



# Asset Liability Management Report

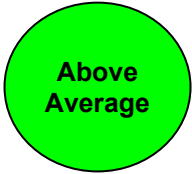
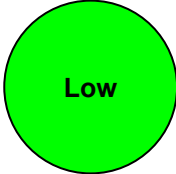
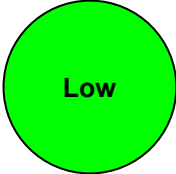
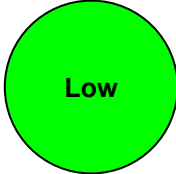
3Q 2022

## Performance Indicators and Key Measures

### Cash, Investment and Debt Balances – Book Value (\$M)

Restricted Cash and Investments	644.9
Unrestricted Cash and Investments	2,654.4
<b>Total Cash and Investments</b>	<b>3,299.3</b>

**Total Outstanding Debt – Par Value 2,678.8**

INVESTMENT PERFORMANCE	INTEREST RATE RISK	CREDIT RISK	LIQUIDITY RISK
 <b>Above Average</b>	 <b>Low</b>	 <b>Low</b>	 <b>Low</b>
Prior quarter: Above Average	Prior quarter: Low	Prior quarter: Low	Prior quarter: Low
Interest earnings exceeded budget for Q3 2022.	The current long-term rate for tax exempt bonds and blended rate for outstanding debts are below the assumed borrowing rate in the financial plan.	Agency is well diversified against counterparty credit risk. Investment portfolios are within policy parameters.	Agency cash and investment balances are sufficient to meet all known funding and reserve requirements.
Key Measures	Key Measures	Key Measures	Key Measures
Interest income of \$19.5M was \$1.1M above Q3 revised budget of \$18.4M. Note, excludes unrealized gains and losses.	The blended ST interest cost is 2.71%. The current assumed rate in the financial plan is 4% through 2025 and 5.3% from 2026 to 2041.	All investment portfolios are in compliance with policy limits. Credit risk exposure is low.	All reserves are fully funded to date.
Book yield for the unrestricted ST investment portfolio is 2.09%.	The blended investment yield is 2.09% versus the variable debt rate of 1.86% in 3Q 2022.	There were no credit rating actions that negatively impacted the investment portfolio during the quarter.	Current liquidity meets policy requirement.

## 3Q 2022 ALM Overview

### Key Items

The investment portfolio remains conservatively positioned and has weathered the market volatility well. The portfolio continues to selectively add high-quality municipal, agency and corporate securities when the market provides an attractive entry point. A key focus continues to be maintaining liquidity in support of the realigned plan.

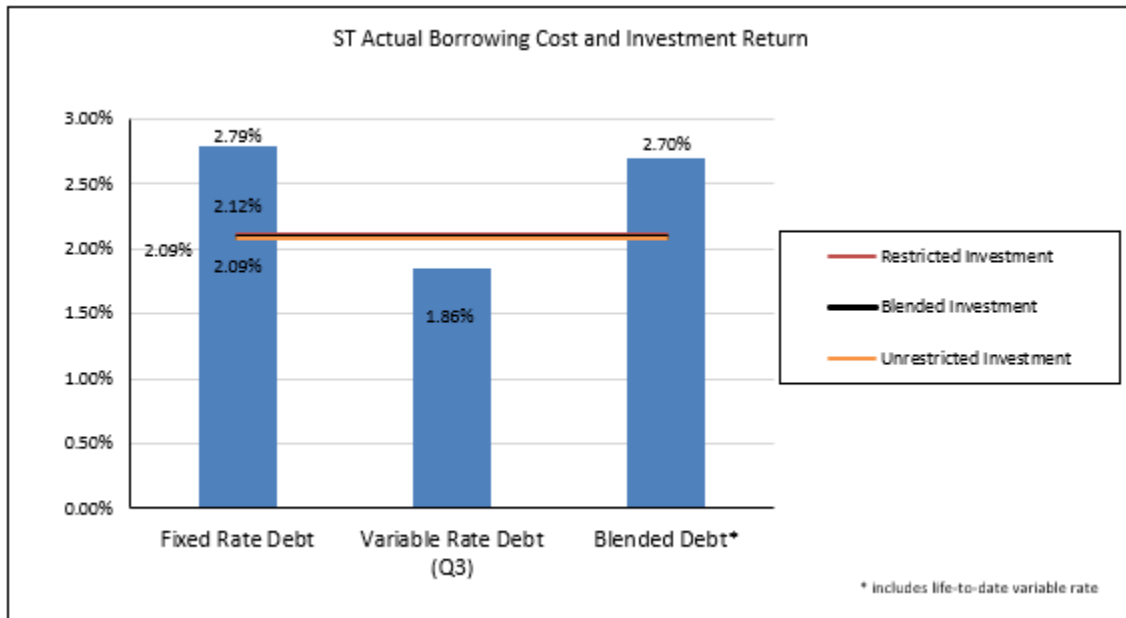
Sound Transit continuously monitors the markets and seeks opportunities to decrease costs and create financial capacity. Actions are proposed if they are financially beneficial to the agency and its program as a whole.

