Central Puget Sound Regional Transit Authority

Financial Statements and Independent Auditors' Report for the Years Ended December 31, 2021 and 2020

This page intentionally left blank.

TABLE OF CONTENTS

This page intentionally left blank.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit or the agency) have been prepared from its accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including estimates and judgments, are the responsibility of management.

Sound Transit maintains a system of internal accounting controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes management's responsibility to objectively assess the effectiveness of internal accounting controls and recommend improvements therein.

Limitations exist in any system of internal accounting controls in which the cost of the system being implemented should not exceed the benefits derived. Sound Transit believes that the organization's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent auditors, whose report is included herein, were engaged to express an opinion on our 2021 financial statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Board of Directors.

Peter M. Rogoff
Chief Executive Officer

Mary Cummings
Interim Chief Financial Officer

Jeff Clark
Deputy Executive Director
Financial Operations

MOSSADAMS

Report of Independent Auditors

Finance and Audit Committee
Board of Directors
Central Puget Sound Regional Transit Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Central Puget Sound Regional Transit Authority ("Sound Transit"), which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Sound Transit as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sound Transit and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sound Transit's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sound Transit's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sound Transit's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Seattle, Washington
May 12, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2021 and 2020

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of Sound Transit for the years ended December 31, 2021 and 2020. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and to identify any significant changes in the periods reported. As this information is presented in summary form, it should be read in conjunction with the financial statements and notes to the financial statements as a whole.

Sound Transit is a regional transit authority implementing and operating a high-capacity transportation system throughout parts of King, Pierce and Snohomish counties including commuter rail (Sounder), light rail (Link and Tacoma Link), a regional express bus system (ST Express) and a bus rapid transit system (Stride). Sound Transit was established by the legislature in 1993, and authorized to collect taxes to fund, build and operate a comprehensive transit system by voter approved plans in 1996 (Sound Move), 2008 (ST2) and 2016 (ST3).

- *Sound Move* – a 10-year regional transit system plan, which authorized tax collections to fund operations and the first set of regional transit projects; completed in 2016.
- *ST2* – a 15-year program authorizing additional tax collections to fund additional bus and commuter rail service, as well as 36 miles of new Link light rail service; in progress.
- *ST3* – a 25-year program authorizing additional tax collections and a new property tax to fund 62 new miles of light rail, bus rapid transit, expanded capacity and service on Sounder south line, ST Express bus service and improved access to stations; in progress.

Sound Transit opened its Northgate Link extension in 2021, adding three new stations, a parking garage, and 4.3 miles to Link.

Sound Transit financial results for the year ended December 31, 2021 reflect continued challenges of the global COVID-19 pandemic. The ongoing impacts of the pandemic on the agency include decreased ridership, lower farebox collections, adjustments to service levels due to staffing, increased cost pressures and increased grant revenue through certain government stimulus programs. The effect of the pandemic on agency results is highlighted in each section of the discussion of results, where applicable.

Sound Transit engaged in realignment activities with the agency's Board of Directors in 2021 to align future projected available resources with the voter approved capital expansion program. The realigned plan preserves the full voter approved capital expansion program with some adjustments to delivery timing. The agency will continue to monitor long-range financial projections and regularly assesses potential long-term changes to the capital expansion program.

In 2021, Sound Transit's Chief Financial Officer (CFO) resigned from the agency and the Chief Executive Officer (CEO) announced his resignation, effective no later than May 31, 2022. The CEO's transition is governed by a transition agreement. An interim CEO and CFO have been named and an executive search launched to fill the positions. Sound Transit continues to have experienced and knowledgeable leadership and staff capable of executing on the capital expansion program and agency operations.

Financial Highlights

- Sound Transit's financial statements show an increase in net position of $2.0 billion in 2021. The increase highlights the agency's diversified tax revenues and returning regional economic growth as well as the positive impact of federal COVID –19 grant programs. The increase also reflects continued progress on the voter approved capital expansion programs. The 2020 net position grew by $1.8 billion, reflecting progress on the voter approved capital expansion programs funded primarily via tax revenues and federal COVID – 19 grant programs.

- System expansion continued in all corridors (North, Central, South and East) and across all modes, most significantly light rail in 2021 and 2020. Capital assets increased 11.2% in 2021 as a result of $1.8 billion of capital project spending related primarily to the East, Lynnwood, Federal Way, Redmond Link extension projects and the Operations Maintenance Facility East project, as well as completion of the Northgate Link extension project.

- Non-operating revenues, net of expenses, were $2.1 billion, a 8.5% increase from 2020, primarily due to higher tax revenues offset slightly by bond defeasance expenses and lower investment income in 2021.

- Capital contributions from federal, state and local funding arrangements were $486.2 million, a net increase from 2020 of $54.4 million or 12.6%, primarily reflecting increased grant revenue associated with Federal Way, Downtown Redmond and Tacoma Link extension projects.

- Total operating subsidy (loss from operations) increased by $39.7 million or 7.6% to $559.5 million primarily due to lower total ridership and passenger fare revenues related to the on-going COVID-19 environment, higher operations and maintenance expenses and growing depreciation.

Overview of the Financial Statements

Sound Transit's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The 2021 and 2020 financial statements are presented using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are shown.

In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of Sound Transit are included in the Statements of Net Position. Depreciation and amortization of capital and other assets is recognized in the Statements of Revenues, Expenses and Changes in Net Position.

The financial statements provide both long term and short term information about Sound Transit's overall financial status as well as Sound Transit's net position, segregated by net investment in capital assets, restricted and unrestricted. Net position is the difference between Sound Transit's assets, deferred outflows of resources, liabilities and deferred inflows of resources and over time, may serve as a useful indicator of Sound Transit's financial position. The financial statements also include notes that provide additional information that is essential to a full understanding of the information provided.

Financial Analysis

Net Position

Sound Transit's net position represents the cumulative effect of the excess of revenues over expenses together with the impact of Sound Transit's financing decisions.

Sound Transit's total net position as of December 31, 2021 was $15.9 billion, an increase of $2.0 billion or 14.6% from 2020. Total assets increased $2.0 billion or 11.8% and total liabilities decreased $56.0 million or 1.8%. The increase in total assets reflects the continued capital program spending primarily funded by tax revenues and federal grants.

The table below summarizes Sound Transit's net position:

Statements of Net Position					
(in millions)	December 31			% Change	
	2021	2020	2019	2021-2020	2020-2019
Assets					
Current assets, excluding restricted assets	$ 2,014.3	$ 1,777.4	$ 1,988.4	13.3%	(10.6)%
Restricted assets	99.1	110.6	108.9	(10.5)	1.5
Capital assets	15,550.1	13,984.1	12,067.2	11.2	15.9
Other non-current assets	1,221.9	1,018.0	1,008.9	20.0	0.9
Total assets	**18,885.4**	**16,890.1**	**15,173.4**	**11.8**	**11.3**
Deferred outflows of resources	**7.9**	**29.7**	**33.0**	**(73.4)**	**(10.2)**
Liabilities					
Current liabilities, excluding interest payable from restricted assets	504.7	440.6	515.0	14.5	(14.4)
Interest payable from restricted assets	17.9	30.3	27.0	(40.9)	12.5
Long-term debt	2,280.7	2,378.0	2,443.7	(4.1)	(2.7)
Other long-term liabilities	179.0	189.4	185.7	(5.5)	2.0
Total liabilities	**2,982.3**	**3,038.3**	**3,171.4**	**(1.8)**	**(4.2)**
Deferred inflows of resources	**22.6**	**18.4**	**18.7**	**22.6**	**(1.5)**
Net Position					
Net investment in capital assets	13,072.0	11,463.8	9,473.0	14.0	21.0
Restricted net position	90.7	76.9	75.3	18.0	2.0
Unrestricted net position	2,725.7	2,322.4	2,468.0	17.4	(5.9)
Total net position	**$15,888.4**	**$ 13,863.1**	**$ 12,016.3**	**14.6%**	**15.4%**

Current assets, excluding restricted assets, increased 13.3% and decreased 10.6% in 2021 and 2020, respectively. The increase in 2021 was due to transfers of non-current assets to cash. The decrease in 2020 was primarily due to the use of cash to support capital activities and transfers of cash to non-current assets.

Capital assets increased 11.2% from 2020 and 15.9% between 2020 and 2019. Total capital project spending for 2021 was $1,840.2 million, versus $2,134.1 million in 2020, reflecting slower right of way acquisitions and delayed construction activities on various Link extension projects, Operations Maintenance Facility East project, and Bus Rapid Transit projects.

Total capital spending for light rail in 2021 was $1,705.7 million or 92.7% of total capital spending ($1,970.5 million or 92.3% in 2020). Capital spending on Sounder and Regional Express projects, as a percentage of total capital spending, was 2.8% and 1.5%, respectively (2.0% and 5.1% in 2020).

Other non-current assets increased 20.0% or $203.9 million and 0.9% or $9.1 million in 2021 and 2020, respectively. The increase in 2021 was primarily due to an additional $200 million which was moved to long term investments due to higher tax revenues.

Deferred outflows of resources includes the excess of the price paid on debt refunding and the net carrying amount of the old debt, which is amortized over the remaining life of the old debt or the new debt, whichever is shorter, and the unamortized deferred outflow of costs related to asset retirement obligations. The decrease of 73.4% or $21.8 million in 2021 was primarily due to bond defeasance.

Current liabilities, excluding interest payable from restricted assets, increased $64.1 million or 14.5% in 2021 and decreased $74.4 million or 14.4% in 2020. The increase in 2021 was primarily due to timing of spending on construction and operating costs while the decrease in 2020 was primarily due to lower operating costs.

Long-term debt decreased $97.3 million or 4.1% between 2021 and 2020 mainly due to the net impact of long-term debt refunding, issuance and defeasance. The decrease of $65.7 million or 2.7% between 2020 and 2019 was due to regular scheduled long-term debt payments.

Deferred inflows of resources includes the deficit of the price paid on debt refunding and the net carrying amount of the old debt, which is amortized over the remaining life of the old debt or the new debt, whichever is shorter, and the unrecognized lease revenues related to leases in which the agency is the lessor. The increase of 22.6% or $4.2 million in 2021 is primarily due to the deferred gain on bond refunding. The decrease of 1.5% or $0.3 million in 2020 is primarily due to amortization of the lease related deferred inflows of resources.

Net investment in capital assets reflects investment in construction in progress, non-depreciable assets and depreciable assets, net of related debt used to support the capital program. Balances include capital asset related payables, bonds and debt under the TIFIA program, as well as lease related assets and liabilities. Net investment in capital assets increased 14.0% from 2020 and 21.0% between 2020 and 2019 as capital program spending continued to increase, net of debt.

Restricted net position is comprised of assets net of liabilities externally restricted by legal or contractual obligations for a specific purpose related to a third party.

Unrestricted net position is the remainder of assets and deferred outflows of resources, net of liabilities and deferred inflows of resources, not invested in capital assets nor contractually restricted for a specific purpose. Unrestricted net position increased 17.4% in 2021 as increase in cash and investments exceeded capital spending and decreased 5.9% in 2020 as capital spending increased faster than cash and investments.

Changes in Net Position

Changes in net position reflect the excess or deficit of revenues over expenses for a given year. In 2021, revenues exceeded expenses by $2,025.3 million, an increase from the prior year of 9.7%. In 2020 revenues exceeded expenses by $1,846.8 million, a 8.1% increase from 2019. The 2021 increase primarily reflects higher tax revenues and an increase in federal capital and operating support contributions as a result of system expansion project advancements funded by federal grants and CRSSA funding, which offset reduced passenger fares revenues and long-term debt defeasance and refunding costs. The 2020 increase primarily reflects the receipts of CARES Act funding and an increase in federal capital contributions as a result of system expansion project advancements funded by federal grants.

Sound Transit's Statements of Revenue, Expenses and Changes in Net Position is summarized in the table below:

Changes in Net Position					
(in millions)	**For the Year Ended December 31**			**% Change**	
	2021	**2020**	**2019**	**2021-2020**	**2020-2019**
Operating revenues					
Passenger fares	$ 28.1	$ 30.8	$ 97.1	(8.5)%	(68.3)%
Other	7.5	7.3	8.3	2.3	(11.5)
Total operating revenues	**35.6**	**38.1**	**105.4**	**(6.4)**	**(63.9)**
Operating expenses					
Total operating expenses, before depreciation	391.0	360.5	360.3	8.5	0.1
Depreciation and amortization	204.1	197.4	186.3	3.4	5.9
Total operating expenses	**595.1**	**557.9**	**546.6**	**6.7**	**2.1**
Loss from operations	**(559.5)**	**(519.8)**	**(441.2)**	**7.6**	**17.8**
Non-operating revenues, net of expenses	2,098.6	1,934.8	1,889.6	8.5	2.4
Income before capital contributions	**1,539.1**	**1,415.0**	**1,448.4**	**8.8**	**(2.3)**
Capital contributions	486.2	431.8	260.4	12.6	65.8
Change in net position	**2,025.3**	**1,846.8**	**1,708.8**	**9.7**	**8.1**
Total net position, beginning	13,863.1	12,016.3	10,297.4	15.4	16.7
Cumulative adjustment for adoption of GASB 87	-	-	10.1	-	(100.0)
Total net position, ending	**$ 15,888.4**	**$ 13,863.1**	**$ 12,016.3**	**14.6%**	**15.4%**

Operating Revenues

Operating revenues are comprised of passenger fares and other revenues related to operations, such as advertising, rental of facilities, and other miscellaneous revenues.

