Office of the Washington State Auditor
Pat McCarthy

July 1, 2024

Council and Executive
King County
Seattle, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of King County Public Transportation Enterprise Fund for the fiscal year ended December 31, 2023. The County contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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Report of Independent Auditors
and Financial Statements
with Required Supplementary Information

King County Public Transportation Enterprise Fund
(an Enterprise Fund of King County, Washington)

January 1 – December 31, 2023

MOSSADAMS

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Report of Independent Auditors

The Metropolitan King County Council
Seattle, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the King County Public Transportation Enterprise Fund (the "Fund"), which comprise the statement of net position as of December 31, 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the King County Public Transportation Enterprise Fund as of December 31, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Fund adopted the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (*SBITA)*, effective January 1, 2023. Our opinion is not modified with respect to this matter.

Financial Reporting Entity

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of King County, Washington, as of December 31, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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.

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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 the Fund'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.

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, the Pension Plan Information and the Postemployment Health Care Plan schedule 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2024 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Moss Adams LLP

Seattle, Washington
May 8, 2024

Management’s Discussion and Analysis

The management of the King County Public Transportation Enterprise Fund (Metro Transit) offers readers of its financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2023, with comparisons to 2022. It is intended to be read in conjunction with the financial statements, which follow this section.

Financial Highlights

Throughout 2023, Metro Transit saw slow increases in bus ridership and vanpool formation as regional travel patterns continue to evolve after the COVID-19 pandemic, leading to an uptick in fare revenue. While both the state and federal governments continued to grant significant funding to Metro, inflationary pressures coupled with supply chain issues hampered efforts to implement capital projects and increased operating costs. The Washington State Legislature enacted the Climate Commitment Act (CCA) that will provide Metro Transit annual direct funding allocations to support either operations or capital projects, with $66.1 million in the 2023-2025 state biennium. Metro Transit received additional state grants funded by the CCA to various operating and capital projects totaling more than $47.0 million. While these sums are substantial and important revenue sources, a statewide initiative to repeal the CCA will be on the ballot in November 2024. Should the initiative pass, these fund sources would be removed absent any action from the state legislature.

During 2023, Metro Transit operated 3.0 million hours of bus service providing 74.9 million passenger trips throughout King County. In addition, Metro Transit provided 0.9 million passenger trips on its paratransit and Community Access Transportation services and provided support to 1.0 million trips taken in King County-owned vanpool vehicles. 7.0 percent of the bus hours operated in 2023 were under contract with our regional partners, City of Seattle, and the Central Puget Sound Regional Transit Authority (Sound Transit). Metro Transit operated Link Light Rail service under contract with Sound Transit. The Link system continued operations between Angle Lake and Northgate and opened a new "starter" line between South Bellevue and the Redmond Technology Center. The two lines should be expanded in 2025 to connect South Bellevue with Downtown Seattle as the full "Eastlink" segment of the LINK system. Sound Transit plans major expansions in the system with an extension from Northgate to Lynwood opening in 2024, and an extension from Angle Lake to Federal Way in 2026.

Metro Transit, in cooperation with the other six participating transit agencies in the region, worked with Sound Transit to improve financial reporting out of the second generation of the ORCA fare revenue system launched in May 2022. Metro Transit's continued investment in new fare vending machines, and on-bus fare card readers to help bring the new system into full operation.

Metro Transit invested in its property, plant, and equipment during 2023 through the continuation of its Revenue Fleet Replacement program, Transit Asset Maintenance program, and investment in operating capacity to meet the needs of the expanding system as well as the support for passenger facilities, consistent with its strategic and long-range plans. More than $157.6 million was expended on capital program activities during the year. Of these expenditures, $12.3 million or 8.0 percent of the expenditures were for revenue vehicle fleet as fleet replacements continued in 2023 with the continued addition of Metro Transit's first long range battery-powered electric buses. Metro Transit continues to work with the bus vendor on technical issues that reduce the operational availability of these vehicles, particularly the sixty foot coaches. In 2023 Metro Transit continued to work on the design process for electrification infrastructure at Metro Transit's Interim Base, part of its South Base complex. The plans call for sufficient charging infrastructure to operate up to 120 battery electric buses out of Interim Base. To help meet its operational capacity needs, Metro Transit continued the design process in 2023 for its new South Annex Base, also part of it's South Base Complex. South Annex will provide charging infrastucture for up to 250 battery electric buses while meeting the Living Building Challenge, one of the highest sustainability certification levels for facilities. Both of these projects are integral to Metro Transit's efforts to deploy a fully electric bus fleet by 2035.