Interest rates continued to increase in Q3. In Q2 the Agency started the process of securing additional TIFIA and RIFF loans in the total amount of \$500 million. The Agency is expecting to close on these loans in Q1 of 2023.

### Market Environment

Interest rates continued to climb higher in a volatile fashion as yields dipped lower in July, with the two-year yield plunging to 2.80%, only to march higher and close the quarter at a 15-year high level of 4.28%. Volatility continues to be driven by an unusual economic backdrop with slowing growth and stubbornly high inflation that is driving policy makers to be more hawkish than they have been in the last 20 years. For now, it appears yields are set to remain at these elevated levels until we see meaningful progress on realized inflation and cracks in the labor market that has thus far defied expectations and remains quite strong in the face of tighter financial conditions.

### Actual Borrowing Rate versus Investment Rate



### Current Tax-Exempt Borrowing Rates

- Current 30 year fixed at 4.56%
- Current variable rate at 1.88%. Q3 SIFMA avg of 1.47% + LOC Cost of 0.35% + Rmktg Fee of 0.06%

### Credit Watch

ST is currently in "stand still" on its Lease In/Lease Out agreement with AIG, awaiting further market and regulatory developments. AIG's financial standing has stabilized.

## Cash, Investment and Debt Balances

### ALM Position (\$M)

Balance and Duration	Value (\$M)	Interest Rate	Duration/Avg. Life (Year)	Benchmark Duration (Year)
<b>Assets (Cash/Investments)</b>				
Restricted	644.9	2.12%	1.69	NA
Unrestricted	2,654.4	2.09%	0.69	0.70
<b>Assets (Cash/Investments) total</b>	<b>3,299.3</b>	<b>2.09%</b>	<b>0.88</b>	
<b>Liabilities (Debt)</b>				
Fixed-Rate	(2,528.8)	2.79%		
Variable-Rate	(150.0)	1.33%		
<b>Liabilities (Debt) total</b>	<b>(2,678.8)</b>	<b>2.71%</b>	<b>13.48</b>	<b>19.17</b>