Passenger Fare Revenue

Passenger fares are derived from the sale of Sounder commuter rail and Link light rail tickets at ticket vending machines (TVMs), fare box receipts on ST Express and use of One Regional Card for All (ORCA) products on all modes. Fares are charged on each service, except Tacoma Link. Passenger fare revenue decreased 8.5% and 68.3% in 2021 and 2020, respectively. The total decrease in 2021 was primarily due to COVID-19, which continues to impact passenger fare revenues on ST Express and Sounder modes. This was offset by a 37.2% increase in Link with some returning riders and the opening of the Northgate Link extension. The decreases in 2020 were primarily due to COVID-19.

Passenger fare revenue by mode are as follows:

Passenger Fare Revenue *(in millions)*	**2021**	**2020**	**2019**	**% Change 2021-2020**	**% Change 2020-2019**
Link	$ 15.6	$ 11.4	$ 43.3	37.2%	(73.8)%
ST Express	9.8	13.7	36.4	(28.4)	(62.4)
Sounder	2.7	5.7	17.4	(52.6)	(67.1)
Total	**$ 28.1**	**$ 30.8**	**$ 97.1**	**(8.5)%**	**(68.3)%**

Ridership

Sound Transit provided 17.8 million rides in 2021, an increase of 11.8%, compared to 15.9 million rides in 2020. Changes in ridership by mode were as follows:

- Link ridership increased 43.9% from 2020 and decreased 67.9% between 2020 and 2019. The increase in ridership in 2021 is attributable to opening of the Northgate Link extension.

- ST Express ridership decreased 17.9% from 2020 and 64.2% between 2020 and 2019. The decline in ridership in 2021 is attributable to COVID-19 ridership decline as public health measures were implemented to control the virus and people continued to work remotely.

- Sounder commuter rail ridership decreased 42.0% from 2020 and 72.6% between 2020 to 2019. The decline in ridership in 2021 is attributable to COVID-19 ridership decline as public health measures were implemented to control the virus and people continued to work remotely.

A summary of the ridership by year and mode of transportation are as follows:

Ridership *(in millions)*	**2021**	**2020**	**2019**	**% Change 2021-2020**	**% Change 2020-2019**
Link	11.9	8.3	25.7	43.9%	(67.9)%
ST Express	5.2	6.3	17.5	(17.9)	(64.2)
Sounder	0.7	1.3	4.6	(42.0)	(72.6)
Total	**17.8**	**15.9**	**47.8**	**11.8%**	**(66.8)%**

Average Fare per Boarding (AFB)

The combined AFB decreased by 18.7% in 2021 due to COVID-19. The 2021 AFB for all modes declined due to ORCA Passport contract restructuring and lower fare payment compliance due to the temporary suspension of fare enforcement.

Average Fare per Boarding

	2021	2020	2019	% Change 2021-2020	% Change 2020-2019
Link	$ 1.35	$ 1.43	$ 1.73	(5.6)%	(18.0)%
ST Express	1.90	2.18	2.08	(12.8)	5.0
Sounder	3.75	4.51	3.76	(16.9)	19.7
Combined average fare per boarding	**$ 1.62**	**$ 1.99**	**$ 2.06**	**(18.7)%**	**(3.9)%**

Other Operating Revenues

Other operating revenues consist of vehicle advertising, rental of facilities, and other miscellaneous revenues.

Operating Expenses

Operating expenses

(in millions)

	2021	2020	2019	% Change 2021-2020	% Change 2020-2019
Operating expenses					
Operations and maintenance	$ 358.1	$ 332.3	$ 335.6	7.7%	(1.0)%
Agency administration	15.6	15.1	16.0	3.7	(5.8)
Fare and regional planning	17.3	13.1	8.7	32.0	51.4
Depreciation, amortization	204.1	197.4	186.3	3.4	5.9
Total	**$ 595.1**	**$ 557.9**	**$ 546.6**	**6.7%**	**2.1%**

Operating expenses are comprised of operations and maintenance costs, agency administration, fare and regional planning, depreciation and amortization. Major operations and maintenance expense categories consist of services, materials, utilities, insurance, taxes, purchased transportation, allocated overhead from general and agency administration divisions, short-term leases and rental expense. Purchased transportation includes amounts paid for the operation of Sound Transit's express bus service to Community Transit, King County Metro and Pierce Transit, for the operation of Link light rail and associated paratransit services to King County Metro and for the operation of Sounder commuter rail services to BNSF Railway Company (BNSF). Purchased transportation services accounts for 52.3% of operating expenses in 2021 (53.6% in 2020). Services are the next largest expenditure category and include the Sounder vehicle maintenance, contracted to the National Railroad Passenger Corporation (Amtrak), as well as various contracts for facility maintenance, policing services and security at Sound Transit's owned and shared facilities. Services were 19.7% in 2021 (23.1% in 2020) of total operating and maintenance expenses.

Operations and Maintenance Expenses by Mode

The following table presents operating and maintenance expenses by mode:

Operations and Maintenance Expenses by Mode

(in millions)				% Change	
	2021	**2020**	**2019**	**2021-2020**	**2020-2019**
Link	$ 160.9	$ 144.3	$ 138.5	11.4%	4.8%
ST Express	136.8	135.4	142.8	1.0	(5.2)
Sounder	60.4	52.6	54.3	15.0	(3.3)
Total	**$ 358.1**	**$ 332.3**	**$ 335.6**	**7.7%**	**(1.0)%**

Link operations and maintenance expenses include both Link and Tacoma Link light rail and increased $16.6 million or 11.4% in 2021 and $5.8 million or 4.8% in 2020. The majority of cost increases in 2021 are due to expanded service with Northgate Link opening and increase in negotiated operator rates. The majority of cost increases in 2020 are related to increases in negotiated operator rates, security and maintenance on facilities, rails and vehicles.

ST Express operations and maintenance expenses increased $1.4 million or 1.0% in 2021 and decreased $7.4 million or 5.2% in 2020. Operating levels in 2021 were comparable to 2020, while decreases in 2020 were mainly due to service level reductions from lower demand caused by the COVID-19 pandemic and lower fuel prices.

Sounder operations and maintenance expenses increased $7.8 million or 15.0% in 2021 and decreased $1.7 million or 3.3% in 2020. The increases in 2021 were mainly due to higher insurance rates and fuel costs while the decreases in 2020 were primarily due to service level reductions from lower demand caused by the COVID-19 pandemic and lower fuel prices.

Agency Administration

Agency administration expenses are comprised of costs not allocated to capital projects or operations and include costs attributable to the general cost of government, such as the costs of the Chief Executive Office, Government Relations and Marketing. Agency administration expenses increased $0.5 million or 3.7% and decreased $0.9 million or 5.8% in 2020.

Fare and Regional Planning

Fare and regional planning expense increased $4.2 million or 32% and $4.4 million or 51.4% in 2021 and 2020 respectively. Increases in 2021 and 2020 were primarily due to continued growth in the ORCA team, creation of an innovation team and increased consulting services across multiple fare and regional planning projects.

Depreciation and Amortization

Depreciation and amortization are comprised of non-cash expenses that reflect the reduction in the value of capital and intangible assets over time. Depreciation and amortization increased $6.7 million or 3.4% in 2021 ($11.1 million or 5.9% in 2020) reflecting increased expense related to capital assets placed in service during the year and the full year impact of capital assets placed in service in 2020, as well as amortization of right-of-use assets related to leases.

Non-Operating Revenues and Expenses

Net non-operating revenues increased $163.8 million or 8.5% in 2021 and $45.2 million or 2.4% in 2020. The increases in 2021 were mainly due to increase in sales and use tax and other revenues offset by long-term debt refunding and defeasance costs. The overall increase in 2020 was primarily due to $166.3 million of CARES Act revenue from the Federal Transit Administration (FTA), partially offset by a decrease in tax revenues. Net non-operating revenues and expenses are summarized in the table. Additional commentary is provided below for select items with significant year over year changes.

Non-Operating Revenue / Expenses
(in millions)

	2021	2020	2019	% Change 2021-2020	% Change 2020-2019
Non-operating revenues					
Sales and use tax	$ 1,584.8	$ 1,324.5	$ 1,415.7	19.7%	(6.4)%
Motor vehicle excise tax	370.6	361.7	345.8	2.5	4.6
Property tax	157.7	155.3	150.3	1.5	3.3
Rental car tax	3.5	1.9	3.8	85.7	(50.4)
Investment income	(2.1)	45.3	70.2	(104.6)	(35.5)
Other revenues	248.8	209.6	66.3	18.7	216.1
Total	**2,363.3**	**2,098.3**	**2,052.1**	**12.6**	**2.2**
Non-operating expenses					
Interest expense	88.6	100.1	100.5	(11.5)	(0.3)
Loss on defeasance of bonds	72.4	-	-	100.0	-
Contributions to other governments	55.3	21.7	33.7	155.1	(35.7)
Other expenses	41.0	25.8	16.2	58.9	59.3
Contributions to affordable housing	6.8	11.0	-	(38.2)	100.0
Loss (gain) on disposal of assets	0.5	0.9	12.1	(48.3)	(92.3)
Impairment	0.1	4.0	-	(97.5)	100.0
Total	**264.7**	**163.5**	**162.5**	**61.9**	**0.6**
Non-operating revenues, net	**$ 2,098.6**	**$ 1,934.8**	**$ 1,889.6**	**8.5%**	**2.4%**

Sales and use tax revenues increased by $260.3 million or 19.7% in 2021 and decreased $91.2 million or 6.4% in 2020. The 2021 increase is mainly due to strong regional economic recovery from COVID-19 and the 2020 decrease is primarily due to COVID-19, which negatively impacted the regional economy.

Investment income decreased $47.4 million or 104.6% in 2021 and decreased $24.9 million or 35.5% in 2020. Decrease in investment income in 2021 was mainly due to lower market rate conditions. Decrease in investment income in 2020 was primarily due to lower investment balances and lower interest rates. Investment income includes the impact of market adjustments to fair market value at year-end and interest income from leasing transactions.

Other revenues are comprised primarily of funds received from federal agencies to support light rail and bus operations and in relation to the Build America Bond program. Other revenues increased in 2021 by $39.2 million or 18.7% mainly due to the $179.6 million of Coronavirus Response and Relief

Supplemental Appropriations (CRRSA) Act funding, offset by decreases in the CARES Act funding from 2020. The increase in 2020 by $143.3 million or 216.1% mainly due to $166.3 million from the CARES Act and offset by lower light rail and ST Express preventative maintenance funds.

Contributions to other governments increased $33.6 million or 155.1% in 2021 and decreased $12.0 million or 35.7% in 2020. The increases in 2021 were mainly due to contributions of $25.4 million to the City of Seattle and $4.9 million to King County Metro (KCM). The decreases in 2020 were related primarily to decreases in funding I-90 and I-405 highway transit improvement projects under agreements with the Washington State Department of Transportation (WSDOT). The agency receives credit from WSDOT under a land bank agreement for funding highway improvement projects. Sound Transit recognizes land bank credits when they are used to fund the purchase or lease of WSDOT property necessary for transit projects (see also note 12). Contributions to other governments and contributions to affordable housing are dependent upon the timing and scope of project activities. As such, there may be significant fluctuations from year to year depending upon the timing and scope of capital improvement or funding arrangements for other governments.

In 2021, long-term debt was defeased, resulting in a loss on bond defeasance of $72.4 million (see also note 8).

Interest expense is recognized in the period in which the cost is incurred. Interest expense includes interest from borrowing and leasing transactions. Total interest expense was $88.6 million and $100.1 million in 2021 and 2020, respectively. Decreases of $11.5 million or 11.5% in 2021 and $0.4 million or 0.3% in 2020 were due to lower interest rates on variable long-term debt and overall lower long-term debt balance.

