

# THE BOND BUYER

## Transit agency to continue collecting tax repealed by Washington initiative

By

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The Seattle area's regional transit agency plans to continue collecting vehicle registration taxes that were rescinded by a statewide ballot measure until bonds that use the taxes as a funding source are paid off.

The board of the Central Puget Sound Regional Transit Authority, better known as Sound Transit, met Thursday to discuss the Nov. 5 passage of Initiative 976, which caps so-called "car tab" fees at \$30 a year per vehicle.



Taxes approved by Sound Transit's local voters are now at question following a statewide repeal vote. **Sound Transit**

Car tab rate increases approved by the transit district's own voters are part of the financial structure supporting \$2.3 billion of outstanding debt issued to support regional expansion of its light rail, bus and commuter train services.

Sound Transit has no plans to defease or retire the bonds at this time, said Tracy Butler, the chief financial officer.

“The initiative and the Attorney General’s voter pamphlet summary both make clear that state law requires the motor vehicle excise tax to be collected until Sound Transit’s bonds are repaid,” said John Marchione, board chair.

Marchione is the mayor of Redmond, which will be served by Sound Transit's under-construction East Link light rail extension.

“We intend to continue fulfilling our obligation to advance critical voter-approved projects and services while we monitor litigation and closely review legal issues surrounding this initiative. No action by the Board is needed or prudent at this time,” he said.

Sound Transit estimates \$7.2 billion of lost revenue through 2041 if it were to retire the outstanding debt, according to [a slide presentation](#) to the board. It estimated \$521 million in direct costs to retire the debt and that it would have to issue \$2.6 billion in new debt.

That course of action would result in canceling projects, delaying projects and reducing services, according to the board.

Statewide, 53% of voters approved I-976. Sound Transit staff in the slide presentation emphasized that 53% of voters within the transit district voted against the initiative. Voters in the district also supported the 2016 Sound Transit 3 measure that imposed the tax increase by a 54%-46% margin.

Sound Transit encompasses urban portions of King County, where Seattle is, and Snohomish and Pierce counties.

The transit agency’s most recent bond issue was \$400 million of sales tax and motor vehicle bonds in December 2016 to pay for light rail, commuter train and express bus stations.

The bonds are repaid using the proceeds of certain sales and use taxes, motor vehicle excise taxes and rental car taxes, including “taxes approved by voters on Nov. 8, 2016,” according to the offering documents for the Series 2016-S green bonds. The bonds received an Aa1 rating from Moody’s Investors Service and the AAA rating of S&P Global Ratings ahead of that sale.

The MVET tax also supports bonds issued in 1999, 2009, 2012 and 2015 by Sound Transit for a total of \$2.2 billion including the \$400 million in 2016 bonds, Butler said. The board also signed a \$2.9 billion credit agreement with the Federal Transit Administration for a TIFIA loan, in which all transit taxes including car-tab taxes are a repayment source, but Butler said the agency hasn't drawn it down yet.

All of the bonds are backed by sales tax, rental car taxes and the recently-challenged MVET, according to Butler.

"There is no scenario in which bondholders lose MVET as pledge," Butler said. "Either we continue to collect MVET or the bonds would be retired and the bondholders would be made whole. There is no scenario in which the bondholders only have the other pledges left."

That is the case, she said, though the agency structures bonds conservatively and would likely have enough coverage without MVET as a revenue source.

The transportation agency hasn't studied in detail what it would take to retire the bonds, including evaluating call dates, because its plans to "continue to collect the tax," Butler said.

The board approved its construction schedule without postponing any projects following discussion of I-976.

"We are continuing to move forward without delay and we are not amending the budget for next year," Butler said.

The impact of the tax cut extends far beyond Sound Transit.

Funds lost by a special district that supports Metro local bus service in Seattle pay for the equivalent of 175,000 annual service hours on 74 routes in the city, according to [a post](#) by the King County government.

Gov. Jay Inslee asked the Washington Department of Transportation to postpone projects not already underway last week.

"It is clear that the majority of voters objected to current car tab levels," Inslee said. "It is also clear that this vote means there will be adverse impacts on our state transportation system."



Washington Treasurer Duane Davidson emphasized that the state is not obligated to repay Sound Transit's bonds.

The governor had asked DOT to prepare a list of projects that could be affected by the loss of revenue, but it's not available yet, according to a spokeswoman for the governor.

A [forecast](#) released by the Transportation Revenue Forecast Council on Wednesday now estimates transportation revenues for the next 10 years at \$32.3 billion, a \$2.95 billion reduction from estimates released in September. The decrease was attributed to revenues lost as a result of the passage of I-976.

Washington State Treasurer Duane Davidson released a statement Thursday noting that Sound Transit's bonds are special limited obligations of the transit agency and the state has no financial obligation to repay those bonds.

The only bonds issued by the state that have the MVET as pledged revenues are the \$224 million Series 2020B bonds issued September 2019, according to Jason Richter, deputy treasurer for debt management. The bonds are also secured by motor vehicle fuel taxes, according to an information filing the treasurer's office [posted](#) Nov. 19 on the Municipal Securities Rulemaking Board's EMMA website.

A coalition of cities and counties, including Seattle, have sued to challenge I-976 claiming it's a "poorly drafted hodgepodge that violates multiple provisions of the constitution."

They also filed a motion seeking an injunction to block I-976 before Dec. 5 when the Secretary of State would ratify it and the initiative would take effect.