### Investment Strategy

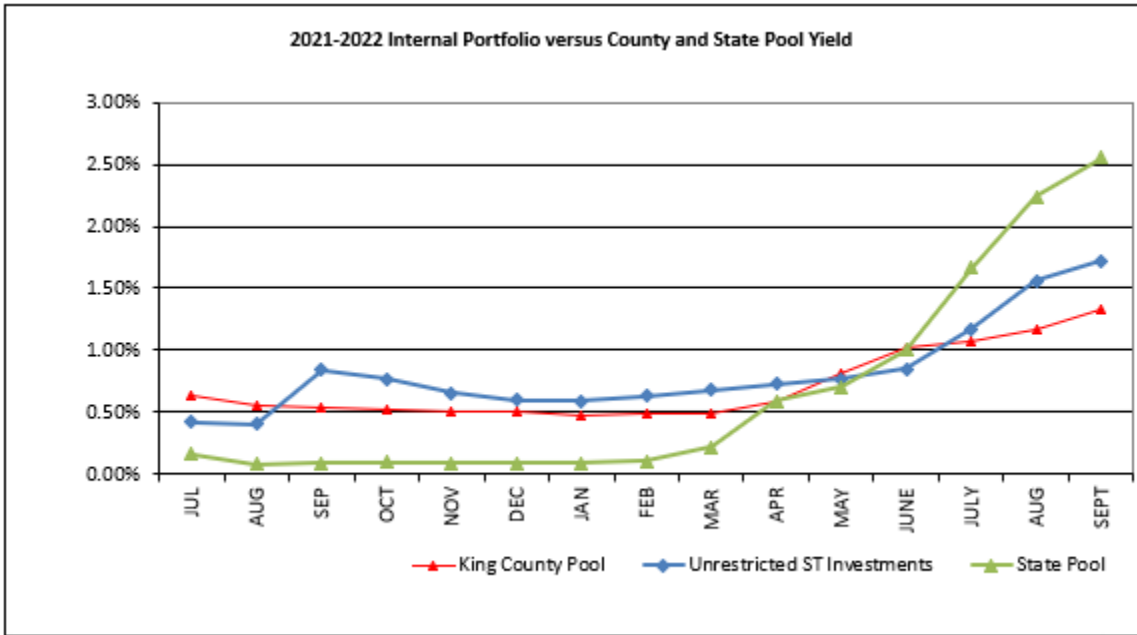
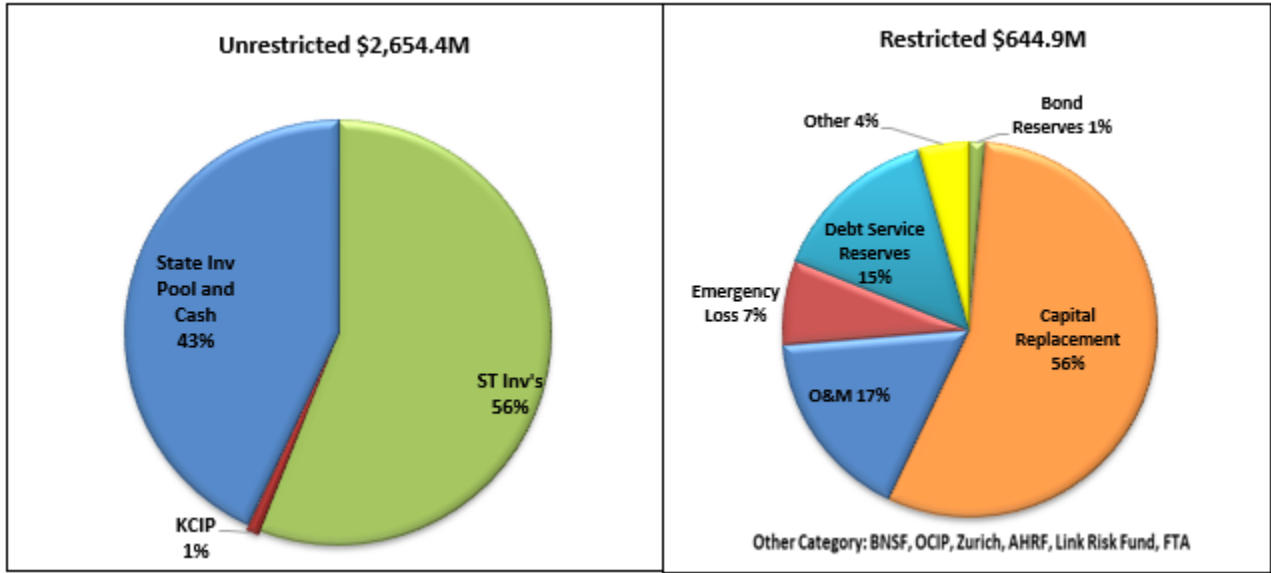
The investment portfolios are tactically invested to manage cash flows and duration to navigate the portfolio through the volatile markets. US Treasury securities are being overweighted due to the relative valuations. The disciplined approach of managing both the size of the portfolio and the average maturity of the portfolios is contributing to higher interest earnings in the longer durated portfolios versus the short cash investments. The Agency continues to prioritize liquidity to provide flexibility to the realigned plan.

