan.	\$\$	●	●
Grant assumption for later ST3 projects	Assume 25% federal funding for large ST3 projects later in program (post 2037).	\$\$	●	●
CIG Grant - West Seattle	Assume WSLE can score medium and receive a CIG grant.	\$\$\$	●	●
TIFIA - longer loan term	Assume 55-year bond. Requires legislative change to issue debt over 40 years.	\$\$	●	●
TIFIA - WSLE	Impact varies slightly based on loan terms.	\$ - \$\$	●	●
TIFIA - OMFS	Impact varies slightly based on loan terms.	\$	●	●
Federal Tax Credit for Clean Vehicles	Assumes \$40K/bus credit for 40 to 188 qualified commercial clean buses.	\$	●	●
Other party funding				
Other regional gov. financing	Assume other gov. finances 100 to 246 LRVs	\$\$ - \$\$\$	●	●
Contribution from state or local government	Assume other government contributes to completion of capital program	\$ - \$\$\$	●	●
Other regional gov. taxes	Use of TBDs or other mechanism to raise taxes for specific projects or areas	\$\$ - \$\$\$\$	●	●
Implement Public Private Partnerships (P3)	Private participation in delivery of projects.	-	●	●
New voter approved taxes or authority				
Impose employee HC tax	Impose a \$2/employee HC tax starting in 2028.	\$\$	●	●
Implement levy lid lift to \$0.25/\$1000	Permanent single-year levy lid lift increasing rate \$0.09 to \$0.25/\$1000 AV.	\$\$\$	●	●
Implement an enhanced service zone	Impose 0.4%-0.7% increase to MVET or parking tax revenue growing at 1%-4%/year.	\$ - \$\$	●	●
Raise agency legal debt capacity to 5%	Raise agency legal debt capacity to 5%. Constrained by 1.25x to 1.5x coverage.	\$\$ - \$\$\$\$	●	●
Legend				
Benefit to Financial Plan		Financial risk/ Implementation barriers		
\$ Less than \$500M		● High		
\$\$ \$500M-\$1B		● Medium		
\$\$\$ \$1B - \$3B		● Low		
\$\$\$\$ Above \$3B				

Finance: Net debt service coverage

Opportunity Description

The voter-approved Financial Policies state that the net debt service coverage (DSCR) ratio (revenues less operating cost divided by debt service) is “not to fall below 1.5x in any single year”. “However, as voter-approved plans are implemented, prudent changes to coverage ratios may be made by the Board as appropriate”.

Benefit	Likelihood
Low	Medium

Adopting this policy would mean Sound Transit can maintain a higher level of debt service relative to annual revenues. This would bring the agency more in line with other national transit agencies on managing debt on an ongoing basis.

Assessment and Consultation

In consultation with investment banks and Sound Transit’s financial advisor, options for reducing our net DSCR were evaluated.

The ability to utilize additional financial capacity with a lower net debt service coverage ratio is constrained by the agency’s legal debt capacity limit. Meaning, the only way the agency can benefit from lowering the debt service coverage ratio is if the agency is running up against the current 1.5x ratio *and* additional debt can still be issued within the agency’s legal debt capacity limit.

Benefits and Challenges

A 1.35x coverage ratio would not solve issues of legal debt capacity constraint. Additionally, net coverage is a form of financial reserves to respond to unforeseen revenue reductions or expenditure increases during construction of the ST3 projects. Lowering this too far could potentially create less flexibility to adapt to macroeconomic conditions later in the program.

Estimated Financial Impact

Reducing the net coverage requirement to 1.35x would allow approximately \$1.4B to \$2.8B more expenditures in year of expenditure dollars (YOES), based on key assumptions in the unconstrained version of the 2025 LRFP. However, this increase results in using more than our allowable statutory debt capacity. To utilize the adjusted DSCR, a scenario must have legal available debt capacity, that is, it can still issue more debt, with associated debt service, to achieve benefits from a lower net DSCR.

Implementation Plan

Changes to the Budget Policy require a majority vote by the Sound Transit Board of Directors.

Finance: 75-year bond term

Opportunity Description

Washington State legislation considered a bill in Spring 2026 to allow Sound Transit to issue bonds with a 75-year term.

Benefit	Likelihood
Medium	Medium

Currently all local governments in Washington state, including Sound Transit, are limited to issuing 40-year loans per RCW 39.46.110. If implemented, Sound Transit would be able to use the Transportation Infrastructure Finance and Innovation Act (TIFIA) program to issue loans up to 75years in length. This would reduce costs over the system expansion program.

