Resolution No. R2026-26

Updating Sound Transit's Minimum Annual Net Debt Service Coverage Ratio

Meeting:	Date:	Type of action:
Executive Committee	11/05/2026	Recommend to Board
Board	11/19/2026	Final Action

Staff name:	Staff title:
Victoria Wassmer	Finance and Business Administration Deputy CEO
Hughey Newsome	Chief Financial Officer
Ryan Fisher	**Finance Executive Director**

Proposed action

Amends Appendix B of Resolution No. R2016-16 (Sound Transit Financial Policies) to amend the debt service coverage ratio requirements by reducing the minimum annual debt service coverage ratio from 1.5x to 1.35x of net revenues over annual debt service costs.

Key features summary

- Resolution No. R2026-11 directed staff to bring forward changes to the agency's debt service coverage ratio and associated financial policies. The 1.5x annual minimum limits how much of Sound Transit's projected revenue can be committed to capital costs in the years when coverage is tightest.
- The proposed action would reduce the minimum net coverage ratio in any single year from 1.5x to 1.35x. The 2.0x average over the plan period would stay in place, and the legal debt limit of 1.5 percent of the assessed value of taxable property in the district would not be affected by this action.
- Staff consulted the agency's investment banks and financial advisors and received feedback that the net debt service coverage ratio can be lowered without affecting credit ratings or market access if gross coverage stays above 2.0x.
- For planning purposes, peer transit agencies typically set a 1.0x minimum for net coverage, or set a gross coverage target (for example, a 2.0x target at Dallas Area Rapid Transit) or a cap on debt service as a share of continuing revenues (for example, TriMet).
- A 1.35x annual minimum falls within the range used by peer agencies and remains above the 1.0x net coverage level at which ratings would be affected, provided gross coverage stays above 2.0x.

Background

The ST3 Financial Policies, adopted in Attachment B of Resolution No. R2016-16, currently provide: "For long-term planning purposes, Sound Transit agency debt service coverage ratio policy will be set at an average coverage ratio of 2.0x for net revenues over annual debt service costs, not to fall below 1.5x in any single year." Net revenues are revenues less operating costs. The policies also state that "as voter-approved plans are implemented, prudent changes to coverage ratios may be made by the Board as appropriate," and that they "may be amended from time to time as the Board deems necessary to implement and complete the System Plan." The proposed amendment would replace "1.5x" with "1.35x" and make no other change to the coverage language.

In August 2025, the Board adopted Motion No. M2025-36, which set principles and a process for the Enterprise Initiative, including an updated system plan and a balanced, affordable long-range finance plan. In May 2026, the Board adopted Resolution No. R2026-11, which updated the ST3 System Plan, reaffirmed the commitment to deliver the voter-approved ST3 Plan to the fullest extent that available resources allow, and directed staff to bring forward changes to the debt service coverage ratio and associated financial policies with the Q4 2026 update of the long-range finance plan. This action responds to that direction.

Lowering the coverage minimum does not grant borrowing authority. Currently, Sound Transit's legal debt capacity (1.5 percent of assessed value) is projected to be the binding constraint, projected to reach a low of 15.0% in 2048 in the Fall 2026 long range financial plan. The change to coverage would allow an additional projected $240M in debt in the current minimum year of 2050.

This action changes no other financial policy, and the agency continues to support the Board directed system plan requirements of separate work on financial standards. Under the 2026 Board work plan, the Board will also review a presentation of the Long-Range Financial Plan to the Finance and Audit Committee and the Board in Q4 2026, and the 2027 Proposed Budget and Transit Improvement Plan, which will include the chief financial officer's certification of conformance with the long-range financial plan. Resolution No. R2026-11 also requires an adaptive program management plan, including early-warning financial distress indicators, before the Board adopts the 2027 budget.

Fiscal information

Reducing the minimum net debt service coverage ratio does not authorize any expenditure or borrowing, so the update has no direct impact on the budget or long-range financial plan. The coverage change would be incorporated into the long-range financial plan update scheduled for Q2 2027.

Disadvantaged and small business participation

Not applicable to this action.

Public involvement

Not applicable to this action.

Time constraints

The 2026 Board work plan calls for the Board to consider changes to the debt service coverage ratio in Q4 2026, in conjunction with the Long-Range Financial Plan update.