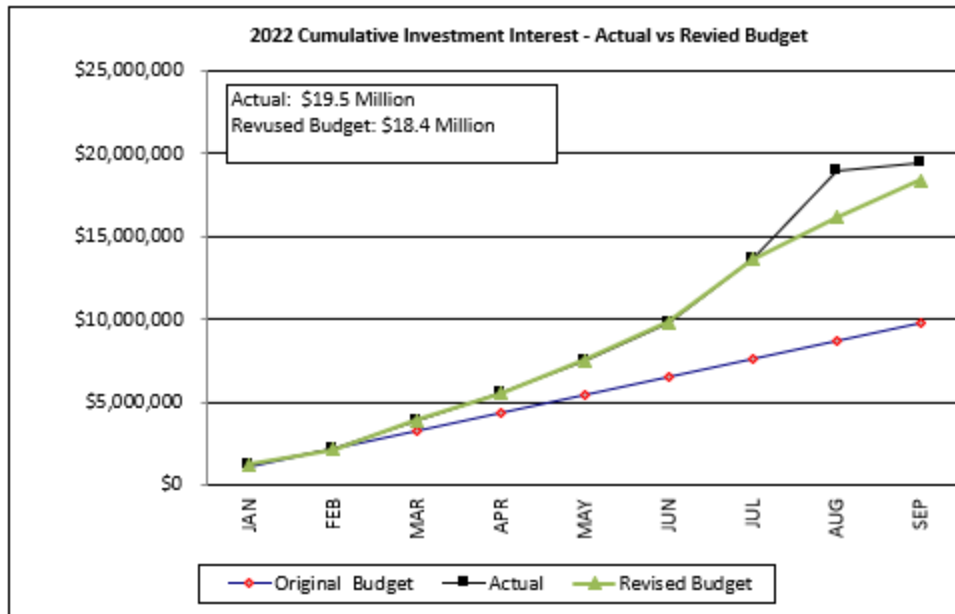
Cash and Investments (\$M)	Book Value	Average Duration	Benchmark Duration	Current Yield	Qtrly Yield Change
<b>Unrestricted</b>					
State Investment Pool	1,152.8	0.01		2.56%	1.55
Operating account/Uncleared checks**	(11.4)	0.01		0.22%	0.00
King County Investment Pool	15.9	1.05		1.34%	0.32
ST Internal Investments	1,497.1	1.20		1.72%	0.87
<b>Total Unrestricted</b>	<b>2,654.4</b>	<b>0.69</b>	<b>0.70</b>	<b>2.09%</b>	<b>1.17</b>
<b>Restricted</b>					
Operating/Contingency (internal)	107.0	0.01		2.56%	1.55
Capital Replacement (internal)	359.7	2.97	2.89	1.84%	0.14
Emergency Loss Reserve (internal)	47.5	0.01		2.56%	1.55
Debt Service Accounts	93.6	0.01		2.56%	1.55
BNSF Escrow	8.0	0.01		0.03%	0.00
OCIP Collateral	0.6	1.06		3.19%	(0.49)
Link Risk Fund	0.5	1.05		1.31%	0.31
Prior Debt Service Reserve	8.6	1.83	3.27	1.96%	0.15
Affordable Housing Revolving Fund	16.2	0.01		2.56%	1.55
Zurich Collateral	0.4	0.01		0.00%	(0.01)
FTA Grant Recovery	2.7	0.01		2.56%	1.55
<b>Total Restricted</b>	<b>644.9</b>	<b>1.69</b>	<b>N/A*</b>	<b>2.12%</b>	<b>0.72</b>
<b>Total</b>	<b>3,299.3</b>	<b>0.88</b>		<b>2.09%</b>	<b>1.08</b>

\*Restricted benchmarks are based upon projected cash flow needs. Calculating a "total" benchmark duration for restricted investments is not applicable

