

Seattle Transportation Benefit District
Management Discussion & Analysis
Year Ended December 31, 2012

This section of Seattle Transportation Benefit District's (referred to as "STBD" or "District" throughout this report) Annual Financial Report presents management's overview and analysis of the STBD's financial performance for the fiscal year ended December 31, 2012. This section should be read in conjunction with the financial statements and notes to the financial statements that follow this section.

The Seattle Transportation Benefit District was established on September 20, 2010 by the Seattle City Council. The District operates within the boundaries of the City of Seattle, and generates revenue by imposing a \$20 vehicle license fee to support local transportation improvement projects.

Discussion of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of the following components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. This statement serves the purpose similar to that of a balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, this is just one indicator of financial health of the District. Other indicators include the level of change in federal, state and local governmental support for transportation improvements that the District revenue provides, as well as the general economic conditions within the City of Seattle and surrounding areas.

The statement of activities presents information showing how the District's net position changed for the year ended December 31, 2012. All changes in net position are reported as soon as the underlying event gives rise to the change to occur, regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses a single fund accounting system to ensure and demonstrate compliance with finance-related requirements and to provide management with information for controlling spending activities.

The Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance present a single column of financial data for the General Fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements' use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. This information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

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Condensed Comparative Financial Data

The following tables present condensed financial information related to the District's Net Position for the years ended December 31, 2012 and 2011.

Statement of Net Position

	2012	2011
Governmental Activities:		
Total Assets	\$ 2,120,666	\$ 1,607,520
Total liabilities	\$ 628,955	\$ 1,040,682
Total net position (Restricted)	<u>\$ 1,491,711</u>	<u>\$ 566,838</u>

Statement of Activities

	2012	2011
Governmental Activities:		
Program Revenues		
Charges for Services	\$ 0	\$ 4,665,355
General Revenues		
Excise Taxes	\$ 7,179,226	\$ 0
Investment Earnings	\$ 20,080	\$ (864)
Total Revenues	\$ 7,199,306	\$ 4,664,491
Expenses		
Transportation	\$ 6,274,433	\$ 4,097,653
Total Expenses	\$ 6,274,433	\$ 4,097,653
Change in Net Position	\$ 924,873	\$ 566,838
Net Position-Beginning	\$ 566,838	\$ -
Net Position-Ending	<u>\$ 1,491,711</u>	<u>\$ 566,838</u>

Overall Analysis of Financial Position & Result of Operations

The District's overall financial position has improved from the prior year. Net position as of December 31, 2012 was \$1,491,711. This amount is restricted in full by RCW 36.73 for transportation improvements. The District's most significant asset is cash, as the district does not maintain ownership of any capital assets. From 2011 to 2012, the cash balance increased by \$573,096 to \$1,547,109. The District's increase to net position in 2012 was \$924,873, an increase from the prior year's \$566,838. These increases are in part due to the fact that 2012 was the District's first full year in operation. This continuing positive net position in 2012 reflects the District's ability to meet current and future obligations in the course of its activities.

Fund Analysis

The STBD uses fund accounting to ensure and demonstrate compliance with finance-related legal documents. The District has only one governmental type fund, the general fund.

The District's revenue is almost entirely (99.7%) generated from the collection of excise taxes (also identified in this report as vehicle registration fees). As noted previously, the District began collecting this revenue in May 2011 (in 2011, this revenue stream was reported as charges for services). In 2012, average monthly revenue from these taxes was \$598,000, an increase of 2.6% from 2011. Actual collections exceeded anticipated 2012 revenue by \$379,226. At December 31, 2012, the District's revenues exceeded expenditures by \$924,873 for the year ending December 31, 2012 thus increasing fund balance by the same amount. The entire ending fund balance is restricted for transportation improvements by RCW 36.73.

**Seattle Transportation Benefit District
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Budget Variances in the General Fund

The STBD originally adopted a budget of \$6,800,000 on November 21, 2012 (Resolution 6) for the period ending December 31, 2012. The final budget increased by \$587,692 due to additional administrative costs not included in the original version. A summary of budget to actual amounts is shown below.

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Budgetary Fund Balance, January 1			\$ 566,838	
Resources (Inflows):	\$ 6,800,000	\$ 6,800,000	\$ 7,199,306	\$ 399,306
Charges to Appropriations (Outflows):	\$ 6,800,000	\$ 7,387,692	\$ 6,274,433	\$ 1,113,259
Budgetary Fund Balance, December 31			\$ 1,491,711	

Additional information can be found in the Required Supplementary Information section of this report.