Other expenditures in 2023 included ongoing support of existing infrastructure through replacement or rehabilitation of building structures and mechanical components, including work to maintain and replace elements of Metro's electric trolley bus system. In addition, Metro Transit launched its RapidRide H Line in 2023 while construction activities continued on certain project elements. Design work continued on Metro Transit's RapidRide H Line which will connect downtown Renton with the Cities of Kent and Auburn. Metro Transit continued work toward satisfying the final federal requirements necessary to receive a $79.0 million Federal Transit Administration grant from its Small Starts Program. Construction is scheduled to begin in early 2025 with revenue service currently targeted for September 2026. Metro Transit is in compliance with the Federal Transit Administration's Transit Asset Maintenance Program requirements as of October 1, 2023.

Metro Transit operates bus and light rail service under contract with Sound Transit. During 2023 and 2022, the regional bus system service represented 224 thousand and 222 thousand hours operated, respectively. Service provided to Sound Transit represented 4.2 million and 3.2 million in passenger boardings in 2023 and 2022, respectively. Metro Transit is reimbursed for these services under the terms of a multi-year contract. In 2023, Metro Transit completed the fourteenth full year of operating the light rail system. Metro Transit has a contract for the ongoing operations and maintenance of the system, which was renewed in 2020. The light rail system now runs between Angle Lake and Northgate station and on the east side of Lake Washington between South Bellevue and the Redmond Technology Center. The amount of reimbursement associated with the Sound Transit operating service contracts totaled $169.7 million in 2023 and $134.9 million in 2022.

Bus service associated with the City of Seattle's Community Mobility and Regional Partnership contracts was reimbursed in the amount of $20.8 million in 2023, compared with $23.6 million in 2022. The hours of service purchased under these contracts for 2023 were approximately 122 thousand hours compared with 126 thousand hours in 2022.

In 2023, Metro Transit experienced a decrease in diesel prices as the price per gallon price averaged $3.61 compared to an average of $3.90 in 2022. During 2023, 8.4 million gallons of diesel fuel were used to support the fixed route system. This is lower than the 8.6 million gallons used in 2022. Diesel prices remain one of the more volatile operating costs for Metro Transit. Compared with 2022, diesel fuel costs decreased $3.4 million or 9.8 percent as a result of the lower average price per gallon and a slightly lower number of gallons used.

In 2023, passenger boardings on Metro Transit bus service totaled 74.3 million compared with the prior year total of 63.1 million, as ridership continues to recover. Fare revenue totaled $79.2 million, an increase of $5.4 million (7.3 percent).

During 2023, Metro Transit implemented a new zero fare for youth age 18 and younger. This policy was required so Metro Transit would be eligible to receive general purpose transit supportive grants from the State of Washington. Beyond this significant change, Metro Transit's revenue structure was not changed. Existing sales and use tax authority remained at 0.9 percent of retail sales within King County and property tax authority was adjusted for normal changes in assessed valuations and levy rates. The City of Seattle funds its contract with voter-approved funding, which took effect in April 2021 and will expire in 2027.

In September 2023, Metro completed the transfer of Downtown Seattle Transit Tunnel (DSTT) to Sound Transit. The transfer marked the culmination of several years of work between Metro, Sound Transit, City of Seattle, and Federal Transit Administration. Under the terms of the transfer agreement, Sound Transit assumed responsibility for, and ongoing operation and maintenance of, all DSTT assets. The parties agreed that Sound Transit's commitments and the essential support for public transportation they provided constituted full consideration for this intergovernmental transaction. As a result, Metro included a special item on its financial statement for 2023 noting the loss of the remaining net book value of the DSTT assets in the amount of $152.0 million.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Metro Transit's basic financial statements. The basic financial statements are comprised of the statement of net position; statement of revenues, expenses, and changes in net position; statement of cash flows; and the notes to the financial statements, which explain certain elements of the financial statements in greater detail.

Required Financial Statements

Metro Transit's financial statements provide information with respect to all of its activities and use accounting methods similar to those used by private-sector companies. The statements provide both long-term and short-term information about Metro Transit's financial status.

The statement of net position presents information on all of Metro Transit's assets, liabilities, and deferred inflows/outflows of resources, with the difference presented as net position as of year-end. Over time, the statements demonstrate a measure of Metro Transit's financial health by providing a basis for the reader to evaluate capital structure, liquidity, and financial flexibility.