# Q3 2022 Investment Overview

## Investment Performance Portfolio Composition





### Asset Allocation Compliance

Asset Class	\$ Par Value	Percentage Allocation	Policy Limit
U.S. Treasuries	987,110,000	29.79%	100%
U.S. Government Agencies-Primary	487,677,000	14.72%	75%
U.S. Government Agencies-Secondary	27,400,000	0.83%	10%
Certificates of Deposit	0	0.00%	20%
Supranationals	80,600,000	2.43%	10%
Corporate Notes	186,178,000	5.62%	25%
King County Investment Pool	16,425,006	0.50%	50%
State Investment Pool	1,422,724,104	42.94%	100%
Commerical Paper	55,000,000	1.66%	25%
Taxable Municipal/G.O. Bonds	50,245,000	1.52%	20%
	<b>3,313,359,110</b>	<b>100.00%</b>	

### 3Q 2022 Debt Overview

#### Debt Strategy

Sound Transit considers the diversification of its long-term liabilities in the context of its future borrowing needs. The Agency utilizes various financial instruments to fund the long-range financial plan. The Agency continues to take action in response to Board's direction to seek opportunities to reduce cost and expand financial capacity.

In Q2 the Agency started the process of securing additional TIFIA and RIFF loans in the total amount of \$500 million. The Agency is expecting to close on these loans in Q1 of 2023.

#### TIFIA Loans:

- \$93.3 million Hilltop Tacoma Link Extension
- \$79.3 million for NorthEast 130<sup>th</sup> St Infill Station

RRIF Loans:

- \$ 74.2 million Puyallup
- \$156.4 million Auburn
- \$ 96.6 million Sumner

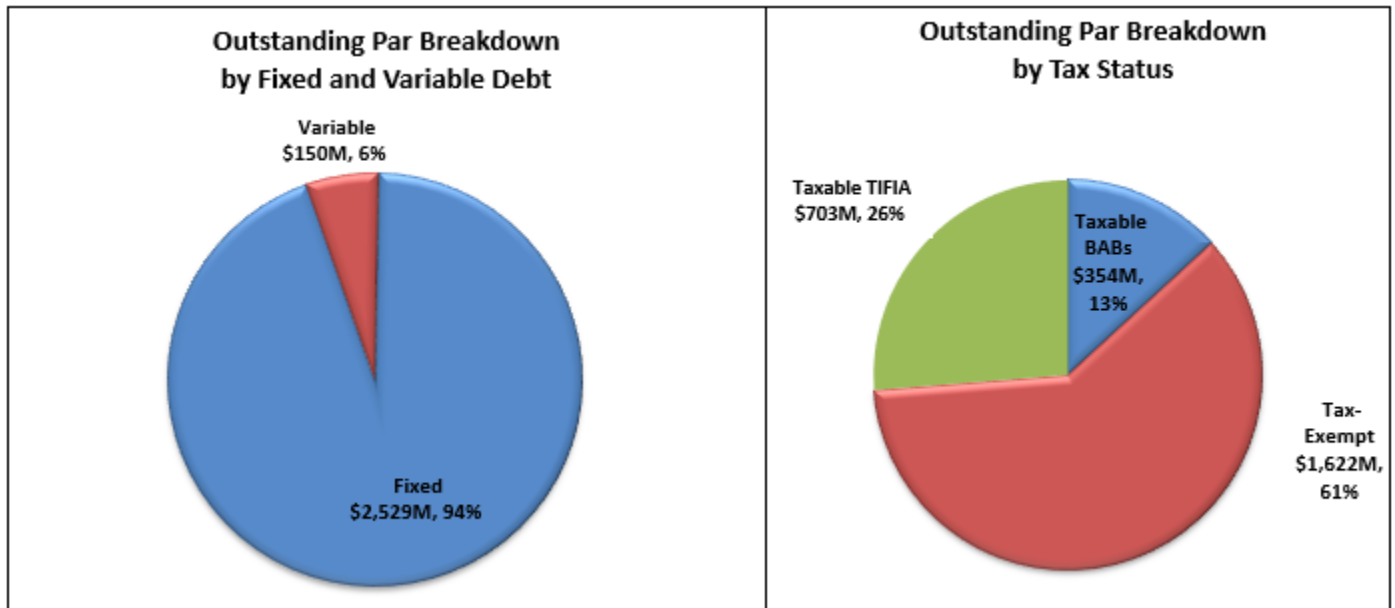
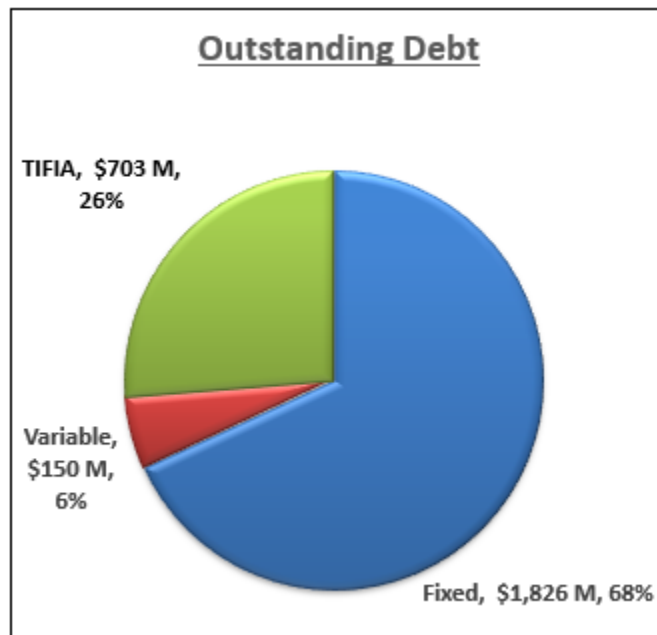
Debt Summary