Capital Contributions

Capital contributions include federal grant funding and state and local contributions to Sound Transit. Capital contributions increased in 2021 by $54.4 million or 12.6% and by $171.4 million or 65.8% in 2020 as a result of fluctuations in federal grants and the timing of utilization of WSDOT land bank credits for temporary construction easements and airspace leases. The following table summarizes capital contributions by major category:

Capital Contributions *(in millions)*	**2021**	**2020**	**2019**	**% Change** **2021-2020**	**2020-2019**
Federal	$ 464.1	$ 411.5	$ 216.0	12.8%	90.6%
State and local governments	22.1	20.3	44.4	8.9	(54.4)
Total	**$ 486.2**	**$ 431.8**	**$ 260.4**	**12.6%**	**65.8%**

Capital contributions of $486.2 million in 2021 were $54.4 million or 12.6% higher than 2020 primarily as a result of $96.1 million in federal contributions related to the Federal Way Link extension full funding grant agreement (FFGA), $21.9 million related to Tacoma Link extension and $18.5 million related to Downtown Redmond Link extension. This increase was offset by decreases of $29.3 million from Lynnwood Link extension, $24.8 million for Northgate Link extension and $17.3 million for a Bus Replacement grant. Capital contributions of $431.8 million in 2020 were $171.4 million or 65.8% higher than 2019 primarily as a result of $143.5 million in federal contributions related to the Federal Way Link extension full funding grant agreement (FFGA) and $40.6 million related to Lynnwood Link extension.

Projects receiving federal funding in excess of $5.0 million in 2021 included Federal Way, Lynnwood, and Tacoma Dome Link extensions. In 2020, projects included Federal Way, Northgate, Lynnwood, and Tacoma Dome Link extensions and the Sounder South Capacity expansion project.

State and local government contributions increased $1.8 million or 8.9% in 2021 and decreased $24.1 million or 54.4% in 2020.

$17.0 million and $12.4 million of WSDOT land bank credits were utilized to fund temporary construction easements and access rights related to the Lynnwood Link Extension project in 2021 and 2020, respectively, and represent nearly all of the state and local government contributions for those years (see also note 12).

Capital Assets

A summary of Sound Transit's capital assets are presented in the following table:

Capital Assets, net *(in millions)*	**December 31** **2021**	**2020**	**2019**	**% Change** **2021-2020**	**2020-2019**
Land	$ 1,107.1	$ 1,029.8	$ 913.7	7.5%	12.7%
Permanent easements	550.1	549.4	546.3	0.1	0.6
Capital projects in progress	7,250.5	7,759.7	5,839.3	(6.6)	32.9
Total non-depreciable assets	**8,907.7**	**9,338.9**	**7,299.3**	**(4.6)**	**27.9**
Transit facilities, rail and heavy equipment	5,790.1	3,842.2	3,949.4	50.7	(2.7)
Access rights	298.9	311.8	330.8	(4.1)	(5.8)
Revenue vehicles	532.3	470.8	461.2	13.1	2.1
Other depreciable assets	21.1	20.4	26.5	3.7	(23.1)
Total depreciable assets	**6,642.4**	**4,645.2**	**4,767.9**	**43.0**	**(2.6)**
Total capital assets, net	**$15,550.1**	**$13,984.1**	**$12,067.2**	**11.2%**	**15.9%**

In 2021, spending on capital projects in progress was $1,840.2 million, while in 2020 it was $2,134.1 million. Project spending continued in 2021 on major Link light rail extensions, offset by completion of the Northgate Link project. The decrease in 2021 spending was due to slower right of way acquisitions and delayed construction activities on the various Link extension projects, Operations Maintenance Facility East project, and Bus Rapid Transit projects. The increase in 2020 was due to growth of simultaneous Link light rail extension projects, including East, Lynnwood, Federal Way, and Redmond, as well as Operations Maintenance Facility East project.

Capital projects with major spending activity in excess of $5 million in 2021 and 2020 are summarized in the following table:

Year	Link	Sounder	Regional Express / Stride
2021	Downtown Redmond Link Extension East Link Extension Federal Way Link Extension Hilltop Tacoma Link Extension Light Rail Vehicle Expansion Lynnwood Link Extension Northgate Link Extension Operations & Maintenance Facility East Tacoma Dome Link Extension West Seattle-Ballard Link Extension	Puyallup Station Fleet Expansion	I-405 Bus Rapid Transit Bus Rapid Transit Stations
2020	Downtown Redmond Link Extension East Link Extension Federal Way Link Extension Hilltop Tacoma Link Extension Light Rail Vehicle Expansion Lynnwood Link Extension Northgate Link Extension Operations & Maintenance Facility East Tacoma Dome Link Extension West Seattle-Ballard Link Extension	Puyallup Station	I-405 Bus Rapid Transit Bus Rapid Transit Stations Fleet Replacement

See note 6 to the Financial Statements for additional information about Sound Transit’s capital assets.

Long-Term Debt

A summary of Sound Transit's long-term debt is presented in the following table:

Long-Term Debt					
(in millions)		**December 31**		**% Change**	
	2021	**2020**	**2019**	**2021-2020**	**2020-2019**
Long-term debt					
Bonds payable	$2,251.1	$2,275.7	$2,330.0	(1.1)%	(2.3)%
TIFIA Loans	87.7	156.6	156.6	(44.0)	-
Total long-term debt	**$2,338.8**	**$2,432.3**	**$2,486.6**	**(3.8)%**	**(2.2)%**

In 2021, Sound Transit issued Parity Bonds of $784.7 million and refunded $84.7 million of fixed rate Sales Tax and Motor Vehicle Excise Tax Improvement Bonds. These bonds are designated as Green Bonds based on the planned use of the proceeds to finance projects that adhere to Sound Transit's Sustainability Plan. The agency also defeased $823.6 million of Parity Bonds, resulting in a loss on bond defeasance of $72.4 million.

Other reductions in bonds payable in 2021 and 2020 are due to regular scheduled principal payments. Under state law, issuance of bonds payable from any type of tax is subject to statutory debt limitations. Sound Transit is currently authorized to incur debt in an amount equal to 1.5% of the value of taxable property within the service area, without securing additional voter approval. With the approval of 60.0% of the region's voters, Sound Transit may incur aggregate indebtedness of up to 5.0% of the value of taxable property within the service area. Based on the 2020 assessed valuations for collection of 2021 taxes, Sound Transit's current approved remaining debt capacity is $7.8 billion and its additional remaining debt capacity subject to voter approval is $38.5 billion.

In addition, in 2021, Sound Transit dissolved the existing TIFIA Master Credit Agreement and East Link Agreement, which required paying off the outstanding borrowings of $156.6 million related to East Link, Northgate Link and the Operations and Maintenance Facility East (OMFE) loans, and related accrued interest, and executed new individual TIFIA loan agreements related to Northgate Link, East Link, OMFE, Lynnwood Link, Federal Way Link and Downtown Redmond Link. Subsequent to execution of the new agreements, $87.7 million was borrowed under the OMFE agreement.

BASIC FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

(in thousands)	December 31 2021	December 31 2020
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	$ 1,133,604	$ 425,848
Restricted assets (note 3)	79,446	79,331
Investments (note 3)	429,793	867,751
Taxes and other receivables (note 4)	404,842	428,420
Inventory, land held for disposition and prepaids	46,059	42,902
Total current assets	**2,093,744**	**1,844,252**
Non-current assets		
Restricted assets (note 3)	19,571	31,268
Investments (note 3)	858,961	668,168
Lease related assets, net (note 5)	362,980	362,309
Capital assets, net (note 6)	15,550,106	13,984,144
Total non-current assets	**16,791,618**	**15,045,889**
Total assets	**18,885,362**	**16,890,141**
DEFERRED OUTFLOWS OF RESOURCES		
Asset retirement obligations	2,493	2,592
Unamortized costs on bond refunding	5,405	27,063
Total deferred outflows of resources	**7,898**	**29,655**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	425,955	372,560
Unearned revenue	15,824	12,508
Interest payable	17,923	30,330
Current portion, long-term debt (note 8)	58,105	54,300
Other claims and short-term obligations	4,772	776
Total current liabilities	**522,579**	**470,474**
Non-current liabilities		
Long-term debt (note 8)	2,280,688	2,377,960
Lease related obligations (note 5)	165,156	176,178
Other long-term obligations (note 9)	13,844	13,661
Total non-current liabilities	**2,459,688**	**2,567,799**
Total liabilities	**2,982,267**	**3,038,273**
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding	5,424	-
Unrecognized lease revenue	17,175	18,429
Total deferred inflows of resources	**22,599**	**18,429**
NET POSITION		
Net investment in capital assets	13,071,968	11,463,783
Restricted (note 10)	90,708	76,880
Unrestricted	2,725,718	2,322,431
Total net position	**$ 15,888,394**	**$ 13,863,094**

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(in thousands)	Year ended, December 31	
	2021	**2020**
Operating revenues		
Passenger fares	$ 28,148	$ 30,758
Other operating revenue	7,479	7,312
Total operating revenues	**35,627**	**38,070**
Operating expenses		
Operations and maintenance	358,076	332,332
Agency administration	15,643	15,090
Fare and regional planning	17,324	13,129
Depreciation, amortization and accretion	204,133	197,375
Total operating expenses	**595,176**	**557,926**
Loss from operations	**(559,549)**	**(519,856)**
Non-operating revenues (expenses)		
Sales tax	1,584,850	1,324,465
Motor vehicle excise tax	370,634	361,749
Property tax	157,707	155,306
Rental car tax	3,492	1,880
Other revenues	248,715	209,594
Investment income (expense)	(2,069)	45,280
Interest expense	(88,639)	(100,149)
Loss on defeasance of bonds	(72,370)	-
Contributions to other governments	(55,251)	(21,655)
Other expenses	(41,632)	(30,680)
Contributions to affordable housing	(6,837)	(10,992)
Total non-operating revenues, net	**2,098,600**	**1,934,798**
Income before capital contributions	**1,539,051**	**1,414,942**
Federal capital contributions	464,142	411,562
State and local capital contributions	22,107	20,280
Total capital contributions	**486,249**	**431,842**
Change in net position	**2,025,300**	**1,846,784**
Total net position, beginning of year	**13,863,094**	**12,016,310**
Total net position, end of year	**$ 15,888,394**	**$ 13,863,094**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

(in thousands)	Year ended, December 31 2021	2020
Cash flows from operating activities		
Cash receipts from fares	$ 30,113	$ 39,602
Cash receipts from other operating revenue	6,021	9,312
Payments to employees for wages and benefits	(57,938)	(50,612)
Payments to suppliers	(149,658)	(168,239)
Payments to transportation service providers	(165,419)	(228,710)
Net cash used by operating activities	**(336,881)**	**(398,647)**
Cash flows from non-capital financing activities		
Preventative maintenance grants received	241,736	27,392
Taxes received	2,079,676	1,849,801
Tax collection fees paid	(10,369)	(7,542)
Net cash provided by non-capital financing activities	**2,311,043**	**1,869,651**
Cash flows from capital and related financing activities		
Capital contributions from grants	542,614	424,970
Contributions to other government	(5,000)	(5,000)
Proceeds (payments) for betterments and recoverable costs	4,920	(8,237)
Proceeds from insurance recoveries and sale of assets	987	6,857
Proceeds from issuance of bonds	950,000	-
Proceeds from TIFIA loans	87,664	-
Payments for bond defeasance	(946,446)	-
Payments for bond principal	(54,300)	(42,915)
Payments for bond refunding	(11,584)	-
Payments for interest and bond related costs	(104,375)	(98,322)
Payments to employees capitalized to projects	(121,092)	(123,670)
Payments to suppliers for capital activities	(1,607,536)	(1,714,294)
Payments for TIFIA loans	(156,606)	-
Purchase of property	(80,838)	(116,618)
Payments for lease obligations	(26,303)	(12,721)
Receipts from lessees	3,082	2,265
Net cash used by capital and related financing activities	**(1,524,813)**	**(1,687,685)**
Cash flows from investing activities		
Investment income	21,106	44,345
Proceeds from sales or maturities of investments	1,791,465	1,170,918
Purchases of investments	(1,553,459)	(854,710)
Net cash used by investing activities	**259,112**	**360,553**
Net (decrease) increase in cash and cash equivalents	**708,461**	**143,872**
Cash and cash equivalents		
Beginning of year	513,087	369,214
End of year	**$ 1,221,548**	**$ 513,086**
Cash and cash equivalents (note 3)		
Unrestricted	$ 1,133,604	$ 425,848
Current restricted	78,914	78,799
Non-current restricted	9,030	8,439
	$ 1,221,548	**$ 513,086**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS, continued

(in thousands)	Year ended, December 31	
	2021	**2020**
Loss from operations	**$ (559,549)**	**$ (519,856)**
Adjustments to reconcile loss from operations to net cash used by operating activities		
(Increase) Decrease in bad debt expense	(9)	10
Depreciation, amortization and accretion	204,133	197,375
(increase) Decrease in other expenses	(882)	(1,814)
Changes in operating assets and liabilities		
(Increase) Decrease in other receivables	(5,305)	10,743
Decrease (Increase) in inventory, prepaid and deposits	1,307	(20,239)
Increase (Decrease) in accounts payable and accrued liabilities	20,089	(63,881)
Increase (Decrease) in unearned revenue	3,339	(699)
Decrease in other current liabilities	(4)	(286)
Net cash used by operating activities	**$ (336,881)**	**$ (398,647)**

(in thousands)	Year ended, December 31	
	2021	**2020**
Supplemental disclosures of non-cash operating, investing and financing activities		
Bond defeasance related to refunding	$ (10,521)	$ -
Bond issuance related to refunding	100,848	-
Bond issuance expense	(2,579)	-
Capital contribution from Land Bank	3,161	13,504
Contributions to other governments	(50,251)	(16,655)
Construction in progress in current liabilities	340,774	304,362
Increase in fair value of investments	(17,641)	1,885
Additions to lease related assets, net	9,967	9,514
Additions to lease obligations, net	(24,778)	(9,588)
Additions to deferred inflows of resources, net	(1,074)	-
Spare parts previously capitalized	(8,789)	(1,139)
Start-up costs previously capitalized	(13,999)	(14,991)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

1. ORGANIZATION AND REPORTING ENTITY

As provided under the Revised Code of Washington (RCW) Chapter 81.112 applicable to a regional transit authority, the Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, also referred to herein as “the agency”, was established in 1993. Sound Transit is implementing a high capacity transportation system throughout parts of King, Pierce and Snohomish counties in the State of Washington through the design, construction and operation of a commuter rail (Sounder), light rail (Link and Tacoma Link), regional express bus system (ST Express) and bus rapid transit system (Stride).