Other Potentially Significant Matters

Economic Factors and Future Outlook

In 2012, the Seattle metro area (King and Snohomish County) saw increased employment, expected to continue, but at a very slow rate of growth. The City of Seattle has been one of the fastest growing parts of the region, in part because of a construction boom focused largely in multi-family housing. 2012 finally brought signs of a turnaround in the area's housing market, not only in home construction, but also in home sales and prices. Continued population growth as a result of the ongoing economic recovery is expected to result in steady or increased revenues for the District in coming years.

Future monthly collections are expected to remain similar to 2012 figures on average. Actual amounts collected will continue to provide the District with data to improve planning for anticipated revenue.

The District has the ability to propose future fee changes to voters, although at this time no such measure is planned. Additionally, future decisions made by the State Legislature could result in changes to local transportation funding options and provide additional flexibility to STBD collection authority or funding sources.

Request for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Seattle Transportation Benefit District, PO Box 34025 Seattle, WA 98124-4025 or by calling 206-233-5005.

SEATTLE TRANSPORTATION BENEFIT DISTRICT
Statement of Net Position
Year Ended December 31, 2012

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 1,547,109
Interest Receivable	\$ 900
Due From Other Governments	\$ 572,657
Total Assets	\$ 2,120,666
 LIABILITIES	
Other Current Liabilities	\$ 628,955
Total Liabilities	\$ 628,955
 NET POSITION	
Restricted for Transportation Improvements	\$ 1,491,711
Total Net Position	\$ 1,491,711

The notes to financial statements are an integral part of this statement.

SEATTLE TRANSPORTATION BENEFIT DISTRICT
Statement of Activities
Year Ended December 31, 2012

Governmental Activities:	
Expenses	
Transportation	\$ 6,274,433
Total Program Expenses	\$ 6,274,433
Net Expenses and Change in Net Position	\$ 6,274,433
 General Revenues	
Excise Taxes	\$ 7,179,226
Investment Earnings	\$ 20,080
Total General Revenues	\$ 7,199,306
Change in Net Position	\$ 924,873
Net Position Beginning	\$ 566,838
Net Position-Ending	\$ 1,491,711

The notes to financial statements are an integral part of this statement.

SEATTLE TRANSPORTATION BENEFIT DISTRICT

Balance Sheet

Governmental Funds

For the Year Ending December 31, 2012

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 1,547,109
Interest Receivable	\$ 900
Due From Other Governments	\$ 572,657
Total Assets	\$ 2,120,666
 LIABILITIES and FUND BALANCE	
Liabilities:	
Vouchers Payable	\$ 392,018
Due to Other Governments	\$ 236,937
Total Liabilities	\$ 628,955
 Fund Balance:	
Restricted for Transportation Improvements	\$ 1,491,711
Total Fund Balance	\$ 1,491,711
Total Liabilities and Fund Balance	\$ 2,120,666

The notes to financial statements are an integral part of this statement.

SEATTLE TRANSPORTATION BENEFIT DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2012

	General Fund
REVENUES	
Excise Taxes	\$ 7,179,226
Investment Earnings	\$ 20,080
Total Revenues	\$ 7,199,306
EXPENDITURES	
Current:	
Transportation	\$ 6,274,433
Total Expenditures	\$ 6,274,433
Excess of Revenues over Expenditures	\$ 924,873
Net Change in Fund Balance	\$ 924,873
Fund Balance-Beginning	\$ 566,838
Fund Balance-Ending	\$ 1,491,711

The notes to financial statements are an integral part of this statement.

Seattle Transportation Benefit District
Notes to the Financial Statements
Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The District was incorporated on September 20, 2010 and operates under the laws of the State of Washington applicable to transportation benefit districts. As required by the generally accepted accounting principles the financial statements present activity of the District, the primary government. The District's reporting entity does not include any component units. Although legally separate, the District itself is reported as a component unit of the City of Seattle because its sole purpose is to finance transportation improvement projects carried out by the City. The District Board of Directors is made up of the Seattle City Council Members, with the City's Director of Finance acting as District Treasurer. City employees perform all operational and administrative functions of the District.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The District does not report any program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District reports a single governmental fund (the general fund) and therefore no interfund activity or additional separate fund statements are presented.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Interest associated within the current period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

The general fund is the District's operating fund. It accounts for all financial resources of the District.

Seattle Transportation Benefit District
Notes to the Financial Statements
Year Ended December 31, 2012

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for the District's general fund on the modified accrual basis of accounting. Expenditures may not exceed appropriations at the established "budget control level" (a budget object level more specific than the fund as a whole) and the budget constitutes the legal authority for expenditures at that level.