- The 20-year MMD ended the quarter at 3.73%, 69 basis points higher than the June 30, 2022 rate. During the quarter, rates experienced continued volatility with a high of 3.73% in late September and a low of 2.69% in early August. Market rates remained volatile due to mixed economic news throughout the quarter.
- The average spread between the 20-year AAA MMD and the 20-year A MMD was 60 basis points as of 09/30/22, which is 4 basis points higher than what was measured on 06/30/22.

Central Puget Sound Regional Transit Authority Summary of Outstanding Bonds					
Prior Bonds				Amount	All-in
Series	Issue Date	Final Maturity	Issue Size	Outstanding	Int Cost
1999	1/6/1999	2/1/2028	\$350,000,000	\$180,830,000	5.03%
2009P-2T (BABs)	9/29/2009	2/1/2028	\$76,845,000	\$53,900,000	3.36%
2012P-1	8/22/2012	2/1/2028	\$216,165,000	\$0	2.62%
<b>Total Prior Bonds</b>			\$643,010,000	\$234,730,000	4.65%
Parity Bonds				Amount	All-in
Series	Issue Date	Final Maturity	Issue Size	Outstanding	Int Cost
2009S-2T (BABs)	9/29/2009	11/1/2039	\$300,000,000	\$300,000,000	3.66%
2012S-1	8/22/2012	11/1/2030	\$97,545,000	\$7,440,000	2.73%
2015S-1	9/10/2015	11/1/2050	\$792,840,000	\$22,185,000	3.89%
2015S-2A*	9/10/2015	11/1/2045	\$75,000,000	\$75,000,000	1.27%
2015S-2B*	9/10/2015	11/1/2045	\$75,000,000	\$75,000,000	1.39%
2016S-1	12/19/2016	11/1/2046	\$400,000,000	\$392,175,000	3.60%
2021S-1	11/4/2021	11/1/2050	\$869,360,000	\$869,360,000	2.31%
<b>Total Parity Bonds</b>			\$2,609,745,000	\$1,741,160,000	2.77%
<b>Total Prior &amp; Parity Bonds</b>			<b>\$3,252,755,000</b>	<b>\$1,975,890,000</b>	<b>2.99%</b>
*2015S-2A and 2015S-2B are variable rate bonds. The all-in Interest cost uses life-to-date average actuals.					