The most recent years' operating and nonoperating revenues and expenses of Metro Transit are accounted for in the statement of revenues, expenses, and changes in net position. The statement illustrates current period results of operations and recovery of costs by receipt of fees and are instrumental in demonstrating continued creditworthiness. All changes in net position are reported as soon as the underlying event occurs, irrespective of the timing of related cash flows. Supporting Metro Transit's activities are: a 0.9 percent sales and use tax (throughout King County), fare revenues from passengers and federal, state, and local financial assistance.

The statement of cash flows for the period ended December 31, 2023 reports cash receipts, cash payments, and net changes in cash derived from operating, financing, and investment activities. From the statement, the reader can discern Metro Transit's sources and applications of cash and identify reasons for differences between operating cash flows and operating income and the effect on the statement of cash flows from operating, investing, capital, and financing activities.

The notes to financial statements provide additional information essential to obtain a full understanding of the data provided in the basic statements.

Financial Analysis of the Statements of Net Position

Comparative data, presented in millions of dollars:

	December 31, 2023	December 31, 2022
Current and other assets	$ 2,555.3	$ 2,460.1
Capital assets	1,430.5	1,613.8
Total assets	3,985.8	4,073.9
Deferred outflows of resources	132.9	142.9
Total assets and deferred outflows of resources	4,118.7	4,216.8
Noncurrent liabilities	263.5	286.2
Other liabilities	168.0	152.2
Total liabilities	431.5	438.4
Deferred inflows of resources	89.6	139.8
Total liabilities and deferred inflows of resources	521.1	578.2
Net position—net investment in capital assets	1,273.1	1,473.7
Net position—restricted	200.5	135.9
Net position—unrestricted	2,124.0	2,029.0
Total net position	$ 3,597.6	$ 3,638.6

Net position serves as a useful indicator of Metro Transit's financial position. As of December 31, 2023 and 2022, assets and deferred outflows of resources of Metro Transit exceeded liabilities and deferred inflows of resources by $3,597.6 million and $3,638.6 million, respectively.

Of the total assets of Metro Transit at year-end 2023 and 2022, 35.9 percent and 39.6 percent, respectively, are invested in capital assets (e.g., buses, trolleys, buildings, operating bases, passenger facilities such as park and ride facilities, and other machinery and equipment). Metro Transit uses its capital assets to provide transportation services throughout King County. Metro Transit owns and operates a fleet of 1,332 buses, comprising a number of different fleet types and ages. Purchase of bus fleet replacement or expansion is a major investment for Metro Transit. Buses are replaced to ensure the most cost-efficient and safe operation. Vehicle replacements are not purchased every year; rather, an entire fleet type is replaced when the fleet meets the criteria for replacement. To ensure that resources are available to fund future fleet replacements, Metro Transit maintains cash reserves in the Public Transportation Revenue Stabilization Fund to meet the funding requirements. These cash reserves increase and decrease in concert with fleet purchases.

Net position of Metro Transit decreased in 2023 by $41.0 million and increased by $79.0 million in 2022. The decrease in 2023 is primarily attributed to lower federal operating subsidies reported in 2023 compared to 2022.

Metro Transit reported its net investment in capital assets of $1,273.1 million and $1,473.7 million at year-end 2023 and 2022, respectively. Metro Transit resources may be restricted for use in funding construction or meeting regulatory requirements. Restricted net position at year-end 2023 increased by $64.6 million (47.6 percent). The majority of this increase in 2023 is attributed to net pension asset and related accounts restricted for pension plans at $193.0 million, an increase of $63.5 million compared to $129.5 million at 2022 year-end. In 2022, restricted net position increased by $74.3 million (120.7 percent) primarily as a result of net pension asset and related accounts restriced for pension plans. The unrestricted net position increased by $95.0 million (4.7 percent) in 2023 to $2,124.0 million from $2,029.0 million in 2022. Sales tax and property tax contributed to the unrestricted net position increase. In 2022, the unrestricted net position increased by $111.8 million (5.8 percent). Sales tax and grant revenue contributed to the 2022 increase.