Prior Board/Committee actions

Resolution No. R2026-11: Updated the Sound Transit 3 System Plan to be affordable within available and projected financial capacity.

Motion No. M2025-36: Adopted principles and a process to help guide the Board on how best to achieve the planned outcomes of the Enterprise Initiative work, including an update to the current system plan (Sound Transit 3) and long-range finance plan.

Resolution No. R2016-16: Adopted the Sound Transit 3 Regional Transit System Plan.

Environmental review – LS 10/9/2026

Legal review – MT 10/30/26

SOUNDTRANSIT

Resolution No. R2026-26

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority amending Appendix B of Resolution No. R2016-16 (Sound Transit Financial Policies) to amend the debt service coverage ratio requirements by reducing the minimum annual debt service coverage ratio from 1.5x to 1.35x of net revenues over annual debt service costs.

WHEREAS, the Central Puget Sound Regional Transit Authority, commonly known as Sound Transit, was formed under chapters 81.104 and 81.112 of the Revised Code of Washington (RCW) for the Pierce, King, and Snohomish Counties region by action of their respective county councils pursuant to RCW 81.112.030; and

WHEREAS, Sound Transit is authorized to plan, construct, and permanently operate a high-capacity system of transportation infrastructure and services to meet regional public transportation needs in the Central Puget Sound region; and

WHEREAS, in general elections held within the Sound Transit district on November 5, 1996, November 4, 2008, and November 8, 2016, voters approved local funding to implement a regional high-capacity transportation system for the Central Puget Sound region; and

WHEREAS, the Sound Transit Board adopted financial policies to govern the financing and implementation of the regional transit system and to specify budgetary guidelines for providing subarea equity in accomplishing the same; and

WHEREAS, the financial policies establish an average coverage ratio of 2.0x for net revenues over annual debt service costs, not to fall below 1.5x in any single year, which the Sound Transit Board may change as it deems prudent and appropriate to implement the voter-approved plans; and

WHEREAS, Sound Transit seeks to actively pursue creative funding and financing partnerships with city, county, regional, and state governments to identify potential funding opportunities, leverage partner government debt capacity, and assess other opportunities to increase financial capacity to deliver more of the ST3 program; and

WHEREAS, the Board seeks to establish sustainable financial governance through structured and transparent standards for when and how financial rebalancing occurs, subject to the limitations set forth in the ST3 Ballot Measure, Resolution No. R2016-17; and

WHEREAS, in Resolution No. R2026-11, the Board directed staff to present proposed changes to the agency's debt service coverage ratio and associated financial policies in conjunction with the Q4 2026 update to the long-range finance plan; and

WHEREAS, the Board has considered potential benefits and drawbacks to changing the debt service coverage ratio, industry best practices, and potential impacts on credit ratings and finds that modifying the annual debt service coverage ratio would not adversely impact the agency's ability to deliver the voter-approved plans; and

WHEREAS, the Board finds it prudent and appropriate to reduce Sound Transit's minimum annual debt service coverage ratio to increase agency financial capacity.

NOW, THEREFORE, BE IT RESOLVED by the Board of the Central Puget Sound Regional Transit Authority that Appendix B of Resolution No. R2016-16 is hereby amended to revise the debt service coverage ratio requirements by reducing the minimum annual debt service coverage ratio from 1.5x to 1.35x, as follows:

Debt Service Coverage Requirements

The Board recognizes that its bondholders and lenders will hold first claim against revenues pledged as repayment for outstanding bonds and loans based on the flow of funds. However, Sound Transit's debt financing capacity will be calculated on a more conservative basis, by evaluating all revenues and deducting total operating expenses for net revenues available for debt service.

For long-term planning purposes, Sound Transit agency debt service coverage ratio policy will be set at an average coverage ratio of 2.0x for net revenues over annual debt service costs, not to fall below ~~1.5x~~1.35x in any single year. However, as voter-approved plans are implemented, prudent changes to coverage ratios may be made by the Board as appropriate. Before issuing bonds, Sound Transit will establish the appropriate debt service coverage ratio to incorporate into the bond covenants for the specific bond issuance.

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on _____.

_____

Dave Somers
Board Chair

Attest:

_____

Kathryn Flores
Board Administrator