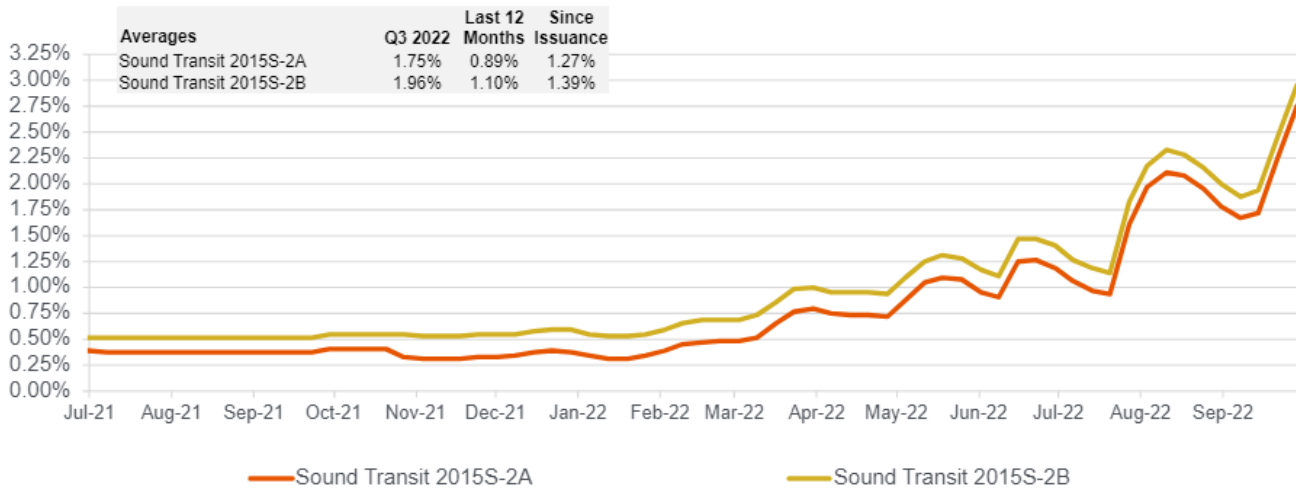
Central Puget Sound Regional Transit Authority Summary of Outstanding TIFIA Loans					
TIFIA Loan	Execution Date	Final Maturity	Loan Amount	Amount Drawn	Int Rate
East Link	9/10/2021	11/1/2058	\$1,330,000,000	\$0	1.91%
Northgate	9/10/2021	11/1/2056	\$615,267,000	\$615,267,000	1.91%
O&M Facility East	9/10/2021	11/1/2055	\$87,663,515	\$87,663,515	1.91%
Lynnwood Link	9/10/2021	11/1/2059	\$657,863,164	\$0	1.91%
Redmond	9/10/2021	11/1/2059	\$520,981,378	\$0	1.91%
Federal Way	9/10/2021	11/1/2059	\$629,472,431	\$0	1.91%
				\$0	
<b>Total TIFIA Loans</b>			<b>\$3,841,247,488</b>	<b>\$702,930,515</b>	<b>1.91%</b>
<b>Total Outstanding Debt</b>				<b>\$2,678,820,515</b>	<b>2.71%</b>

## Debt Portfolio Composition



## Q3 2022 Variable Rate Comparison and Pricing Estimate

Actual - Sound Transit Q3 Series 2015S-2A Borrowing Cost		Actual - Sound Transit Q3 Series 2015S-2B Borrowing Cost		Estimated - Sound Transit VRDB Q3 Borrowing Cost	
Q3 SIFMA Average	1.47%	Q3 SIFMA Average	1.47%	Q3 SIFMA Average	1.47%
Index Spread	0.20%	Index Spread	0.45%	Estimated LOC Cost*	0.35%
Remarketing Cost	0.08%	Remarketing Cost	0.04%	Remarketing Agent Fee	0.06%
Total FRN Cost	1.75%	Total FRN Cost	1.96%	Total VRDB Cost	1.88%



\* Assumes 3-year letter of credit

The credit rating agencies actively monitor the transit sector. The Agency's ratings were recently confirmed by all three agencies as part of the Q3/Q4 debt transactions in 2021. The investment balances and liquidity available via undrawn TIFIA loans provide Sound Transit with flexibility and are viewed very positively by the credit rating agencies. Sound Transit maintains a sector leading level of credit quality.