Financial Analysis of the Statements of Revenues, Expenses, and Changes in Net Position

Comparative data, presented in millions of dollars:

	Year Ended December 31, 2023	Year Ended December 31, 2022
Operating revenues	$ 308.2	$ 261.9
Operating expenses	1,190.2	1,146.2
Operating loss	(882.0)	(884.3)
Sales taxes	841.8	825.0
Contributions and grants	52.8	206.9
Special item - loss on transfer of Downtown Seattle Transit Tunnel	(152.0)	-
Other—net	98.4	(68.6)
Change in net position	(41.0)	79.0
Net position—beginning of year	3,638.6	3,559.6
Net position—end of year	$ 3,597.6	$ 3,638.6

While the statements of net position show changes in assets, liabilities, deferred inflows/outflows of resources and net position, the statements of revenues, expenses, and changes in net position provide insight into the sources of these changes.

In 2023, operating revenues increased by $46.3 million (17.7 percent) and in 2022 increased by $38.6 million (17.3 percent). Operating expenses increased by $44.0 million (3.8 percent) in 2023 and increased by $225.1 million (24.4 percent) in 2022. In addition, net nonoperating revenues and expenses increased by $56.3 million (6.3 percent) in 2023 and decreased by $259.4 million (22.4 percent) in 2022. These changes were influenced by a number of factors:

- Operating expenses other than depreciation and amortization increased in 2023 primarily due to increases in labor and employment related benefit costs. Other significant increases included higher contract spending in support of Metro Transit's operations, higher internal service charges, and a larger overhead allocation from the County's general fund in 2023.

- Operating revenue included an increase in revenue from passengers of $5.3 million in 2023 reflecting increased ridership compared to 2022. Sound Transit service and special service contracts revenue in 2023 increased by $36.9 million to $206.9 million mainly due to increased bus service reimbursements associated with Sound Transit's LINK/Rail contracts and the City of Seattle's Community Mobility and Regional Partnership contracts.

- Sales tax in 2023 increased by $16.8 million to $841.8 million compared to $825.0 million in 2022. The increases were driven by continued regional economic growth and increased spending by businesses and consumers during 2023.

- Federal and other operating subsidies decreased by $127.5 million from $144.3 million in 2022 to $16.8 million in 2023. Federal grant reimbursements are dependent upon both the size of awards and the amount and type of eligible expenses in a given year.

- Starting January 1, 2010, Metro Transit began receiving property tax collected within King County. The property tax is dedicated to service and capital activities in the State Route 520 corridor. Service funded from this source was operated in 2023, consistent with 2022. With the integration of Marine in 2021, Metro Transit also received property taxes collected within King County to support ferry operations and services. Property tax received was $39.3 million in 2023, an increase of $1.0 million from $38.3 million in 2022.

- Investment earnings were $82.3 million in 2023 compared to investment losses of $21.5 million in 2022. The $103.8 million change was primarily due to increased interest rates in 2023 and unrealized loss recognized in 2022. More information about Metro Transit's participation in the King County Investment Pool and its investments can be found in Note 2 in the financial statements.

- Capital grant revenues derived from federal and state agencies decreased $26.6 million to $36.0 million in 2023 and increased to $62.6 million in 2022. The changes in capital grant revenues were related to the level of grant eligible purchases and construction activities.

Capital Assets

At December 31, 2023, Metro Transit's investment in capital assets, net of accumulated depreciation and amortization, decreased $200.6 million to $1,273.1 million from $1,473.4 million at December 31, 2022. The decrease in 2023 was primarily due to the transfer of Downtown Seattle Transit Tunnel (DSTT) from Metro Transit to Sound Transit, and the assets associated with the DSTT were retired resulting in a loss of $152.0 million. Work in progress write-offs in the amount of $19.0 million in 2023 also contributed to the decrease.

Large 2023 capital project expenditures included the following:

- $17.3 million for Vehicle Charging Stations
- $11.4 million for Rapid Ride H Line (Delridge-Burien)
- $10.8 million for South Annex Base
- $9.4 million for Off-Street Layover Facilities
- $9.2 million for Customer Information Management IT Projects
- $7.2 million for Rapid Ride I Line (Auburn-Renton)

More detailed information on Metro Transit's capital assets can be found in Note 8 – Capital Assets.

Debt Administration

Metro Transit had $58.1 million and $61.5 million of general obligation bonds outstanding at the end of 2023 and 2022, respectively. Although primarily repaid from a portion of receipts from sales and use tax revenues, the full faith and credit of King County guarantees repayment of principal and interest on general obligation bonds.

There was no bond issuance or refunding activity in 2023.

On April 14, 2022, the County issued $24.4 million in Limited Tax General Obligation and Refunding Bonds, 2022 Series A, to refund $27.9 million of outstanding Public Transportation Sales Tax Refunding Bonds, 2012 Series D.