Appropriations lapse at year-end except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

2. Amending the Budget

Any revisions to the District's approved budget in total or at the individual budget control level must be approved by the Board of Directors through resolution. Additionally, pursuant to RCW 36.73.160, the Board has developed a Material Change Policy to address Board and potential public involvement should significant changes to budgeted costs and/or scope occur.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

The District's cash and cash equivalents are maintained by the City of Seattle within the City's pooled investments which are managed by the City's Department of Finance and Administrative Services. It is the District as well as the City's policy to invest all temporary cash surpluses. The pool operates like a demand deposit account in that all funds may be deposited at any time and also withdrawn up to the respective fund's cash balance out of the pool without prior notice or penalty. Interest earned on pooled investments is prorated at the end of each month on the basis of average daily cash balances during the month when interest was earned. At December 31, 2012, the District's share of pooled investments was \$ 1,547,109 in short-term residual investments of surplus cash classified on the balance sheet as cash and cash equivalents.

Pooled investments are recorded at fair market value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

For various risks related to the investments see Deposits and Investments Note 3.

2. Receivables and Amounts Due From Other Governments

Interest receivable represents accrued interest earned on the District's investments at the end of the year. Amounts due from other governments consist of amounts owed from the State of Washington related to the District's excise taxes at year end.

Seattle Transportation Benefit District
Notes to the Financial Statements
Year Ended December 31, 2012

3. Fund Balance Classification

The District, in accordance with Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, classifies governmental fund balances as Non-Spendable, Restricted, Committed, Assigned or Unassigned.

For the year ended December, 31, 2012, the entire fund balance of \$1,491,711 in the District's General Fund is classified as restricted. It is only available for transportation improvement projects as prescribed by RCW 36.73.

It is the District's policy that if revenues with varying levels of constraints become available for use, the most restricted resources will be used first.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions

NOTE 3 - DEPOSITS AND INVESTMENTS

As identified in Note 1(E), cash resources of the District are combined into a cash pool which also maintains the City of Seattle's funds and is managed by the City's Department of Finance and Administrative Services. The pool functions as a demand deposit account where the District receives an allocation of its proportionate share of pooled earnings. As of December 31, 2012, the district had pooled investments totaling \$ 1,547,109 at fair value. The table below presents the District's share of the City's pooled investments as of December 31, 2012.

SEATTLE TRANSPORTATION BENEFIT DISTRICT
SHARE OF THE CITY OF SEATTLE'S POOLED INVESTMENTS
(In Thousands)

	Fair Value as of <u>12/31/2012</u>
Transportation Benefit District Cash in City Pool	\$ 1,547
Total City Pooled Investments (rounded)	\$ 1,392,815
TBD Balance as a Percentage of City Pool	0.11%

Seattle Transportation Benefit District
Notes to the Financial Statements
Year Ended December 31, 2012

The table below shows the types of investments held by the City and the weighted average maturity by type of investment.

CITY OF SEATTLE
INVESTMENTS AND MATURITIES
TREASURY RESIDUAL POOLED INVESTMENTS
(In Thousands)

Investments	Fair Value as of December 31, 2012	Weighted Average Maturity (Days)
Repurchase Agreements	\$ 162,391	4
U.S. Treasury and U.S. Government-Backed Securities	\$ 67,448	482
U.S. Government Agency Securities	\$ 647,690	535
U.S. Government Agency Mortgage-Backed Securities	\$ 156,167	2,162
Commercial Paper	\$ 176,955	40
Municipal Bonds	\$ 182,164	549
Total	\$ 1,392,815	
Weighted Average Maturity of the Treasury Residual Pooled Investments		592

Custodial Credit Risk – Deposits. The custodial credit risk of deposits is the risk that in the event of bank failure of one of the City’s depository institutions, the City’s deposits or related collateral securities may not be returned in a timely manner. As of December 31, 2012, the City did not have custodial credit risk. The City’s deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

Custodial Credit Risk – Investments. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk for its investments by having its investment securities held by the City’s contractual custodial agent and not by the counterparty or the counterparty’s trust department or agent. Additionally, the City mitigates custodial risk by settling its trades delivery-versus-payment through the City’s contractual custodial agent.

By investment policy, the City maintains a list of approved securities dealers for transacting business. For repurchase agreements, the City transacts only with large primary dealers with investment grade credit ratings provided by at least two of the Nationally Recognized Statistical Rating Organizations (NRSROs). The City also conducts its own due diligence as to the financial health of its counterparties.