Reporting Entity—Sound Transit is a special purpose government supported primarily through sales and use, motor vehicle excise, property and rental car taxes assessed in Sound Transit’s operating jurisdiction (the District). In addition, Sound Transit receives capital and operating funding from federal, state and local agencies.

Sound Transit is governed by an eighteen-member board, seventeen of whom are appointed by the respective member county executives and confirmed by the council of each member county. Membership is based on the population from the portion of each county that lies within Sound Transit’s service area. Representation on the board includes an elected official representing the largest city in each county and ensures proportional representation from other cities and from unincorporated areas of each county. The final board position is held by the Secretary of Transportation, Washington State Department of Transportation.

Accounting principles generally accepted in the United States of America (GAAP) require the financial statements of the reporting entity to include the primary government, all organizations for which the primary government is financially accountable and other organizations that, by the nature and significance of their relationship with the primary government, would cause the financial statements to be incomplete or misleading if excluded. Based on these criteria, Sound Transit is considered a primary government and does not have any component unit relationships. Conversely, Sound Transit is not considered a component unit of any primary government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of significant accounting policies is presented to assist the reader in interpreting the financial statements and should be considered an integral part of the financial statements.

Basis of Accounting— The accounts are maintained and financial statements are prepared using the economic resources measurement focus and accrual basis of accounting in accordance with GAAP. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As Sound Transit comprises a single proprietary fund, no fund level financial statements are shown.

In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of Sound Transit are included in the Statements of Net Position and depreciation and amortization of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Position.

Operating revenues are recognized in the period earned and consist primarily of passenger fares. Operating expenses are recognized in the period in which they are incurred and consist primarily of purchased transportation services.

Non-operating revenues, primarily tax revenues, are recorded in the period when the underlying transaction occurs on which the tax is imposed and include sales and use tax on goods and services, motor vehicle excise tax, property tax and rental car tax. Non-operating expenses are recognized in the period in which they are incurred and consist primarily of loss on defeasance of bonds, interest expense and contributions to other governments.

Sales, use and rental car taxes are collected on Sound Transit’s behalf by the Washington State Department of Revenue and the motor vehicle excise tax by the Washington State Department of Licensing. Property tax is levied on a calendar year basis and is administered and collected by King, Pierce and Snohomish counties. Taxes are levied within the district at a rate of 1.4% for sales and use, 1.1% for motor vehicle excise and 0.8% on rental cars. In November 2016, voters approved an increase in the sales and use tax of 0.5%, an additional motor vehicle excise tax of 0.8%, both of which are included in the rates stated above, and a property tax levy rate up to $0.25 per $1,000 of assessed property value. The additional motor vehicle tax came into effect March 1, 2017 and the additional sales and use tax came into effect April 1, 2017. The first property tax levy was authorized for calendar year 2017.

Bond Discounts and Premiums— Bond discounts and premiums are recorded net to long-term debt and amortized using the effective interest rate method over the life of the related debt issuance. Deferred outflows of resources includes the excess of the price paid on debt refunding and the net carrying amount of the old debt, which is amortized over the remaining life of the old debt or the new debt, whichever is shorter. Deferred inflows of resources includes the deficit of the price paid on debt refunding and the net carrying amount of the old debt, which is amortized over the remaining life of the old debt or the new debt, whichever is shorter.

Capital Assets— Capital assets are stated at cost, except for capital assets contributed to Sound Transit, which are stated at the fair value on the date of contribution. Expenditures and contributions for additions and improvements with a value in excess of $5,000 and a useful life of more than one year are capitalized. Maintenance, repairs and minor improvement costs are charged to operations as incurred. Depreciation and amortization of capital and intangible assets are recorded using the straight-line method applied to each asset over its estimated useful life, except for the amortization associated with leasehold improvements which is recognized over the shorter of the life of the asset and the remaining length of the related lease agreement.

Estimated useful lives are shown in the following table:

	Estimated useful life
Access rights	5 – 100 years
Buildings and leasehold improvements	5– 30 years
Furniture, equipment and vehicles	3 – 8 years
Revenue vehicles	12 – 40 years
Software	3 – 5 years
Transit facilities, rail and heavy equipment	6 – 150 years

On an annual basis, Sound Transit evaluates whether events or circumstances have occurred affecting capital assets that are other than temporary in nature and which could result in an impairment of those assets. Impairment is considered to have occurred if there is a large permanent decline in the asset's service utility and the event or circumstance is outside the normal life cycle of the asset. Impairment losses on assets that will no longer be used are measured based on the lower of carrying value and fair value of the affected asset. Impairment losses on assets that will continue to be used are measured using the method that best reflects the diminished service utility.

All qualifying costs, directly and indirectly, attributable to capital projects are capitalized. Capital projects in progress (CIP) balances include costs incurred for projects not yet in service and are segregated between assets in which Sound Transit maintains a continuing ownership interest and capital assets that will be transferred to other governments upon completion.

Access rights include costs incurred for, or rights acquired that allow, Sound Transit to operate its services in public and private right of ways. Access rights are amortized over the life of the underlying asset constructed or the term of the contractual agreement granting the related right.

Interest costs on funds borrowed through tax-exempt and taxable debt to finance the construction or acquisition of certain capital assets are expensed in the period in which they are incurred. Prior to 2019, interest costs were capitalized during the period of construction or acquisition and depreciated over the life of the related assets once placed into service.

Capital Contributions to Other Governments— Pursuant to capital improvement agreements, Sound Transit has provided funding to, or constructed assets for, various governments for transit-related capital improvements. Costs incurred to construct assets for other governments are capitalized and included in CIP until the asset is substantially completed and accepted, at which time the costs are transferred out of CIP and recorded as contributions to other governments.

Cash and Cash Equivalents— Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less at the time of purchase. Restricted cash and cash equivalents contain externally imposed legal and contractual obligations and are classified as current or non-current in accordance with their requirements.

Compensated Absences— The agency provides a PTO program to eligible employees. Under the program, PTO is earned based on tenure and job level. PTO is payable at 50% upon employee termination. Certain accrued balances relating to the legacy programs will continue to be presented as liabilities until utilized or forfeited.

Environmental Remediation Obligations— Environmental remediation activities are reviewed annually to determine whether an obligating event has occurred, as defined by GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* when the liability should be accrued and whether the cost should be expensed or capitalized. Generally such costs are incurred in relation to properties that Sound Transit is preparing for use in operations, or in relation to properties acquired to support the construction of a project and which are subsequently resold. As such, these costs are recorded as incurred and capitalized to the project. Costs that are in excess of the property's fair market value, or that do not meet capitalization criteria under GAAP, are expensed as soon as a reasonable estimate can be obtained.

Indirect Cost Allocation— Indirect costs relate to the overall costs of running the agency and include employee costs, office space, services and information technology costs. These indirect costs are allocated to capital projects, operating activities, agency administration and fare and regional planning using overhead rates that are based primarily on departmental headcount and budgeted expenditures. Overhead rates are designed to allocate all agency overhead costs except for certain executive divisions and marketing costs.

Inventory— Inventory includes spare parts and is recorded at the lower of average purchase cost and net realizable value. Allowances for excess and obsolete parts are provided for spare parts currently identified as excess and obsolete. Allowances are reflected as a charge to operations and are based on management's estimate, which is subject to change. As of December 31, 2021 and 2020, inventory reflects an allowance of $0.8 million.

Investment Valuation— Investments are stated at fair value.

Land Held for Disposition— Properties determined to be excess to Sound Transit's use, authorized by the Board for disposition and intended to be disposed of within one year are classified as land held for disposition. Pursuant to RCW 81.112.350, surplus properties are evaluated for suitability as housing as 80% of such properties must be offered for either transfer at no cost, sale, or long-term lease first to qualified entities that agree to develop affordable housing on the property, consistent with local land use and zoning laws. Properties meeting such criteria and subject to an agreement or request for proposal are reclassified to land held for disposition at carrying cost until such time as the disposition closes, at which time a contribution to affordable housing is recorded. Properties not disposed as part of the 80% requirement are valued at the lower of purchase cost or net realizable value.

New Accounting Pronouncements

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs),* effective for reporting periods beginning after June 15, 2022. This statement provides guidance on the accounting for SBITAs based on the concept that certain SBITAs result in a right-to-use intangible asset and corresponding liability that should be recognized on the financial statements, that certain costs may be capitalizable and that governments should make certain relevant disclosures. Sound Transit is evaluating the applicability and potential financial impact of the standard.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* effective for reporting periods beginning after June 15, 2022. This statement provides guidance on the accounting for partnerships involving the operation of nonfinancial assets in an exchange or exchange-like transaction and availability payment arrangements. Sound Transit is evaluating the applicability and potential financial impact of the standard.

Reclassifications— Certain reclassifications have been made to the 2020 financial statements to conform to the current year's presentation.

Reserves— Sound Transit's financial policies require the agency to maintain certain internal reserves as follows: an operating expense reserve in the amount of two months average annual spending expenses; a capital replacement reserve supported by a specific investment fund; and an emergency loss fund to cover retention, deductible or excess loss due to an uninsured loss or portion of loss. As these cash and investment reserves are derived from internal restrictions, they are included in unrestricted net position.

Restricted Net Position— Restricted net position consists of cash, cash equivalents and investments that contain externally imposed legal and contractual obligations. Assets comprising restricted net position are used in accordance with their requirements and where both restricted and unrestricted resources are available for use, restricted resources are used first and then unrestricted resources as they are needed.

Revenue and Expense Classification— Sound Transit distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing passenger services in connection with Sound Transit's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Tax Abatements—As of December 31, 2021 and 2020, Sound Transit has no direct tax abatement agreements wherein taxes are decreased for a particular payer which contribute to economic development or otherwise benefits the government or its citizens. In 2021 and 2020, Sound Transit collected property tax revenue through Snohomish, King and Pierce counties which have direct tax abatement agreements. However, the tax abatements do not result in reduction or loss of revenue to Sound Transit, pursuant to Washington State law, as these taxes are reallocated to other property taxpayers.

Undivided Interests— Sound Transit participates in a joint operation (or undivided interest), jointly governed with six other agencies for the provision of a regional fare coordination system (One Regional Card for All, ORCA). Sound Transit reports its undivided interest in assets, liabilities, expenses and revenues of ORCA within its financial statements, as they are specifically identifiable to Sound Transit. ORCA does not meet the definition of a component unit as defined in GASB No. 61 – *The Financial Reporting Entity: Omnibus.*

Use of Estimates— The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less at the time of purchase. Cash in the Local Government Investment Pool (LGIP) is managed by the Washington State Treasurer's Office. Investments in the King County Investment Pool (KCIP) are managed by the King County Finance Division. The LGIP and the KCIP represent an interest in a group of securities and have no specific security subject to custodial risk.

Sound Transit's bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC. Cash, cash equivalents, investments and restricted assets consist of the following:

(in thousands)	December 31	
	2021	**2020**
Cash and cash equivalents - current		
LGIP *	$ 1,124,341	$ 422,568
FDIC or PDPC insured bank deposits	6,568	1,757
Cash on hand	2,695	1,523
	1,133,604	**425,848**
Restricted assets - current		
Cash and cash equivalents - LGIP	78,914	78,799
Investments - KCIP	532	532
	79,446	**79,331**
Investments - current	**429,793**	**867,751**
Restricted assets - non-current		
Cash and cash equivalents		
LGIP	593	-
FDIC or PDPC Insured Bank Deposits	435	435
Escrow funds	8,002	8,004
	9,030	8,439
Investments - Debt service and OCIP reserve	10,517	22,740
Other	24	89
	19,571	**31,268**
Investments - non-current	**858,961**	**668,168**
Total cash, cash equivalents, investments and restricted assets	**$ 2,521,375**	**$ 2,072,366**

* The balance includes amounts set aside in satisfaction of Sound Transit's financial policies for an operating expense reserve and an emergency loss fund.

