



SOUNDTRANSIT

***Central Puget Sound
Regional Transit Authority***

***Single Audit Reports for the
Year Ended December 31, 2003***

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements, continued

By letter dated January 23, 2004, the City of Tacoma demanded payment of \$7,500 per day as of January 21, 2004, in liquidated damages for “interruption of service” under the Construction Agreement between the City and Sound Transit. In spite of its claim, the City of Tacoma continues to operate over the segment in question. Sound Transit has rejected the City’s demand.

Claims—In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Although the ultimate effect, if any, of these matters is not presently determinable, management believes that collectively they will not have a material effect on the results from operations or the Balance Sheets. In addition, Sound Transit has been named in the following legal actions:

Pierce County, City of Tacoma, King County, Sound Transit, et al v. State of Washington, King County Superior Court

The defendant/interveners contend that Sound Transit is not a validly-formed government and is not entitled to impose the 0.3% motor vehicle excise tax authorized and imposed pursuant to RCW 81.104.160 and that Initiative 776 (I-776) repealed Sound Transit’s ability to collect the tax. If the court rejects these claims and finds that Sound Transit is legally entitled to continue to collect the tax through 2028 (because the agency pledged to collect the tax to repay outstanding 30-year bond debt sold before I-776 was enacted), then the defendant/interveners alternatively seek a court order defining what limits apply to Sound Transit’s ability to collect the tax to the extent required to honor Sound Transit’s bond obligations, but has not asserted a position on whether I-776 otherwise limits the agency’s ability to collect or use the tax.

Sound Transit intends to vigorously defend against these claims and believes that defendant/interveners’ claim that Sound Transit cannot collect the tax because it is not a validly-formed government is not likely to prevail. Because none of the opposing parties have articulated a legal basis upon which to argue that I-776 should limit Sound Transit’s ability to collect the tax and in view of inherent uncertainties in the above, we are not able to make a judgment at this time about the outcome of this matter.

Sheehan, et .al., v. Sound Transit and Seattle Popular Monorail Authority, King County Superior Court

Plaintiffs filed suit on March 10, 2004, and contend that the 0.3% motor-vehicle excise tax imposed by Sound Transit and the Seattle Popular Monorail Authority are illegal *ad valorem* property taxes. Plaintiffs seek to enjoin Sound Transit from collecting the tax and seek a refund of prior taxes paid by plaintiffs and other taxpayers. Sound Transit plans to vigorously defend against the lawsuit and is preparing motions to request that the case be dismissed. Based on a Washington Supreme Court precedent finding that the tax is a legally-imposed tax, we do not believe that the plaintiff is likely to prevail.

Sales Tax Audit—The Washington State Department of Revenue (“the Department”) has been conducting a routine tax audit covering the period from June 1, 1998, through June 30, 2002. By letters dated March 27 and April 7, 2003, the Department of Revenue identified two areas that they believe represent taxable issues. This includes certain portions of the operating agreements with Sound Transit’s purchased transportation providers. Sound Transit does not believe any portion of these agreements to be taxable and continues to vigorously oppose the Department should they make such a determination. Should Sound Transit’s position not be upheld, the related sales tax liability, including interest, is estimated to be in the range of \$1.2 million to \$1.8 million.

The Department also reviewed resale certificates for the purchase of rolling stock and various agreements between Sound Transit, Amtrak and BNSF regarding the rolling stock and related maintenance and repairs,