Bond Ratings as of 09/30/2022			
	Prior	Parity	TIFIA
Moody's	Aaa	Aa1	
S&P	AAA	AAA	AA+
Fitch			AA+



**Asset Liability Management Report**  
**Key for Performance Summary**

	Above Average	Average	Below Average
INVESTMENT PERFORMANCE	Interest earnings forecast to exceed budget.	Interest earnings forecast to meet budget.	Interest earnings forecast to be below budget.

	Low	Medium	High
INTEREST RATE RISK	Change in interest rates will have less than \$5M impact on ST financial plan over 5-year period.	Change in interest rates will have less than \$10M impact on ST financial plan over 5-year period.	Change in interest rates will have less than \$20M impact on ST financial plan over 5-year period.
LIQUIDITY RISK	All reserves and liquidity contingencies in place. Current liquidity contingency greater than policy minimum.	All reserves and liquidity contingencies in place. Current liquidity contingency equal to policy minimum.	Not all reserves and liquidity contingencies in place.
CREDIT RISK	No known credit risks that could materially impact ST balance sheet.	Known credit risks could potentially materially impact ST balance sheet.	Known credit risks are likely to materially impact ST balance sheet.

## Glossary of Debt and Investment Terms

**Basis Point** – The smallest measure used in quoting yields on bonds and notes. One basis point is 0.01% of yield. For example, a bond's yield that changed from 3.50% to 3.00% would be said to have moved 50 basis points.

**Benchmark** - A bond whose terms are used for comparison with other bonds of similar maturity. The global financial market typically looks to U.S Treasury securities as benchmarks.

**BNSF Escrow** – Collateral pursuant to the Sound Transit / Amtrak / BNSF lease-sub-lease dated September 2000.

**Book Value** – The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to the market value of the security.

**Duration** - The weighted maturity of a fixed-income investment's cash flows, used in the estimation of the price sensitivity of fixed-income securities for a given change in interest rates.

**Federal Funds Rate** – The rate of interest at which Federal Funds are traded between banks. Federal Funds are excess reserves held by banks that desire to invest or lend them to banks needing reserves. The particular rate is heavily influenced through the open market operations of the Federal Reserve Board. Also referred to as the “Fed Funds rate.”

**General Obligation Bond (GO)** - A municipal bond secured by the pledge of the issuer's full faith and credit, and backed by their taxing authority.

**Link Risk Fund** – Funded by Sound Transit to pay certain claims related to the operation of Central Link.

**Liquidity** – The ease and speed with which an asset can be converted into cash without a substantial loss in value.

**Local Government Investment Pool (LGIP)** – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment.

**Market Price** - For securities traded through an exchange, the last reported price at which a security was sold; for securities traded "over-the-counter," the current price of the security in the market.

**Par Value** – The nominal or face value of a debt security; that is, the value at maturity.

**Performance** - An investment's return (usually total return), compared to a benchmark that is comparable to the risk level or investment objectives of the investment.

**SIFMA** - The Securities Industry and Financial Markets Association Municipal Swap Index is a 7-day high-grade market index comprised of tax-exempt Variable Rate Demand Obligations (VRDOs) with certain characteristics. The Index is calculated and published by Bloomberg.

**TIFIA Loan** – Transportation Infrastructure Finance and Innovation Act loan with the United States Department of Transportation, acting by and through the Federal Highway Administrator. TIFIA loans are used to complement other sources of debt, resulting in a lower cost of funding than would be available in the capital markets.

**Total Return** - Investment performance measure over a stated time period which includes coupon interest, interest on interest, and any realized and unrealized gains or losses.

**OCIP Collateral** – Pledged collateral for the Owner Controlled Insurance Program for University Link and Northgate Link.