All surplus cash is invested in accordance with Washington State statute and an Asset and Liability Management policy approved by Sound Transit's Board. Qualifying investments under this policy include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit, corporate bonds & commercial paper, general obligation municipal bonds and repurchase agreements. Sound Transit's policy and monitoring program addresses common deposit and investment risks as described below, with detailed information by investment type presented in the tables that follow. Duration is presented in years.

Sound Transit holds a significant amount of investments that are measured at fair value on a recurring basis, within the following hierarchy:

- Level 1 – inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly
- Level 3 – inputs are unobservable inputs for an asset or liability

Unrestricted investments consist of the following:

(in thousands)	2021			2020		
	Total	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**
Investments – current						
Commercial Paper	79,934	$ -	$ 79,934	$ 74,922	$ -	$ 74,922
KCIP *	15,778	-	-	65,872	-	-
U.S. Agency Securities	49,992	-	49,992	197,537	-	197,537
U.S. Treasury Securities	209,318	209,318	-	465,414	465,414	-
Municipal Bonds	-	-	-	20,000	-	20,000
Corporate Bonds	74,771	-	74,771	44,006	-	44,006
Total investments – current	**429,793**	**209,318**	**204,697**	**867,751**	**465,414**	**336,465**
Investments – non-current						
Investments – undesignated						
U.S. Agency Securities	144,468	-	144,468	226,653	-	226,653
U.S. Treasury Securities	285,782	285,782	-	40,575	40,575	-
Municipal Bonds	11,680	-	11,680	12,111	-	12,111
Corporate Bonds	57,991	-	57,991	27,848	-	27,848
Total investments - undesignated	499,921	285,782	214,139	307,187	40,575	266,612
Investments – capital replacement						
U.S. Agency Securities	191,485	-	191,485	221,378	-	221,378
U.S. Treasury Securities	74,969	74,969	-	76,208	76,208	-
Municipal Bonds	39,275	-	39,275	42,985	-	42,985
Corporate Bonds	53,311	-	53,311	20,410	-	20,410
Total investments – capital replacement	359,040	74,969	284,071	360,981	76,208	284,773
Total investments – non-current	**$ 858,961**	**$ 360,751**	**$ 498,210**	**$ 668,168**	**$ 116,783**	**$ 551,385**

* The KCIP is valued using amortized cost basis and is not included in the fair value hierarchy.

Restricted investments consist of the following:

(in thousands)	2021			2020		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Restricted assets - current						
KCIP *	$ 532	$ -	$ -	$ 532	$ -	$ -
Total restricted assets - current	**532**	**-**	**-**	**532**	**-**	**-**
Restricted assets - non-current						
Municipal bonds	2,973	-	2,973	10,167	-	10,167
U.S. Agency securities	7,544	-	7,544	12,573	-	12,573
Total restricted assets - non-current	**$ 10,517**	**$ -**	**$ 10,517**	**$ 22,740**	**$ -**	**$ 22,740**

* The KCIP is valued using amortized cost basis and is not included in the fair value hierarchy.

U.S Treasury securities are classified as Level 1 and are valued using prices in active markets for identical assets. Commercial paper, U.S. Agency securities, municipal bonds and corporate bonds are classified as Level 2 and are valued using inputs that are observable but not actively using the market approach.

The KCIP is valued using amortized cost basis. The objective of the KCIP investment policy is to invest public funds in a manner which will preserve the safety and liquidity of all investments while obtaining a reasonable rate of return. The redemption period for the KCIP is one to ten days, depending on the dollar amount redeemed.

Interest Rate Risk— Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The agency manages duration as means of mitigating its exposure to interest rate risk. The greater the duration of a bond, or portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice versa. Sound Transit policy limits its maximum weighted portfolio duration to three years.

Notes to Financial Statements, continued

Modified duration

(in thousands)	2021			2020		
	Total	Duration	Percent of total	Total	Duration	Percent of total
Investments – current						
Commercial Paper	$ 79,934	0.33	18.6%	$ 74,922	0.46	8.6%
KCIP	15,778	1.24	3.7%	65,872	1.20	7.6%
U.S. Agency Securities	49,992	0.59	11.6%	197,537	0.09	22.8%
U.S. Treasury Securities	209,318	1.04	48.7%	465,414	0.29	53.6%
Municipal Bonds	-	-	0.0%	20,000	0.19	2.3%
Corporate Bonds	74,771	0.46	17.4%	44,006	0.46	5.1%
Total investments - current	**429,793**	**0.76**	**100.0%**	**867,751**	**0.34**	**100.0%**
Investments – non-current						
Investments – undesignated						
U.S. Agency Securities	144,468	1.22	28.9%	226,653	1.60	73.8%
U.S. Treasury Securities	285,782	2.64	57.2%	40,575	0.79	13.2%
Municipal Bonds	11,680	1.54	2.3%	12,111	2.46	3.9%
Corporate Bonds	57,991	2.78	11.6%	27,848	1.04	9.1%
Total investments - undesignated	**499,921**	**2.22**	**100.0%**	**307,187**	**1.47**	**100.0%**
Investments – capital replacement						
U.S. Agency Securities	191,485	2.06	53.4%	221,378	2.70	61.3%
U.S. Treasury Securities	74,969	4.58	20.9%	76,208	0.87	21.1%
Municipal Bonds	39,275	3.80	10.9%	42,985	4.47	11.9%
Corporate Bonds	53,311	3.29	14.8%	20,410	3.61	5.7%
Total investments – capital replacement	**$ 359,040**	**2.96**	**100.0%**	**$ 360,981**	**2.57**	**100.0%**
Total investments – non-current	**$ 858,961**			**$ 668,168**		

Specific identification

(in thousands)	December 31 2021	December 31 2020	Maturity	Call Date
Restricted assets - non-current				
Debt service reserve				
Municipal bonds:				
Georgia State GO Unlimited BAB	$ 2,973	$ 3,186	11/1/2027	11/24/2009*
New York City GO	-	6,981	8/1/2024	8/13/2019*
Federal Home Loan Mortgage Corporation	4,968	5,009	8/24/2023	
Federal Home Loan Mortgage Corporation	-	4,996	9/23/2025	
	7,941	**20,172**		
OCIP reserve				
U.S. agency securities:				
Federal Home Loan Mortgage Corporation	1,025	1,021	3/15/2023	
Federal National Mortgage Association	1,551	1,547	7/15/2022	
	2,576	**2,568**		
	$ 10,517	**$ 22,740**		

** Continuously callable from this date forward*

Concentration of Credit Risk— Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. The investment policy sets forth maximum concentration guidelines. At both December 31, 2021 and 2020, Sound Transit portfolios were within these guidelines.

Investment Type Per Investment Policy	Maximum
Treasury securities and investments in the LGIP	100%
Total U.S. Agency securities	75%
Single U.S. Agency and investments in the KCIP	50%
Repurchase agreements, general obligation bonds, PDPC financial institution sponsored investment accounts	25%
Deposit bank notes	20%
Certificates of deposit, bankers' acceptances, reverse repurchase agreements and A1/P1 commercial paper	10%

Credit Risk— Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. As of December 31, 2021 and 2020, all Treasury, U.S. Agency, general obligation bonds and commercial paper securities are rated in one of the four highest credit rating categories of a nationally recognized statistical rating organization. After a bond has been purchased, if it is downgraded below one of the three highest ratings, a case-by-case review is conducted to determine the reason for the downgrade and to evaluate whether or not to continue to hold the bond. The LGIP and KCIP are unrated.

Custodial Credit Risk— Custodial credit risk is the risk that, in the event of the failure of the counterparty, Sound Transit would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments purchased by Sound Transit are held and registered in Sound Transit's name in the trust or safekeeping department of a financial institution as established by a written third party safekeeping agreement between Sound Transit and the financial institution.

4. TAXES AND OTHER RECEIVABLES

Taxes and other receivables consist of the following:

(in thousands)	December 31 2021	December 31 2020
Taxes receivable	$ 322,497	$ 285,239
Grants receivable	59,080	120,963
Due from other governments	13,931	15,034
Accounts receivable, net	5,554	1,676
Interest receivable	3,780	5,508
	$ 404,842	**$ 428,420**

Amounts due from other governments include amounts due from ORCA for fare revenues and reimbursable administration expenses (see also note 12) and amounts reimbursable under other interlocal agreements for operating expenses or capital contributions for transit facilities and betterments. Payment terms are generally defined in the various agreements with other governments and range from 21 to 60 days. Where payment terms are not defined by agreement, they are due in accordance with the terms specified on the invoice, which is generally 30 days.

5. LEASES

Sound Transit, as lessee, has entered into various leases for office space, parking, land, storage and equipment with lease terms expiring between 2022 and 2056, with some leases containing options to renew.

As lessor, Sound Transit has entered into leases for commercial space, equipment, and land for use in transportation-oriented development. Sound Transit's activities as lessor are generally intended to be temporary and relate mainly to property held for a period of time between acquisition for right of way, and other system assets and facilities, through the completion of construction of the related assets and eventually disposition of surplus property.

Sound Transit adopted GASB Statement No. 87, *Leases*, in 2020 with a conversion date of January 1, 2019. In accordance with the adopted standard, the agency, as a lessee, is required to recognize intangible right-of-use assets and corresponding lease liabilities, and as a lessor, lease receivables and deferred inflows of resources, for all leases that are not considered short-term. Sound Transit has adopted the following policies to assist in determining lease treatment according to the standard (unless otherwise specified, the following policies pertain to agreements in which Sound Transit acts as lessee, and agreements in which Sound Transit acts as lessor):

Basis of lease classification – Leases that meet the following requirements will not be considered short-term: (1) the maximum possible lease term(s) is non-cancelable by both lessee and lessor, and is more than 12 months, and (2) the monthly lease payment is greater than $5 thousand.

Term – At the time of lease commencement or conversion, the term of the lease will include possible extension periods that are deemed to be reasonably certain given all available information, regarding the likelihood of renewal. For extension periods without explicit rent payment amounts in the lease agreement, the agency included an increase of 3% to prior rent payment amounts on an annual basis.

Discount rate – Unless explicitly stated in the lease agreement, known by the agency, or the agency is able to determine the rate implicit within the lease, the discount rate used to calculate lease right-of-use assets and liabilities in the case of agreements in which Sound Transit acts as lessee, or deferred inflow of resources and related lease receivable, in the case of agreements in which Sound Transit acts as lessor, will be the agency’s tax exempt market borrowing rate for 30 year fixed terms at the end of each year, which will be the rate utilized for the next calendar year. The 30 year fixed tax exempt borrowing rate at December 31, 2020 was 2.79% and at December 31, 2019 was 3.30% and was used for applicable leases beginning in 2021 and 2020, respectively.

Prepaid lease payments – Prepaid lease payments related to leases wherein Sound Transit acts as lessee, are not included in right-of-use assets until such time as the lease term commences.

Variable payments – Variable payments based on the future performance of the lessee or lessor or usage of the underlying asset are not included in the measurement of lease assets or liabilities. For the years ended December 31, 2021 and 2020, all leases are based on fixed payments and do not have variable payment components.

Residual value guarantees – There were no residual guarantees included in the measurement of lease assets and liabilities, or deferred inflow of resources and lease receivables, for the years ended December 31, 2021 and 2020.

Remeasurement – For the years ended December 31, 2021 and 2020, the agency remeasured lease liabilities in which Sound Transit acts as lessee, due to (1) early termination which included a termination fee, (2) reduction in monthly lease payment, and (3) a change in borrowing rate.