Assessment and Consultation

A 75-year TIFIA loan would require a project that includes the construction of assets with 100-year plus life cycles. The 2nd downtown Seattle Transit Tunnel, included as part of the Ballard Link Extension project, is the most likely candidate to pursue this type of loan.

This tool would allow Sound Transit more options when issuing debt and decrease the debt service during the system expansion program timeframe, allowing for more capital expenditures.

Benefits and Challenges

Compared to the existing debt assumptions, a \$5.5B, 75-year bond could provide minimal savings at a 5% rate, but up to \$2.3B in debt service savings at a 2.14% rate through our pinch period (2046).

TIFIA does not penalize early repayment. While a 75-year loan would increase overall interest repayment, early redemption can mitigate this. Redeeming the debt early in 2060, simulating a traditional bond structure, almost eliminates the difference in debt service between a standard 30-year bond issuance and a 75-year TIFIA loan.

Estimated Financial Impact

Sound Transit staff assessed a 75-year TIFIA loan at both a 5% rate and a 2.14% rate. The 5% rate is the standard planning assumption Sound Transit uses for future borrowing , while a 2.14% rate is based upon the existing TIFIA MCA loans' rate of 1.91% plus a 23 bps premium for a longer-term loan. The analysis used the 2nd downtown Seattle Transit Tunnel project to size the loan.

The size of the benefit depends on the size of the loan, the timing of the loan, and most importantly the interest rate achieved. All scenarios will add total debt service through the entirety of the loan term, but during the expansion years debt service is decreased each year, allowing more construction to proceed in those years.

Implementation Plan

The WA state legislature would need to pass legislation to increase the term available for loans issued by the RTA (Regional Transit Authority) to 75 years. This was proposed in Spring 2026 and Sound Transit will continue to pursue this tool with the legislature in the next session.

Finance: Increased rental car tax rate

Opportunity Description

This policy would increase the rental car tax (RCT) rate from the current 0.8% to 2.172%.

Benefit	Likelihood
Low	Medium

The current RCT rate was set at 0.8 percent and did not require voter approval. With voter approved action in November 2016, an additional RCT increase of up to 1.372 percent (\$1.37 on a \$100 car rental) can be authorized by the Sound Transit Board in the future, resulting in a total tax rate of 2.172 percent.

From a process perspective, very little would change. Sound Transit has been collecting this tax, and the change would only increase the rate subject to collection.

Assessment and Consultation

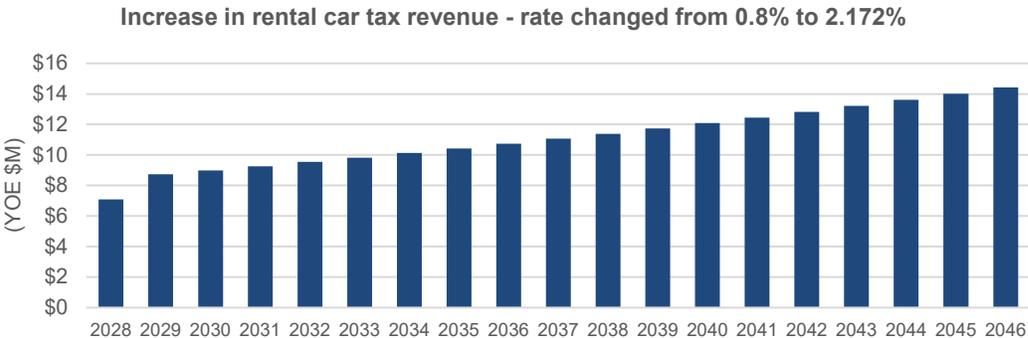
This policy change was under CEO review in 2024 but was not advanced to the board for consideration. It was also included in the 2025 financing strategies analysis as a potential source of additional agency revenue.

Benefits and Challenges

RCT tax is applied to all rentals in the RTA, but most of the impact would be in the South King County (SKC) subarea as SKC is forecasted to account for 67% of RCT revenue in the LRFP. Many of the rentals in SKC likely come from the Sea-Tac airport and would primarily impact individuals outside the RTA.

Estimated Financial Impact

Increasing the RCT rate to 1.372 percent starting Jan 1, 2028 would increase revenue by \$212 million. In addition, this would decrease the affordability gap by \$167 million.



Implementation Plan

This requires a super majority vote by the Sound Transit Board of Directors.

Finance: Asset leasing

Opportunity Description

This policy explores leasing assets as a financing mechanism, specifically light rail vehicles (LRVS).