At the time of the bond issuance, the bond ratings were as follows:

Standard & Poor's	Moody's Investors Service	Fitch
AAA	Aaa	AAA

Additional information on Metro Transit's long-term debt can be found in Note 6 – Long-Term Liabilities.

Requests for Information

This financial report is designed to provide an overview of Metro Transit's financial condition as of the year ended December 31, 2023. Questions concerning this report or requests for additional information should be addressed to Eben Sutton, Chief Accountant for King County, 201 S. Jackson Street, Ste. 714, Seattle, WA 98104.

Financial Statements

King County Public Transportation Enterprise Fund
Statement of Net Position (in thousands)
December 31, 2023

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 1,734,080
Restricted cash and cash equivalents	307
Accounts receivable, net	3,320
Lease receivable, current portion	48
Due from other funds	14,286
Due from other governments, net	334,396
State tax subsidies receivable	143,505
Property tax receivable, delinquent	787
Inventory of supplies	22,574
Prepayments	1,034
Total current assets	2,254,337
NONCURRENT ASSETS	
Restricted assets	
Cash and cash equivalents	7,448
Due from other governments, net	31
Net pension asset	152,431
	159,910
Capital assets	
Capital assets not being depreciated	455,753
Capital assets, net of accumulated depreciation and amortization	974,781
	1,430,534
Other noncurrent	
Lease receivable	104
Notes receivable	140,959
	141,063
Total noncurrent assets	1,731,507
Total assets	3,985,844
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows on refunding	520
Deferred outflows on other postemployment benefits	2,270
Deferred outflows on pension	126,077
Deferred outflows on asset retirement obligations	4,004
Total deferred outflows of resources	132,871
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 4,118,715

See accompanying notes.

King County Public Transportation Enterprise Fund
Statement of Net Position (in thousands)
December 31, 2023

CURRENT LIABILITIES		
Accounts payable	$	90,624
Retainage payable		307
Due to other funds		8,930
Interest payable		778
Wages and benefits payable		46,439
Compensated absences, current portion		4,502
Other postemployment benefits, current portion		1,446
Unearned revenues		3,412
Lease payable, current portion		7,802
Subscription liability, current portion		172
General obligation bonds payable, current portion		3,500
Other liabilities		114
Total current liabilities		168,026
NONCURRENT LIABILITIES		
Compensated absences, net		48,883
Other postemployment benefits		18,974
Net pension liability		68,013
Leases payable		52,045
Subscription liability		1,009
General obligation bonds payable, net		63,394
Environmental remediation		1,915
Asset retirement obligations		9,300
Total noncurrent liabilities		263,533
Total liabilities		431,559
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows on leases		142
Deferred inflows on other postemployment benefits		5,138
Deferred inflows on pension		84,318
Total deferred inflows of resources		89,598
Total liabilities and deferred inflows of resources		521,157
NET POSITION		
Net investment in capital assets		1,273,054
Restricted for		
Capital projects		7,479
Pensions		193,044
Unrestricted		2,123,981
Total net position	$	3,597,558

See accompanying notes.

King County Public Transportation Enterprise Fund
Statement of Revenues, Expenses, and Changes in Net Position (in thousands)
Year Ended December 31, 2023

OPERATING REVENUES	
Passenger	$ 79,152
Sound Transit service and other contracts	169,666
Special service contracts	37,283
Advertising contract	3,603
Miscellaneous revenues	18,523
	308,227
OPERATING EXPENSES	
Personnel services	641,532
Materials and supplies	94,790
Contract service and other charges	76,610
Utilities	4,893
Purchased transportation	71,636
Internal services	137,057
Depreciation and amortization	161,761
Miscellaneous expenses	1,923
	1,190,202
OPERATING LOSS	(881,975)
NONOPERATING REVENUES (EXPENSES)	
Sales tax	841,759
Property and other taxes	39,349
Investment earnings	82,300
Federal, state, and other operating subsidies	16,815
Other revenues	4,506
Interest expense	(2,865)
Gain on disposal of capital assets	297
Other expenses	(25,225)
	956,936
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEM	74,961
Capital grants and contributions	36,029
Special item - loss on transfer of Downtown Seattle Transit Tunnel	(152,005)
CHANGE IN NET POSITION	(41,015)
NET POSITION	
Beginning of year	3,638,573
End of year	$ 3,597,558

See accompanying notes.