Lease related assets by major class of underlying assets consist of the following:

(in thousands)	2021 Beginning balance	Additions	Reductions	2021 Ending balance
Right-of-use assets				
Office buildings	$ 97,513	$ -	$ (2,101)	$ 95,412
WSDOT land access rights (airspace leases)	14,494	14,977	-	29,471
Land	10,151	-	(4,249)	5,902
Warehouse space	6,968	-	-	6,968
Equipment	1,422	29	-	1,451
Total right-of-use assets	**130,548**	**15,006**	**(6,350)**	**139,204**
Accumulated amortization				
Office buildings	(22,603)	(10,977)	1,469	(32,111)
WSDOT land access rights (airspace leases)	(1,056)	(622)	-	(1,678)
Land	(1,329)	(860)	378	(1,811)
Warehouse space	(1,160)	(747)	-	(1,907)
Equipment	(822)	(430)	-	(1,252)
Total accumulated amortization	**(26,970)**	**(13,636)**	**1,847**	**(38,759)**
Total right-of-use assets, net	**103,578**	**1,370**	**(4,503)**	**100,445**
Prepaid lease payments				174,278
Lease receivables				21,020
Lease-leaseback investment account asset				67,237
Total lease related assets, net				**$ 362,980**

(in thousands)	2020 Beginning balance	Additions	Reductions	2020 Ending balance
Right-of-use assets				
Office buildings	$ 97,674	$ 615	$ (776)	$ 97,513
WSDOT land access rights (airspace leases)	14,853	-	(359)	14,494
Land	8,676	1,475	-	10,151
Warehouse space	4,351	2,617	-	6,968
Equipment	1,422	-	-	1,422
Total right-of-use assets	**126,976**	**4,707**	**(1,135)**	**130,548**
Accumulated amortization				
Office buildings	(9,736)	(12,867)	-	(22,603)
WSDOT land access rights (airspace leases)	(528)	(528)	-	(1,056)
Land	(760)	(928)	359	(1,329)
Warehouse space	(380)	(780)	-	(1,160)
Equipment	(411)	(411)	-	(822)
Total accumulated amortization	**(11,815)**	**(15,514)**	**359**	**(26,970)**
Total right-of-use assets, net	**115,161**	**(10,807)**	**(776)**	**103,578**
Prepaid lease payments				171,619
Lease receivables				21,098
Lease-leaseback investment account asset				66,014
Total lease related assets, net				**$ 362,309**

As lessee, the agency recognized $13.6 million and $15.5 million of lease related amortization expense in the years ended December 31, 2021 and 2020, respectively. The agency also recognized $3.9 million and $4.3 million of lease related interest expense in the years ended December 31, 2021 and 2020, respectively.

As lessor, the agency recognized $1.0 million and $1.2 million in lease related interest revenue in the years ended December 31, 2021 and 2020, respectively. The agency also recognized revenues from lease related deferred inflows of resources of $0.2 million in the year ended December 31, 2021 and 2020.

Lease related obligations consist of the following:

(in thousands)	December 31 2021	2020
Lease liabilities	$ 96,496	$ 109,102
Lease-leaseback obligations	67,237	66,014
Accrued lease interest	978	617
Deposits held as lessor	445	445
Total lease related obligations	**$ 165,156**	**$ 176,178**

Minimum lease payments, excluding lease-leaseback obligations, through 2056 are as follows:

(in thousands) Year ending December 31	Principal Payments	Interest Payments	Total Payments
2022	$ 10,862	$ 3,464	$ 14,326
2023	10,974	3,043	14,017
2024	8,254	2,701	10,955
2025	7,815	2,371	10,186
2026	7,384	2,092	9,476
2027-2031	37,292	5,858	43,150
2032-2036	2,680	2,526	5,206
2037-2041	5,322	1,858	7,180
2042-2046	3,575	1,006	4,581
2047-2051	1,752	432	2,184
2052-2056	1,562	221	1,783
	$ 97,472	**$ 25,572**	**$ 123,044**

Lease-Leaseback— In May 2001, Sound Transit entered into a transaction to lease 22 rail passenger cab and coach cars and 5 locomotives (the head lease) to an investor and simultaneously sublease the vehicles back from the investor (the sublease). Under these transactions, Sound Transit maintains the right to continued use and control of the assets through the end of the leases and is required to insure and maintain the assets. The current lease expires on September 17, 2040.

The vehicles had a fair market value of $61.3 million with a book value of $37.7 million at closing. Sound Transit received a prepayment equivalent to the net present value of the head lease obligations totaling $61.3 million. From those proceeds, $50.4 million was deposited with AIG-FP Special Finance Ltd. to partially meet Sound Transit's obligations under the sublease payments. In addition, $5.7 million was deposited with AIG Matched Funding Corp. and invested in securities, issued or guaranteed by the United States government, to meet the remaining obligations under the sublease. The remaining $4.9 million (net of closing costs of $363 thousand) was retained by Sound Transit and recorded as non-operating revenues during the year ended December 31, 2001.

The net present value of the future sublease payments has been recorded as a long-term lease obligation. The agreements with AIG-FP Special Finance Ltd. and AIG Matched Funding Corp. have been structured to meet all future obligations under the sublease when due and, as such, the corresponding investment account has been recorded to equal the sublease obligations. As of December 31, 2021 and 2020, the fair value of the underlying securities was sufficient to satisfy the current required value as set forth in the related agreements.

Net changes in the lease-leaseback sublease are shown in the following table:

(in thousands)	December 31	
	2021	**2020**
Net sublease, January 1	$ 66,014	$ 64,876
Accrued interest	4,941	4,856
Less payment	(3,718)	(3,718)
Net sublease, December 31	**$ 67,237**	**$ 66,014**

The lease documentation established minimum credit levels by AIG for the equity and debt defeasance accounts. At the time these transactions closed, AIG was rated "AAA" by Standard & Poor's and "Aaa" by Moody's Investment Service. However, starting in March 2005, AIG suffered a series of credit rating downgrades and as of December 31, 2021 was rated "BBB+" by Standard & Poor's and "Baa2" by Moody's Investment Service. As of December 31, 2021 and 2020, the defeasance accounts were unrated.

Because of credit rating downgrades under the lease transaction, Sound Transit is required to replace AIG for its undertaking agreements and credit enhancements provision in the transaction and AIG is required to post collateral for the debt defeasance accounts. However, in January 2009, Sound Transit entered into a waiver agreement and temporary waiver of delivery of required items letter with the Owner Participant, Lessor, Lender, and Debt Payment Undertaker waiving any existing default or event of default based on a failure to comply with the ratings downgrade provisions of the Participation Agreement, Loan Agreement, Debt Payment Agreement, and Debt Payment Guarantee until March 1, 2009. Under the Fifth Extension Amendment to the waiver agreement and Fifth Temporary Waiver of Delivery of Required Items letter with the transaction participants, Sound Transit may request successive six-month extensions of the waiver agreements until September 30, 2020, unless extended by agreement of the parties. Sound Transit requested and has been granted an extension of the waiver agreements through September 30, 2022. If the default is not cured and the extension is not granted, the investor could demand a termination payment from Sound Transit of approximately $9.5 million.

6. CAPITAL ASSETS

Capital assets are summarized as follows:

(in thousands)	2021 Beginning balance	Additions	Disposals / reductions	Transfers	2021 Ending balance
Non-depreciable assets					
Land	$ 1,029,832	$ 41	$ (7,580)	$ 84,765	$ 1,107,058
Permanent easements	549,407	-	-	656	550,063
Capital projects in progress:					
Sound Transit - tangible	7,719,888	1,809,306	(46,027)	(2,285,036)	7,198,131
Sound Transit - intangible	29,501	20,976	-	-	50,477
Other governments - tangible	10,341	9,923	(18,254)	-	2,010
Total non-depreciable assets	**9,338,969**	**1,840,246**	**(71,861)**	**(2,199,615)**	**8,907,739**
Depreciable assets					
Access rights	555,536	-	-	-	555,536
Buildings and leasehold improvements	41,444	-	-	156,303	197,747
Furniture, equipment and vehicles	26,878	-	(535)	3,768	30,111
Revenue vehicles	822,136	-	(14,358)	102,064	909,842
Software	35,243	-	-	(368)	34,875
Transit facilities, rail and heavy equipment	4,801,886	-	(3,028)	1,933,761	6,732,619
Total depreciable assets	**6,283,123**	**-**	**(17,921)**	**2,195,528**	**8,460,730**
Accumulated depreciation					
Access rights	(243,753)	(12,902)	-	-	(256,655)
Buildings and leasehold improvements	(24,022)	(4,420)	-	1,492	(26,950)
Furniture, equipment and vehicles	(21,577)	(2,885)	535	492	(23,435)
Revenue vehicles	(351,373)	(41,312)	14,358	751	(377,576)
Software	(32,277)	(2,458)	-	336	(34,399)
Transit facilities, rail and heavy equipment	(964,946)	(133,707)	2,376	(3,071)	(1,099,348)
Total accumulated depreciation	**(1,637,948)**	**(197,684)**	**17,269**	**-**	**(1,818,363)**
Total depreciable assets, net	**4,645,175**	**(197,684)**	**(652)**	**2,195,528**	**6,642,367**
Total capital assets, net	**$ 13,984,144**	**$1,642,562**	**$ (72,513)**	**$ (4,087)**	**$15,550,106**

Notes to Financial Statements, continued

(in thousands)	2020 Beginning balance	Additions	Disposals / reductions	Transfers	2020 Ending balance
Non-depreciable assets					
Land	$ 913,686	$ 1,050	$ (20,857)	$ 135,953	$ 1,029,832
Permanent easements	546,284	-	-	3,123	549,407
Capital projects in progress:					
Sound Transit - tangible	5,799,948	2,112,882	(16,135)	(176,807)	7,719,888
Sound Transit - intangible	30,580	11,587	(8,632)	(4,034)	29,501
Other governments - tangible	8,822	9,593	(8,039)	(35)	10,341
Total non-depreciable assets	**7,299,320**	**2,135,112**	**(53,663)**	**(41,800)**	**9,338,969**
Depreciable assets					
Access rights	566,498	-	(5,983)	(4,979)	555,536
Buildings and leasehold improvements	40,499	-	-	945	41,444
Furniture, equipment and vehicles	23,707	-	(316)	3,487	26,878
Revenue vehicles	792,346	-	(19,082)	48,872	822,136
Software	34,184	-	-	1,059	35,243
Transit facilities, rail and heavy equipment	4,794,329	-	(123)	7,680	4,801,886
Total depreciable assets	**6,251,563**	**-**	**(25,504)**	**57,064**	**6,283,123**
Accumulated depreciation					
Access rights	(235,655)	(13,823)	-	5,725	(243,753)
Buildings and leasehold improvements	(21,631)	(1,899)	-	(492)	(24,022)
Furniture, equipment and vehicles	(17,877)	(4,072)	312	60	(21,577)
Revenue vehicles	(331,189)	(37,897)	17,713	-	(351,373)
Software	(27,488)	(4,729)	-	(60)	(32,277)
Transit facilities, rail and heavy equipment	(849,850)	(115,711)	123	492	(964,946)
Total accumulated depreciation	**(1,483,690)**	**(178,131)**	**18,148**	**5,725**	**(1,637,948)**
Total depreciable assets, net	**4,767,873**	**(178,131)**	**(7,356)**	**62,789**	**4,645,175**
Total capital assets, net	**$ 12,067,193**	**$1,956,981**	**$ (61,019)**	**$ 20,989**	**$13,984,144**

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

(in thousands)	2021	2020
Accrued liabilities	$ 307,195	$ 263,109
Due to other governments	67,129	56,723
Accrued salaries, wages and benefits	29,040	26,440
Accounts payable	22,321	26,071
Retainage payable	270	217
	$ 425,955	**$ 372,560**

8. LONG-TERM DEBT

Sound Transit's long-term debt is comprised of three categories: Prior Bonds, Parity Bonds and Second Tier Junior Obligations borrowed pursuant to the Transportation Infrastructure Finance and Innovation Act (TIFIA Loans). All bond issuances and borrowings are considered public debt. Prior Bonds have first claim upon the local option taxes of sales and use, rental car, and MVET. Parity Bonds are subordinate to the Prior Bonds and also have claim upon the local option taxes of sales and use, rental car, and MVET. TIFIA Loans are subordinate to both Prior Bonds and Parity Bonds and have claim on the local option taxes of sales and use, rental car, and MVET, as well. Proceeds from bond issues are used for funding Sound Transit's capital program or refunding prior bond issues. As of December 31, 2021 and 2020, Sound Transit had no direct borrowings.