Benefit	Likelihood
Medium	Low

Implementing a transaction under which a third party (another government or a private party) purchases and owns a Sound Transit (ST) asset (either LRVs or light rail infrastructure) could potentially generate financial capacity for Sound Transit by substituting debt issuance for lease payments, thereby freeing up capacity within ST’s legal debt limits.

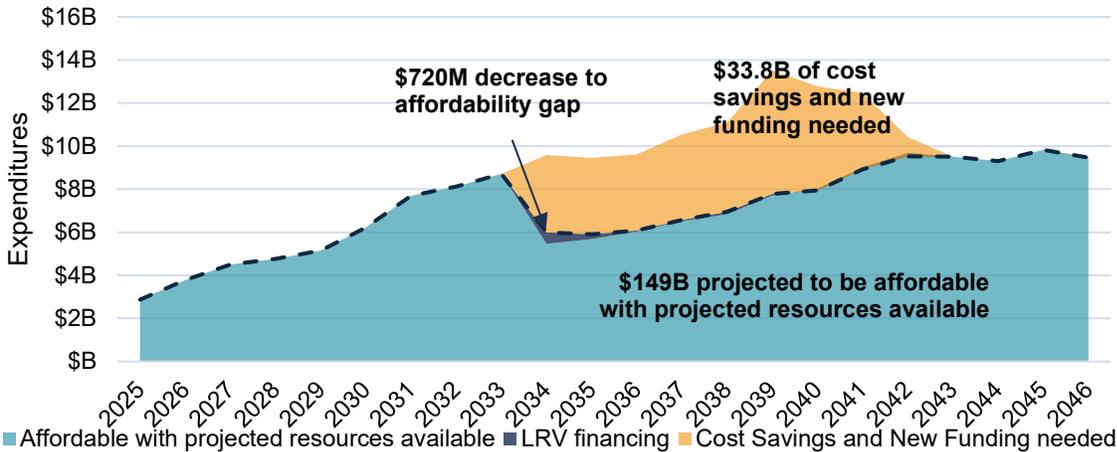
Assessment and Consultation

Sound Transit plans to issue an RFP in March 2026 to purchase LRV Series 3 vehicles with an initial purchase of 70 vehicles in 2027 with incremental options for 1-80 additional LRVs from 2027-2033.

Asset leasing is a very common practice for public agencies, including transit agencies. Leased assets include buildings, land, right of way, rolling stock and transit infrastructure.

Estimated Financial Impact

The analysis assumes Sound Transit purchases the first 70 vehicles for the Series 3 LRV, and the additional 1-80 LRVs from 2027 – 2033 are purchased by a 3rd party. The analysis estimates the removal of \$2.4B in costs from Sound Transit and replaced with a lease to the 3rd party that offsets the 3rd party’s debt repayment. This removal of debt off ST’s balance sheet results in an improvement of \$720M to the affordability gap during the system expansion program period.



Implementation Plan

The lease arrangement between ST and the counterparty would be complex. It would have to include provisions dealing with assignment of risk, insurance considerations, contract provisions, potential vendor issues, and Federal grant issues.

Finance: Link CIG Core Capacity grant opportunity

Opportunity Description

Sound Transit will need to replace Series 1 Light Rail Vehicles (LRVs), build signalization improvements and infill stations as part of implementing the ST3 Plan. To fund those improvements, the Agency should consider the addition of a new Link “Core Capacity” grant, corresponding to the timing of the replacement of Series 1 LRVs (2037-2046). This potentially increases the Capital Investment Grant (CIG) assumption by an estimated \$3.3 billion.

Benefit	Likelihood
High	Medium

In the current Sound Transit Financial Plan, \$11.8 billion of CIG funding is assumed through 2046 to fund ST3 Link extensions. There is no current grant assumption for Core Capacity improvements. Enterprise Initiative scenarios consider increasing CIG assumptions by \$5 billion (from \$11.8 billion to \$17 billion) over the next 20 years (2046). A Core Capacity grant could provide an estimated \$3.3 billion of the total CIG grant assumption.

If Implemented

Pursuing a Core Capacity CIG grant could increase the grant revenue assumed in the Financial Plan, benefiting financial capacity with additional grant revenue. A new CIG Core Capacity grant assumption would not impact any other project in the grant assumptions.

Assessment and Consultation

The CIG Program is the Federal Government’s primary financial resource for supporting transit capital projects, including light rail and commuter rail projects. Per FTA guidance, Core Capacity projects may include improvements such as double tracking, signalization improvements, expanding system platforms, acquisition of rolling stock associated with corridor improvements increasing capacity, and construction of infill stations.