King County Public Transportation Enterprise Fund
Statement of Cash Flows (in thousands)
Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 272,779
Cash received from other funds - internal services	2,369
Cash payments to suppliers for goods and services	(249,983)
Cash payments to other funds - internal services	(137,057)
Cash payments for employee services	(730,364)
Other receipts	4,534
Net cash used in operating activities	(837,722)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants and subsidies	1,141,387
Transfers out	(2,582)
Assistance to others	(3,658)
Net cash provided by noncapital financing activities	1,135,147
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(122,286)
Proceeds from disposal of capital assets	652
Principal paid on capital financing	(11,091)
Interest paid on capital financing	(3,777)
Capital grants received	52,835
Subsidies and other receipts	217
Net cash used in capital and related financing activities	(83,450)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	78,981
NET INCREASE IN CASH AND CASH EQUIVALENTS	292,956
CASH AND CASH EQUIVALENTS	
Beginning of year	1,448,879
End of year	$ 1,741,835

See accompanying notes.

King County Public Transportation Enterprise Fund
Statement of Cash Flows (in thousands)
Year Ended December 31, 2023

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (881,975)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation and amortization	161,761
Other nonoperating revenue	4,538
Changes in assets	
Accounts receivable, net	2,636
Lease receivable	116
Due from other funds	837
Due from other governments, net	(34,873)
Inventory of supplies	1,127
Prepayments	(1,034)
Net pension asset	(27,319)
Other assets	54
Changes in deferred outflows of resources	
Deferred outflows on other postemployment benefits	(125)
Deferred outflows on pension	8,111
Deferred outflows on asset retirement obligations	1,923
Changes in liabilities	
Accounts payable	(3,420)
Dut to other funds	8,930
Unearned revenue	(1,733)
Wages and benefits payable	6,647
Compensated absences	(3,032)
Other postemployment benefits	1,662
Net pension liability	(33,624)
Other liabilities	1,271
Changes in deferred inflows of resources	
Deferred inflows on leases	(119)
Deferred inflows on other post employment benefits	(534)
Deferred inflows on pension	(49,547)
Total adjustments	44,253
NET CASH USED IN OPERATING ACTIVITIES	$ (837,722)

See accompanying notes.

Note 1 – Operations and Accounting Policies

Summary of operations – The King County Public Transportation Enterprise Fund (Metro Transit) is an enterprise fund operated by the King County Metro Transit Department in accordance with Chapter 35.58 and 36.54 of the Revised Code of Washington (RCW) to provide public transportation and passenger ferry services to the urbanized areas of King County, Washington (the County).

Metro Transit is an integral part of the County's reporting entity and is included as an enterprise fund in the County's annual comprehensive financial report. As an enterprise fund, Metro Transit is funded and operated separately from other County operations. Revenues, bond proceeds, and grants are restricted by purpose. Accordingly, Metro Transit maintains separate accounting records and issues stand-alone financial statements.

Metro Transit pays for goods and services purchased from other County agencies, including reimbursement of the County's general fund for a share of general government expenditures. Expenses incurred by Metro Transit in doing business with other County agencies amounted to $137.1 million in 2023.

Significant accounting policies – Metro Transit is accounted for on a flow of economic resources measurement focus similar to that of a private enterprise organized for profit. Metro Transit's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Metro Transit applies all applicable Governmental Accounting Standards Board (GASB) Pronouncements.

a. **Cash and cash equivalents** – Metro Transit considers as cash and cash equivalents all balances held with the King County Treasurer in the King County Investment Pool (the Pool), demand deposits at banks, petty cash/change funds, and cash with escrow agent. Unrealized gain or loss on Metro Transit's proportionate share of the Pool is reported as a component of investment earnings.

b. **Receivables and allowance for doubtful accounts** – Receivables include charges for services rendered by Metro Transit or intergovernmental grants. All unbilled service receivables are recorded at year-end. The provisions for estimated uncollectible receivables are reviewed and updated at year-end. These provisions are estimated based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Accounts receivable is shown net of allowances for doubtful accounts. As of December 31, 2023, Metro Transit's allowance for doubtful accounts was $1.5 million.

   In addition to service receivables, Metro Transit reported a note receivable of $141.0 million at 2023 year-end, which primarily resulted from the sale of the Convention Place Station in July 2018. The original term of the promissory note is 31 years, and the note payments, including principal and interest, are due and payable annually to Metro Transit.

c. **Due from and to other funds, interfund loans and advances** – Due from and to other funds consists of current receivables and payables from or to other funds within the County. They typically arise from interfund goods and service transactions and reimbursements.