The City mitigates counterparty custodial risk from repurchase agreements by using a third-party custodian for tri-party repos. The City conforms with the industry standard requiring execution of a master repurchase agreement with each counterparty prior to transacting a repurchase agreement, execution of a third-party custodial agreement between the City, the broker, and the clearing bank, before transacting a third-party repurchase agreement, and over-collateralizing by a minimum of 102 percent. By investment policy, the underlying securities the City is willing to accept as collateral must have the highest credit ratings of at least two NRSROs. Throughout 2012, the collateral

Seattle Transportation Benefit District
Notes to the Financial Statements
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underlying the City's repurchase agreements excluded securities other than U.S. Treasury, agencies, and agency mortgage-backed pass-throughs.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair market value of an investment. The City's investment policy limits the maturity of individual securities to fifteen years and limits the weighted average maturity of the total investment portfolio to no longer than five years which mitigates interest rate risk.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City mitigates credit risk in many ways as described below.

By state statutes and investment policy, the City may purchase securities that carry the highest credit ratings issued by Moody's Investors Service, Standard & Poor's, and/or Fitch Ratings. Securities purchased must have the following ratings at the time of purchase: Securities backed by issuers with long-term credit ratings of Aaa, Aa1, and Aa2 by Moody's Investors Service; AAA, AA+, and AA by Standard & Poor's; and AAA, AA+, and AA by Fitch Ratings; and securities backed by issuers having short-term ratings of MIG1, VMIG1, and P1 by Moody's Investors Service; A1+ and A1 by Standard & Poor's; and F1 and F1+ by Fitch Ratings.

The City invests in U.S. Treasury securities which are considered free of credit risk, and in securities backed by the full faith and credit of the U.S. government, such as bonds issued by the Department of Housing and Urban Development (HUD). The City also invests in securities issued by U.S. government sponsored enterprises including Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank. Material credit risk in the City's investment portfolio resides in its holdings of commercial paper and municipal securities. In accordance with state statutes and its internal investment policy, the City manages that credit risk by purchasing securities backed by issuers having long-term and short-term credit ratings as noted above. The City also subscribes to asset-backed commercial paper research from Moody's Investors Service and Fitch Ratings, conducts internal due diligence of commercial paper and municipal issuers, and maintains an "approved list" of commercial paper issuers based upon internal and external credit research.

Concentration Risk. Concentration risk is the risk of loss attributed to the magnitude of investments in a single issuer. In accordance with its investment policy and state statutes, the City manages concentration risk by limiting its investments in any one issuer as follows: 10 percent of the portfolio per bank for certificates of deposit or bankers' acceptances; 5 percent per commercial paper or municipal bond issuer.; U.S. government agency collateralized mortgage obligations and pass-through securities are limited to a maximum asset allocation of 25 percent of the total portfolio.

NOTE 4 - RISK MANAGEMENT

The District retains no rights to any real or personal property, maintains no employees, and its Board of Directors and Treasurer are also officers/employees of the City of Seattle. The City's policies cover claims against City property and/or employees.

NOTE 5 - CONTINGENCIES AND LITIGATIONS

The District's financial statements include all material liabilities. There are no material contingent liabilities to record.

NOTE 6 – RESTRICTED COMPONENT OF NET POSITION

The government-wide statement of net position reports \$1,491,711 of restricted component of net position which is restricted by enabling legislation.

Seattle Transportation Benefit District
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, January 1			\$ 566,838	
Resources (Inflows):				
Excise Taxes (Vehicle License Fees)	\$ 6,800,000	\$ 6,800,000	\$ 7,179,226	\$ 379,226
Interest Received	\$ -	\$ -	\$ 20,080	\$ 20,080
Amounts Available for Appropriation	\$ 6,800,000	\$ 6,800,000	\$ 7,199,306	\$ 399,306
Charges to Appropriations (Outflows):				
Transportation:				
Mobility-Capital	\$ 2,278,000	\$ 2,278,000	\$ 1,626,937	\$ 651,063
Major Maintenance/Replacement	\$ 1,950,000	\$ 2,068,644	\$ 2,010,642	\$ 58,002
Mobility-Operations	\$ 322,000	\$ 413,283	\$ 372,600	\$ 40,683
Street Maintenance	\$ 2,250,000	\$ 2,250,000	\$ 2,250,000	\$ -
Transportation Benefit District Admin	\$ -	\$ 377,765	\$ 14,254	\$ 363,511
Total Charges to Appropriations	\$ 6,800,000	\$ 7,387,692	\$ 6,274,433	\$ 1,113,259
Budgetary Fund Balance, December 31			\$ 1,491,711	