Assumptions

This opportunity is based on current CIG guidance from FTA, as of November 2025. If the FTA changes the CIG guidance, staff will assess whether Sound Transit would be eligible for a Core Capacity grant.

Benefits and Challenges

Grant assumptions, particularly the CIG assumptions, have risk because the grant agreements, called Full Funding Grant Agreements (FFGAs) are not executed. There is uncertainty surrounding the funding levels for the CIG program and other federal funding programs, however, the President’s Fiscal 2026 Budget indicated funding for new CIG projects to be consistent with status quo funding levels and CIG projects have been funded by Congressional action.

Sound Transit uses three methodologies to review grant assumptions: 1) The percentage federal share for each project is under the maximum allowed; 2) The percentage of national CIG funds assumed by Sound Transit projects, and 3) A comparison of federal funding assumptions with peer agencies with similar capital programs. The addition of a Core Capacity CIG grant as well as the other assumptions are consistent with these reviews.

Estimated Financial Impact

A Core Capacity grant increases the potential grant funding for Sound Transit by an estimated \$3.3B, as compared to the current grant assumption in the Financial Plan. With the assumed West Seattle Link CIG grant and the assumed Core Capacity grant, the total CIG assumptions would increase from \$11.8 billion to approximately \$17 billion.

Implementation Plan

A Core Capacity grant for Sound Transit would be timed with the replacement of the Series 1 LRVs and signalization improvements, anticipated in the (2037-2046) timeframe. No policy changes or processes need to be changed to pursue grant funding for vehicle replacements.

Finance: Partner contributions

Opportunity Description

Washington State or local governments within the Sound Transit district could contribute with direct funding to the completion of Sound Transit capital program.

Benefit	Likelihood
Low	Medium

Currently local and state governments do not directly provide Sound Transit with funding for its capital program. There are instances where other local governments will provide payments to the agency to offset shared costs such as using facilities or infrastructure. However, these payments are for the use and benefit to that organization and are not intended to support Sound Transit's program.

A direct contribution to expansion projects above current project funding assumptions is a potential strategy to narrow funding gaps that have been identified.

Assessment and Consultation

In 2023, letters of intent were signed by the previous King County Executive and City of Seattle Mayor signifying their intent to contribute a total of \$400M in third-party funding to advance certain project elements of the West Seattle Link Extension and Ballard Link Extension projects. This analysis assumes that the partner contribution is in the form of a cash award similar to a grant and directly offsets expenses for a project. It also assumes that any additional direct grant or revenue benefits the system in that it will allow more funding earlier in the program to offset any project expenses.

Benefits and Challenges

This additional revenue would not result in offsetting costs, and if this was assumed in the long-range financial plan and not realized it would pose some risk to the program, over \$100M.

Estimated Financial Impact

This test assumes receiving \$400M total, to defray costs of Ballard Link Extension, or \$100M in each year 2035 – 2038. This \$400M of partner contributions would also decrease the affordability gap by \$400M.

Implementation Plan

It may be challenging for financially constrained governments to commit to contributing to the cost of Sound Transit capital projects. Additionally, the state's constitutional prohibition against gifts of public money would mean that contributions would need to be done through a formal interlocal cooperation agreement (RCW 39.34).

Finance: Transportation Benefit District

Opportunity Description

This policy examines the potential creation of a transportation benefit district (TBD) by a partner jurisdiction. TBD revenue can be included in a local, regional, or state transportation plan and can include transit construction, maintenance, and operation costs.

Benefit	Likelihood
High	Low

This tool is not currently available to regional transit authorities like Sound Transit. Current law, Chapter 36.73 RCW, authorizes cities and counties to form transportation benefit districts (TBDs). TBDs are quasi-municipal corporations and independent taxing districts that can raise revenue for specific transportation projects through vehicle license fees or sales taxes.

Assessment and Consultation

TBDs are primarily funded through sales tax and/or vehicle license fee and must be approved by a majority vote of the governing board of the district.