As of December 31, 2021 and 2020, total outstanding long-term debt is as follows:

(in thousands)	2021	2020
Long-term debt		
Bonds payable		
Prior bonds	$ 268,155	$ 418,630
Parity bonds	1,741,160	1,710,270
Premium	242,956	148,886
Discount	(1,142)	(2,132)
Total bonds payable	**2,251,129**	**2,275,654**
TIFIA Loans	87,664	156,606
Total debt	**2,338,793**	**2,432,260**
Amounts due within one year	(58,105)	(54,300)
Total long-term debt	**$ 2,280,688**	**$ 2,377,960**

Bonds Payable (Prior and Parity)

(in thousands)	2021 Beginning balance	Additions	Reductions	2021 Ending balance	Amounts due within one year
Bonds payable					
Series 1999	$ 230,630	$ -	$ (24,265)	$ 206,365	$ 25,535
Series 2009P-2T	69,455	-	(7,665)	61,790	7,890
Series 2009S-2T	300,000	-	-	300,000	-
Series 2012P-1	118,545	-	(118,545)	-	-
Series 2012S-1	70,330	-	(62,890)	7,440	7,440
Series 2015S-1	789,940	-	(767,755)	22,185	-
Series 2015S-2A	75,000	-	-	75,000	-
Series 2015S-2B	75,000	-	-	75,000	-
Series 2016S-1	400,000	-	(7,825)	392,175	8,215
Series 2021S-1	-	869,360	-	869,360	9,025
	2,128,900	**869,360**	**(988,945)**	**2,009,315**	**58,105**
Plus unamortized premium	148,886	184,313	(90,243)	242,956	
Less unamortized discount	(2,132)	-	990	(1,142)	
Total bonds payable	**$ 2,275,654**	**$ 1,053,673**	**$ (1,078,198)**	**$ 2,251,129**	**$ 58,105**

(in thousands)	2020 Beginning balance	Additions	Reductions	2020 Ending balance	Amounts due within one year
Bonds payable					
Series 1999	$ 253,685	$ -	$ (23,055)	$ 230,630	$ 24,265
Series 2009P-2T	76,845	-	(7,390)	69,455	7,665
Series 2009S-2T	300,000	-	-	300,000	-
Series 2012P-1	124,265	-	(5,720)	118,545	7,455
Series 2012S-1	77,080	-	(6,750)	70,330	7,090
Series 2015S-1	789,940	-	-	789,940	-
Series 2015S-2A	75,000	-	-	75,000	-
Series 2015S-2B	75,000	-	-	75,000	-
Series 2016S-1	400,000	-	-	400,000	7,825
	2,171,815	**-**	**(42,915)**	**2,128,900**	**54,300**
Plus unamortized premium	160,737	-	(11,851)	148,886	
Less unamortized discount	(2,514)	-	382	(2,132)	
Total bonds payable	**$ 2,330,038**	**$ -**	**$ (54,384)**	**$ 2,275,654**	**$ 54,300**

Excluding unamortized premium and discount, Sound Transit had a total of $2,009.3 million Prior and Parity Bonds outstanding at December 31, 2021, compared to $2,128.9 million at December 31, 2020. A total of $988.9 million and $42.9 million of principal payments, including payments made to refund and defease certain issuances, were made in 2021 and 2020, respectively.

In 2021, the agency executed the following transactions to leverage market conditions and decrease overall cost of debt:

- On October 1, 2021, the agency defeased $55.8 million in par value of the 2012S-1 series bonds and $767.8 million in par value of the 2015S-1 series bonds with cash on hand.
- On October 21, 2021, the agency remarketed $75.0 million in par value of its variable rate 2015S-2A series bonds. This remarketing resulted in a reduction in the variable interest pricing spread from SIFMA +30bps to SIFMA +20bps.
- On November 4, 2021, the agency refunded $111.1 million in par value of the 2012P-1 series bonds. The net carrying amount of the refunded debt exceeded the reacquisition price by $5.7 million. This is reported in the statement of net position as a deferred inflow of resources and will be amortized through 2028. This current refunding was undertaken to reduce total debt service payments by $29.3 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $15.8 million.
- On November 4, 2021, the agency issued a total of $869.4 million in par value as the 2021S-1 series of bonds. $84.7 million of this par amount facilitated the refunding of the 2012P-1 series and the remaining $784.7 million of the 2021S-1 series were new improvement bonds.

Sound Transit maintains certain minimum deposit accounts pursuant to Sound Transit Board resolutions, the Prior Master Bond Resolution and the Parity Master Bond Resolution, to meet debt service requirements. A Prior Bond Account and a Parity Bond Account are funded with monthly deposits so that the balance will be sufficient to pay the interest, or principal and interest, next coming due on the bonds (see also note 3).

The following tables set forth average coupon and effective rates, rating agency information, principal payment commencement dates, fair value and minimum deposits currently restricted for debt service related to bonds.

Prior Bonds— Debt service requirements for Prior Bonds are payable in February and August of each year and are secured by local option taxes.

(in millions)		Average rate	Ratings		Principal	Fair value*		Principal and interest restricted	
	Issue date	Coupon	Moody's	S&P	Payment begins	2021	2020	2021	2020
Series 1999	Dec 1, 1998	4.75 - 5.25%	Aaa	AAA	Feb 1, 2006	$ 228.4	$ 231.4	$ 29.6	$ 28.9
Series 2009P-2T	Sep 29, 2009	4.85 - 5.15%	Aaa	AAA	Feb 1, 2020	68.1	80.2	9.2	9.1
Series 2012P-1	Aug 22, 2012	5.00%	Aaa	AAA	Feb 1, 2013	-	124.3	-	9.9

* Estimated using quoted market prices

Sound Transit is also required, by covenant, to maintain a common debt service reserve account for all Prior Bonds. The common debt service reserve requirement for these bonds is met by a surety policy in the amount of $31.7 million purchased in 1999, a $7.9 million cash reserve, funded at the time the 2009P-2T bonds were issued (see also note 3). Sound Transit is required to value, at market, the investments held in debt service reserve accounts annually and to make up any deficiency within six months after the date of the valuation. As of December 31, 2021, and 2020, the market value of the Prior debt service reserve exceeded the required reserve amount. Reserve account proceeds are invested in municipal bonds.

Additionally, Sound Transit has created a Bond Account to pay and secure the payment of the bonds. The Bond Account is pledged to the payment of bonds and is a trust account for the owners of the bonds. For as long as any bonds remain outstanding, the agency has pledged to pay into the Bond Account from local option taxes: (i) approximately equal monthly deposits such that the amounts projected to be on deposit on the next interest payment date will be sufficient to pay the interest scheduled to become due and redemption premium, if any, on outstanding bonds; and (ii) approximately equal monthly deposits such that the amounts projected to be on deposit on the next principal payment date will be sufficient to pay maturing principal for bonds.

Parity Bonds— Debt service requirements for Parity Bonds are payable in May and November each year and are secured by local option taxes.

(in millions)		Average Rate	Ratings		Principal	Fair value*		Principal and interest restricted	
	Issue date	Coupon	Moody's	S&P	Payment begins	2021	2020	2021	2020
Series 2009S-2T	Sep 29, 2009	5.49%	Aa1	AAA	Nov 1, 2029	$ 411.4	$430.8	$ 2.7	$ 2.7
Series 2012S-1	Aug 22, 2012	3.25 - 5.00%	Aa1	AAA	Nov 1, 2016	7.7	76.1	7.5	7.7
Series 2015S-1	Sep 10, 2015	4.00 - 5.00%	Aa1	AAA	Nov 1, 2018	25.4	935.8	0.2	6.2
Series 2015S-2A	Sep 10, 2015	Var	Aa1	AAA	Nov 1, 2041	150.8	150.3	0.2	0.2
Series 2015S-2B	Sep 10, 2015	Var	Aa1	AAA	Nov 1, 2041	-	-	0.2	0.2
Series 2016S-1	Dec 19, 2016	5.00%	Aa1	AAA	Nov 1, 2021	464.8	531.8	11.5	11.2
Series 2021S-1	Nov 04, 2021	2.60 - 5.00%	Aa1	AAA	Nov 1, 2022	1,073.0	-	15.1	-

* Estimated using quoted market prices

There are no externally imposed legal or contractual obligations requiring Sound Transit to establish a reserve account for Parity Bonds.

Sound Transit makes monthly deposits into a Parity Bond Account from pledged taxes so that the balance therein will be sufficient to pay: (i) the interest, or principal and interest, next coming due on the Parity Bonds and (ii) regularly scheduled payments under Parity Payment Agreements.

Long-term Bond Requirements

Long-term bond requirements are displayed in the table below:

(in thousands) Year ending December 31	Principal	Interest *	Total
2022	$ 58,105	$ 92,864	$ 150,969
2023	62,005	90,315	152,320
2024	77,870	87,274	165,144
2025	81,875	83,376	165,251
2026	85,775	79,318	165,093
2027-2031	358,830	339,167	697,997
2032-2036	340,605	257,143	597,748
2037-2041	455,835	156,205	612,040
2042-2046	376,890	64,379	441,269
2047-2051	111,525	7,342	118,867
	$ 2,009,315	**$ 1,257,383**	**$ 3,266,698**

* Does not deduct 35% Build America Bonds subsidy on the interest payments.

The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) program, which authorized state and local governments to issue BABs as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt municipal bonds. Issuers receive a direct federal subsidy payment for a portion of their borrowing costs paid to investors of BABs. The direct federal subsidy, once earned, is considered a non-exchange transaction, separate from the interest payments made, and is recorded in other non-operating revenue when Sound Transit makes its interest payment. Sound Transit received subsidies of $7.0 million and $6.7 million, in 2021 and 2020, respectively. The 2009P-2T bonds and the 2009S-2T bonds are Build America Bonds.

Second Tier Junior Obligations (TIFIA Loans)

TIFIA loans are second tier junior obligations and as such, are subordinate to both the Parity and Prior bonds. The TIFIA loans are governed by individual credit agreements, the details of which are presented below.

(in thousands)	Year executed or refinanced	Credit line	Interest rate	Final maturity	Drawn amount	Interest	2021 Ending balance
TIFIA loans							
East Link Extension	2021	$1,330,000	1.91%	2058	$ -	$ -	$ -
Northgate Link Extension	2021	615,300	1.91%	2056	-	-	-
OMFE	2021	87,700	1.91%	2055	87,664	211	87,875
Lynnwood Link Extension	2021	657,900	1.91%	2059	-	-	-
Federal Way Link Extension	2021	629,500	1.91%	2059	-	-	-
Downtown Redmond Link Extension	2021	521,000	1.91%	2059	-	-	-
Total TIFIA loans		**$3,841,400**			**$ 87,664**	**$ 211**	**$ 87,875**

The following table sets forth TIFIA loan activity for the years ended December 31, 2021 and 2020:

(in thousands)	2021 Beginning balance	Additions	Reductions	2021 Ending balance
TIFIA loans				
East Link Extension	$ 50,000	$ -	$ (50,000)	$ -
Northgate Link Extension	81,606	-	(81,606)	-
OMFE	25,000	87,664	(25,000)	87,664
Total TIFIA loans	**$ 156,606**	**$ 87,664**	**$ (156,606)**	**$ 87,664**

(in thousands)	2020 Beginning balance	Additions	Reductions	2020 Ending balance
TIFIA loans				
East Link Extension	$ 50,000	$ -	$ -	$ 50,000
Northgate Link Extension	81,606	-	-	81,606
OMFE	25,000	-	-	25,000
Total TIFIA loans	**$ 156,606**	**$ -**	**$ -**	**$ 156,606**

In September 2021, Sound Transit dissolved the existing TIFIA Master Credit Agreement and East Link Loan Agreement, which required paying off the outstanding borrowings of $156.6 million related to East Link, Northgate Link and the Operations and Maintenance Facility East (OMFE) loans, and related accrued interest, and executed new individual TIFIA loan agreements related to Northgate Link, East Link, OMFE, Lynnwood Link, Federal Way Link and Downtown Redmond Link. Subsequent to execution of the new agreements, $87.7 million was borrowed under the OMFE agreement. The transaction resulted in available credit of $3.8 billion and secured a 1.91% interest rate for all loans.

Each agreement is obligated to make interest-only payments for five years. After five years, Sound Transit will make semi-annual principal payments plus interest on the outstanding balance as outlined in each of the individual loan amortization schedules. From 2040 through final maturity, principal and interest are payable in equal semi-annual installments. The final maturity of the loans range from 2055 to 2059. The principal of each TIFIA loan may be prepaid without penalty at any time.

Subsequent to the execution of new agreements, $87.7 million was redrawn on the OMFE loan agreement. As of December 31, 2021, the loan has a principal balance of $87.7 million and accrued $0.2 million in interest. Principal and interest on the loan is payable semi-annually in May and November of each year commencing November 1, 2025. As of December 31, 2021, Sound Transit had not yet borrowed funds under any other loan program.

9. OTHER LONG-TERM OBLIGATIONS

Other long-term obligations include provisions for asset retirement obligations, uninsured losses related to Sound Transit's risk management program, employee compensated absences and deferred compensation as follows:

(in thousands)	2021 Beginning balance	Additions, accretion and changes in estimates	Reductions	2021 Ending balance	Amounts due within one year *	Total other long-term obligations
Asset retirement obligations	$ 4,533	$ 10	$ -	$ 4,544	$ -	$ 4,544
Uninsured losses	2,739	182	(182)	2,739	762	1,977
Compensated absences	16,903	11,095	(9,224)	18,774	11,451	7,323
Total other long-term obligations	**$ 24,175**	**$ 11,287**	**$ (9,406)**	**$ 26,057**	**$ 12,213**	**$ 13,844**

(in thousands)	2020 Beginning balance	Additions, accretion and changes in estimates	Reductions	2020 Ending balance	Amounts due within one year *	Total other long-term obligations
Asset retirement obligations	$ 4,581	$ -	$ (48)	$ 4,533	$ -	$ 4,533
Uninsured losses	3,072	16,502	(16,835)	2,739	762	1,977
Compensated absences	11,810	12,196	(7,103)	16,903	9,752	7,151
Total other long-term obligations	**$ 19,463**	**$ 28,698**	**$ (23,986)**	**$ 24,175**	**$ 10,514**	**$ 13,661**

***** Amounts due within one year are included in current liabilities under the line items *Accounts payable and accrued liabilities,* and *Other claims and short-term obligations.*

Notes to Financial Statements, continued

Asset Retirement Obligations (ARO)— In the course of entering into agreements with other governments and rail providers to construct Sound Transit's capital assets, certain agreements contain clauses that impose a legal burden on Sound Transit to remove all or a portion of those constructed assets at the termination of those agreements. The ARO liability is measured based on estimated costs to fulfill Sound Transit's ARO developed by internal resources with in-depth knowledge of construction and demolition costs and adjusted annually for inflation. The corresponding deferred outflow of resources is amortized over the estimated remaining useful lives of the associated tangible capital assets and ranges from 38 to 48 years. There are no assets required to be restricted for the payment of these liabilities nor is there any legally required funding or assurance provisions associated with the AROs.