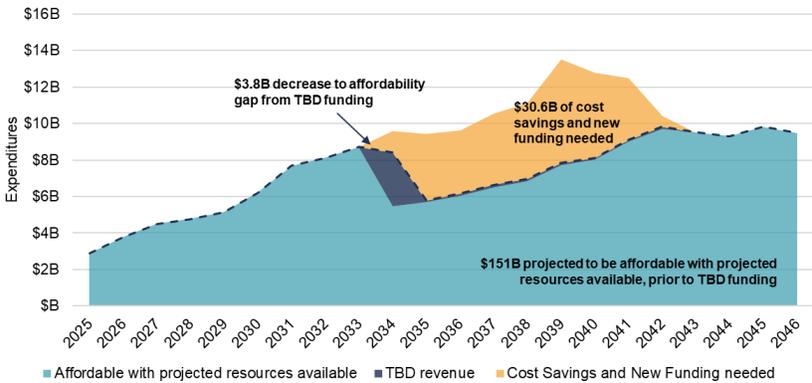
- Sales tax can be levied up to 0.3%.
- Vehicle fees can be levied up to \$50 without voter approval; up to \$100 with voter approval.

Estimated Financial Impact

Sound Transit modeled how much sales tax revenue would need to be generated by a TBD to pay for the Ballard Link Extension project from Seattle Center to Market Street.

If, hypothetically, the city of Seattle implemented a TBD with a 0.3% sales tax increase in 2028, it could generate ~\$2.5B through 2046. This would leave ~\$5.8B of the project unfunded.

An additional consideration here would be to extend the timeframe of the Financial Plan from 2046 to 2050. The additional time allows the BLE project to secure another CIG grant, which could potentially bring in up to \$5 billion in additional grant funds.



Implementation Plan

This policy would require extensive coordination with partner jurisdictions.

Finance: West Seattle Link CIG grant opportunity

Opportunity Description

Due to changes in FTA’s Guidelines in November 2025, West Seattle Link is now anticipated to get Medium New Starts rating, making it eligible for a Capital Investment Grant (CIG), with a higher federal share than the grant that was previously assumed. A CIG grant increases the potential grant funding for West Seattle Link by an estimated \$2B, as compared to the current grant assumption in the Financial Plan. A CIG grant for West Seattle Link benefits the Financial Plan by allowing for the overall grant assumptions (through 2046) to increase by \$2B.

Benefit	Likelihood
High	Medium

The current Financial Plan assumes approximately \$1B in grant funding for West Seattle Link. This assumption was based on the project qualifying for only one type of grant – Expedited Project Delivery (EPD), which is limited to 25% federal share and requires an executed Public Private Partnership (P3). Due to changes in FTA’s CIG Guidelines, West Seattle Link is now anticipated to get Medium New Starts rating, making it eligible for a CIG grant, with a higher federal share (up to 49%) and no requirement for a P3. The recommended CIG strategy increases the grant amount by approximately \$2B over the assumption in the Financial Plan.

Comparison of Baseline Scenario vs Recommended Scenario in Financial Plan

Project	Baseline Scenario (EPD grant for WSLE)	Recommended Scenario (CIG for WSLE)	Difference
West Seattle	\$1B	\$3B*	~\$2B higher

* The grant estimates are based on Year of Expenditure (YOE) cost estimates for West Seattle No Avalon option and include costs from 2027 through 2046. CIG estimates are based on Link extension scope only and do not include LRVs, financing or OMF costs.

The CIG Program is the Federal Government’s primary financial resource for supporting transit capital projects, including light rail and commuter rail projects. CIG funding has been used to secure Full Funding Grant Agreements (FFGAs) for several Link extensions: Initial Segment, University Link, Lynnwood Link and Federal Way Link. Pursuing a CIG grant for West Seattle Link increases the grant revenue assumed in the Financial Plan, benefiting financial capacity with additional grant revenue as well as grant revenue earlier in the Financial Plan.

Benefits and Challenges

Grant assumptions, particularly the CIG assumptions, have risk because the grant agreements (called FFGAs) are not executed. There is also uncertainty surrounding the funding levels for the CIG program and other federal funding programs, however, the President’s Budget and Reauthorization proposals have indicated funding for new CIG projects to be consistent with status quo funding levels and CIG projects have been funded by Congressional action.

Risk Mitigation Strategies. If West Seattle Link does not receive the expected Medium New Starts rating from the FTA and cannot pursue a CIG grant, Sound Transit can return to pursuing an EPD grant, however, that funding source is limited to 25% federal share and requires a P3.

Estimated Financial Impact

A CIG grant increases the potential grant funding for West Seattle Link by an estimated \$2B, as compared to the current grant assumption in the Financial Plan.

Implementation Plan

FTA’s current requirements to secure a CIG grant for West Seattle Link is expected to take up to 2 years. This timeframe is consistent with past CIG grants secured for Lynnwood and Federal Way.