Risk Management— In the ordinary course of planning, building and operating its regional transit systems and services, Sound Transit is exposed to various types of risks and exposures of loss including: torts; theft of, damage to and destruction of assets; errors and omissions; job related injuries to persons; natural disasters; and environmental occurrences.

Sound Transit has established a comprehensive risk management and insurance program to mitigate the potential for loss and for the administration of claims through a combination of commercial insurance and coverage under partner agency operating agreements. Sound Transit's agency operations and rail operations insurance policies are written on an occurrence or claims made basis, with a specific deductible or self-insured retention, renewing annually. Agency operation policies renew on May 1st and rail operation policies renew on November 1st. Worker's compensation is insured through the state of Washington.

For certain larger capital projects, Sound Transit utilizes Owner Controlled Insurance Programs (OCIP's) to address general liability, builders risk and contractors' pollution liability claims related to project construction carried out by Sound Transit's third party contractors, as well as professional liability and completed operations coverage. While Sound Transit is directly responsible for payment of deductibles to the insurers, it has further transferred its risk of loss through its construction contracts, requiring contractors covered by these programs to be responsible for 100% of the deductible on general liability and pollution liability claims ($100 thousand and $250 thousand respectively) and the first $250 thousand of any builders risk loss.

Self-insured liabilities are recorded when probable that a loss has occurred and the amount can be reasonably estimated and includes estimates for claims that have been incurred but not yet reported. As actual liabilities depend on a number of complex factors the process used in estimating the claims liability does not necessarily result in an exact amount. Annually, Sound Transit engages an actuary to prepare an independent actuarial analysis and to prepare an actuarial report in order to estimate its total insurance claim exposure under all of its insurance and risk management programs. The insurance claim amount estimated to be paid within the next year is included in Other claims and short-term obligations.

Compensated Balances— Amounts estimated to be paid within the next year are included in accounts payable and accrued liabilities.

10. RESTRICTED NET POSITION

Restricted net position consists of the following:

(in thousands)	2021	2020
Debt service	$ 66,799	$ 65,230
Contractual arrangements	23,909	11,650
	$ 90,708	**$ 76,880**

11. EMPLOYEE BENEFITS

Sound Transit provides a defined contribution money purchase plan and trust (401(a) Plan) to its employees. Empower Retirement is the plan's administrator and trustee. This plan is a fixed employer system, and membership in the system includes all full time Sound Transit employees. The vesting schedule of the plan is 20% immediately upon employment, 40% after one year of service, 60% after two years, 80% after three years and 100% after four years. Employees are responsible for directing the investment of their contributions and Sound Transit's contributions.

Eligible employees are required to participate in the plan on the first day of employment. The amount of covered payroll during 2021 and 2020 was $134.5 million and $126.7 million, respectively, and total payroll was $134.9 million and $127.2 million, respectively. The required contribution rates, expressed as a percentage of covered payroll, and required Sound Transit contributions during 2021 and 2020 were as follows:

	Contribution rate		Contributions *(in thousands)*	
	2021	2020	2021	2020
Employer	12%	12%	$ 16,142	$ 15,206
Employee	10	10	13,452	12,672
Total	**22%**	**22%**	**$ 29,594**	**$ 27,878**

12. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

In the ordinary course of its operations, Sound Transit enters into a number of agreements with other governmental and quasi-governmental agencies, including: the operation and maintenance of buses and trains that it has purchased; right of way access and use; planning, building and operation of its facilities; and collection of its taxes. With the exception of Tacoma Link light rail, all services are operated by partner agencies. A summary of significant agreements follows:

ST Express— Agreements have been entered into with King County Metro, Community Transit and Pierce Transit for the operations and maintenance of bus service, covering vehicle maintenance, operations, coordination of service planning, revenue processing, customer service, personnel and performance standards, and information and compliance reporting. The agreements set forth the process for annual financial authorization for service and the basis of compensation, substantially comprised of a baseline cost rate for purchased transportation, as well as fuel and other costs provided for, but not included, as part of the baseline. Baseline cost rates, including allocated costs, are established by no later than December 15th for the upcoming year and are reconciled to actual incurred costs by no later than March 31st of the year following. The current agreements with Community Transit and Pierce Transit are for 4 years, expiring December 31, 2025. The current agreement with King County is for 5 years, expiring December 31, 2024.

Link Light Rail— Sound Transit contracts with King County Metro for the operation and maintenance of its light rail service, operating between the Angle Lake and the Northgate stations. The agreement sets forth the process for annual financial authorization for service and the basis of compensation, substantially comprised of a baseline cost rate for purchased transportation, as well as other costs provided for, but not included, as part of the baseline. Baseline cost rates, including allocated costs, are established by no later than December 15th for the upcoming year and are reconciled to actual incurred costs by no later than March 31st of the year following. The current 2009 agreement expired on July 2014 and has been extended thereafter, currently through December 31, 2023.

Sound Transit has also entered into the following agreements related to light rail or station operations:

> ***Downtown Seattle Transit Tunnel (DSTT) Agreement***— This agreement with King County and City of Seattle provides for cost sharing with regard to the maintenance and operation in the DSTT in exchange for the right to use the tunnel for light rail operations. Sound Transit's ongoing obligations include reimbursement of maintenance costs and cost-sharing for future capital repairs or replacements as they arise. Sound Transit has entered into ongoing negotiations to transfer ownership of the tunnel from King County to Sound Transit.
>
> ***Light Rail Agreements***— Sound Transit has entered into a variety of agreements to secure the permanent right to operate light rail in the right of way (under, upon and over streets and property) owned by various municipalities and other entities throughout the region. The cost of public right of way improvements have been capitalized to rail access rights and include those costs necessary to operate light rail service, such as costs to acquire real property and relocate existing residents and businesses, as well as certain improvements to the right of way required under those agreements.

Sounder— Agreements have been entered into with BNSF for the operation of Sounder commuter rail service and with Amtrak for operation and maintenance of the locomotives, cab and coach cars (rolling stock). Service between Everett and Seattle and Seattle and Tacoma is on rail right of way owned and operated by BNSF.

> ***South Line***— Service between Seattle and Lakewood is provided by BNSF under a 40-year service agreement for the operation of 26 daily one-way (13 round-way) commuter rail trips that expires in 2040. The agreement establishes the compensation paid to BNSF for train crews, maintenance of way and other expensed incurred in the operation of the Sounder Service and is based on actual cost of crew, dispatch and management, as well as cost for performance incentives. Upon expiration of the service agreement, Sound Transit's use of BNSF track will be bound by a dormant Joint Use Agreement for BNSF's Seattle-Tacoma corridor.
>
> ***North Line***— BNSF operates 4 daily commuter rail round trips between Seattle and Everett for Sound Transit under a service agreement. The service agreement expires in December 2030.

Upon expiration of the service agreement, Sound Transit's use of BNSF track will be bound by a dormant Joint Use Agreement for BNSF's Seattle-Everett corridor.

Rolling Stock— In 2000, Sound Transit leased the initial portion of its rolling stock to Amtrak for $1. Under the agreement, Amtrak is obligated to repair, maintain and service the rolling stock at Amtrak's maintenance facility in return for payment by Sound Transit. By separate agreement, Amtrak subleased this rolling stock to BNSF for operation of Sounder Service. Both lease agreements are for a 40-year term, expiring in 2040.

Maintenance Service Agreement— In 2016 Sound Transit entered into an amended agreement with Amtrak, under which Sound Transit pays a flat monthly fixed price dependent upon the number of one-way trips and train sets in operation for a baseline set of operating assumptions. A negotiated rate is also established for additional service above the baseline operating plan. This agreement is renewed from time to time.

First Hill Streetcar—In October 2010, Sound Transit agreed to fully fund $132.8 million of the costs necessary to design, construct and operate the First Hill Streetcar that was established in the November 2009 Funding and Cooperative Agreement, of which $5.0 million is payable annually through 2023 for annual operations and maintenance expenses. The City of Seattle owns and operates the First Hill Streetcar facilities and vehicles.

Land Bank Agreement— Sound Transit entered into an agreement called the Land Bank Agreement with WSDOT in July 2000 which was restated in December 2003. The purpose of the agreement is to establish a framework within which WSDOT can, from time to time, convey portions of WSDOT property through lease or sale to Sound Transit for non-highway use in consideration for Sound Transit's funding of highway purpose improvements. In August 2010, as part of the Umbrella Agreement with WSDOT to complete the R8A Project, the land bank agreement was extended to 2080. Sound Transit will continue to earn land bank credits for constructing projects containing highway improvements and use credits on projects that are located within the public highway right of way through July, 2080.

Sound Transit has light rail guideways located on WSDOT property governed under multiple 20-year and 40-year airspace leases issued under the Land Bank Agreement. These airspace leases have options to renew for an additional 20 to 35 years. Should Sound Transit and WSDOT not enter into a new agreement at the end of the leases, property interests revert to WSDOT. At December 31, 2021, the value of the unused land bank credits that have not been conveyed by WSDOT to Sound Transit was $82.4 million. This value is not recorded in the financial statements as there is not sufficient certainty that the credit will be utilized.

The following table provides information on additions to and uses of credits accruing to the benefit of Sound Transit in 2021 and 2020:

(in millions)	2021	2020
Balance in Land Bank, beginning of year	$ 96.5	$ 90.0
Additions:		
I-90 Two-Way Transit & HOV	2.9	11.5
North Jackson 145th St. Park & Ride in Shoreline	-	1.0
Federal Way Link	-	0.9
Northgate	-	0.6
East Link	-	4.9
Draws:		
Temporary Construction Airspace Lease (TCAL):		
Downtown Redmond Link	(3.1)	-
Federal Way Link	(0.2)	-
East Link	(4.4)	-
Northgate Link	(0.3)	-
Airspace Lease:		
Northgate Link	(8.4)	-
Tacoma Link	(0.6)	-
Downtown Redmond Link	-	(12.4)
Balance in Land Bank, end of year	**$ 82.4**	**$ 96.5**

Amended and Restated Agreement for Regional Fare Coordination System (One Regional Card for All, ORCA)— In April 2009, Sound Transit entered into an amended agreement to operate and maintain ORCA, a system that establishes a common, non-cash fare system throughout seven participating transit agencies' service areas and commits the agencies to using ORCA for a minimum of ten years. In June 2019, Sound Transit entered into an agreement to plan and implement activities necessary to transition the legacy ORCA system, as established in 2009, to the next generation ORCA system, and agreed with the other parties, to keep the 2009 amended agreement in place until termination of the legacy ORCA vendor contract, currently projected to take place in 2022. Each agency shares in operating and maintaining ORCA in accordance with the agreement. Sound Transit's proportionate share of ORCA operating and maintenance costs were 26.9% and 26.2% in 2021 and 2020, respectively.

Sound Transit's proportionate share of ORCA's assets, liabilities, revenues and expenses are presented in these financial statements as follows:

(in thousands)	December 31	
	2021	**2020**
Assets		
Current assets		
Cash and cash equivalents	$ 18,452	$ 10,229
Accounts receivable	8,568	4,228
Total assets	**27,020**	**14,457**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	11,441	5,806
Unearned revenue	15,579	8,651
Total liabilities	**27,020**	**14,457**
Net position	**$ -**	**$ -**
Total operating revenues	**$ 23,703**	**$ 29,339**
Total expenses	**$ 2,266**	**$ 2,140**

Purchases— At December 31, 2021 and 2020, Sound Transit had outstanding construction commitments of approximately $3.1 billion and $4.4 billion, respectively.

Grants— Sound Transit participates in several federal, state and local grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Sound Transit has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2021 and 2020 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to noncompliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Claims— In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to contractual matters. Although the ultimate outcome, if any, of these matters is presently unknown, management has evaluated all claims and potential claims and, where that exposure is probable and estimable, has reflected in the accounts of Sound Transit its best estimate of the exposure.