Interfund loans receivable and payable or advances from and to other funds represent authorized short-term and long-term, respectively, lending and borrowing arrangements within the County.

d. **Inventory of supplies** – Inventory of Metro Transit is recorded at the lower of cost or market using the weighted average costing method. Materials and supplies are expensed as consumed. Inventory is written off in the year that it is determined to be obsolete.

e. **Restricted assets** – In accordance with Metro Transit's bond covenants, state law, King County codes, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes, including funding of capital projects.

f. **Capital assets** – The capitalization threshold in Metro Transit is $5 thousand for furniture, machinery, and equipment; $500 thousand for software and intangible assets; and $100 thousand for buildings, building improvements, and other improvements.

Provision for depreciation and amortization is made on a straight-line basis over the estimated useful lives of Metro Transit's assets as follows:

Description	Estimated Useful Life
Buildings—constructed	40 to 60 years
Buildings—transfer stations, shops, etc.	10 to 30 years
Buses and trolleys	12 to 18 years
Cars, vans and trucks	3 to 12 years
Equipment	3 to 30 years
Software	3 to 20 years

Repairs and maintenance are expensed as incurred; major renewals, replacements and betterments are capitalized. Capital project costs in work in progress (WIP) are written off if the project does not result in an asset, improve, or enhance the functionality of an asset, extend the useful life of an asset, or is abandoned. The WIP write-off amounted to $19.0 million in 2023 and is included in other nonoperating expenses in the statement of revenues, expenses, and changes in net position.

Metro Transit annually reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable. No impairment was identified in 2023.

Leases and subscription-based information technology arrangements (SBITAs) – Metro Transit is a lessee for various noncancellable leases of land, buildings, and equipment. Metro Transit also has a noncancellable SBITA for the right to use information technology software. For leases and SBITAs that meet the capitalization threshold, Metro Transit recognizes a lease or subscription liability, respectively, and an intangible right-to-use lease or subscription asset, respectively, on the statement of net position.

The lease liability is initially measured at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured at the amount of the lease liability adjusted for payments made at or before the lease commencement date, direct costs ancillary to placing the underlying asset in service, and lease incentives received. The lease asset is subsequently amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

The subscription liability is initially measured at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the amount of the subscription liability, plus any subscription payments made at or before the subscription commencement date and capitalizable implementation costs, less any vendor incentives received at or before the subscription commencement date. The subscription asset is subsequently amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying asset.

An interest rate implicit in a lease or SBITA contract is used as the discount rate for the lease or SBITA. If the interest rate is not available, Metro Transit generally uses the County's incremental borrowing rate for lease or subscription terms (including options to extend that are reasonably certain to be exercised) of less than 15 years and the U.S. Treasury Securities-State and Local Government Series (SLGS) rate for leases with terms of 15 years or more.

The lease or subscription term includes the noncancellable periods of the lease or SBITA, respectively. In determining the lease or subscription term, Metro Transit considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the term if the lease or SBITA is reasonably certain to be extended (or not terminated).

Payments included in the measurement of the lease or subscription liability are composed of fixed payments. Metro Transit monitors changes in circumstances that would require a remeasurement of its lease or SBITA and will remeasure the lease or subscription asset, respectively, and lease or subscription liability, respectively, if certain changes occur that are expected to significantly affect the amount of the liability.

For leases and SBITAs below the capitalization threshold and leases and SBITAs with a maximum possible term of 12 months or less at commencement, an expense is recognized based on the provisions of the contract.

Metro Transit is a lessor for various noncancelable leases of land and buildings. At lease commencement, Metro Transit recognizes a lease receivable and a deferred inflow of resources on the statement of net position. The lease receivable is initially measured at the present value of payments expected to be received during the lease term and subsequently reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the amount of the lease receivable adjusted for lease payments received at or before the lease commencement date, lease incentives paid, or other payments made on behalf of the lessee at or before the lease commencement date. The deferred inflow of resources is subsequently amortized on a straight-line basis over the lease term. The lease term includes the noncancellable period of the lease. For leases with a maximum possible term of 12 months or less at commencement, revenue is recognized based on the provisions of the lease contract.

Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee. Metro Transit monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

g. **Compensated absences** – Employees earn vacation based on their date of hire and years of service. Employees hired prior to January 1, 2018, have a maximum vacation accrual of 480 hours, while those hired on January 1, 2018, or after have a maximum vacation accrual of 320 hours unless the employee's collective bargaining unit agreement specifies a different maximum vacation accrual. Unused vacation at retirement or normal termination is considered vested and payable to the employee, up to the employee's maximum accrual. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. If the employee is leaving their employment due to death or retirement, they are paid for 35 percent of the value of unused sick leave with no maximum. Vacation pay, a portion of sick leave liabilities, and compensatory time in lieu of overtime pay, including payroll taxes, are accrued.

h. **Rebatable arbitrage** – Metro Transit's tax-exempt debt is subject to arbitrage restrictions as defined by the Internal Revenue Code. Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government except when spending exception rules are met. The liability is recognized during the period the excess interest is earned. Metro Transit has no liability as of December 31, 2023.

i. **Deferred outflows and inflows of resources** – Deferred outflows of resources represent consumption of resources that is applicable to future reporting periods and deferred inflows of resources represent acquisition of resources that is applicable to future reporting periods. Deferred outflows of resources include deferred losses on refunding of bonds and certain amounts related to pension, postemployment benefits other than pensions (OPEB) and asset retirement obligations. Deferred inflows of resources include certain amounts related to pension, OPEB, and leases.

j. **Unearned revenues** – Unearned revenues are obligations of Metro Transit to perform services or provide goods. This account offsets reported assets for revenues that have not met recognition requirements, including prepayments for vanpool programs.

k. **Operating and nonoperating revenues and expenses** – Operating revenues result from exchange transactions arising from Metro Transit activities. Expenses associated with providing public transportation services and operating Metro Transit facilities are considered operating. Nonoperating revenues result from nonexchange transactions such as sales taxes, property taxes, operating subsidies, and investment earnings.

l. **Debt related amortization** – Bond premiums and discounts, and refunding losses and gains are amortized over the term of the bonds using the outstanding principal balance method.

m. **Sales tax and property tax** – Sales tax is the largest revenue source for Metro Transit. It is recognized as revenue in the period due to the County. In cases where Metro Transit has not received actual payment, an estimate based upon the latest information available from the collection authority is utilized to record the revenue and the related receivable. For 2023, the sales tax levy rate is 0.9 percent and sales tax proceeds are included in nonoperating revenues.

King County is authorized by the Washington State Legislature to levy a property tax up to 7.5 cents per one thousand dollar assessed valuation for expanding transit capacity. The first one cent is dedicated to bus services along State Route 520. Metro Transit received property taxes collected within King County equal to 3.721 cents per $1,000 assessed valuation in 2023 for transit purposes.

King County is also authorized by the Washington State Legislature to levy a property tax for ferry operations and services. Metro Transit received property taxes collected within King County equal to 0.778 cents per $1,000 assessed valuation in 2023 for ferry operations and services.

Revenue is recognized for property taxes levied for the current year. Property taxes levied but not received at 2023 year-end are reported as property tax receivable, delinquent on the statement of net position.

n. **Capital grant revenues** – Pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, grants for capital asset acquisition are reported separately from operating and nonoperating revenues as capital grant revenues. Metro Transit reported capital grant revenues of $36.0 million for the year ended December 31, 2023.

o. **Net position** – Resources set aside for capital projects and other obligations, net of related liabilities and deferred outflows/inflows of resources, are classified as restricted net position on the statement of net position as their use is limited by externally imposed restrictions. For pension plans that have a net pension asset, the restricted net position is calculated with the net pension asset adjusted for related deferred outflows/inflows of resources. Net investment in capital assets is reported as a separate component of net position and consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any bonds, notes, or other liabilities attributable to the acquisition, construction, or improvement of those assets. Additionally, deferred outflows/inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in net investment in capital assets. Any net position not subject to classification as restricted or invested in capital assets is reported as unrestricted.

p. **Net position flow assumption** – Sometimes Metro Transit will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to be reported as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It's Metro Transit's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

q. **Use of estimates** – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Specific estimates have been made in the areas of allowance for uncollectible accounts, environmental remediation costs, useful lives of capital assets, asset retirement obligations, pension and other postemployment benefits liabilities and related deferred outflows and inflows of resources, and future interest rates. Actual results could differ from the estimates.

r. **Tax abatements** – As of December 31, 2023, King County provides tax abatements through four programs: the Current Use Program, the Historic Preservation Program, the Single-family Dwelling Improvement Program, and the Multifamily Housing Property Tax Exemption program. These programs are property tax abatements. The property tax system in the state of Washington is budget-based, which means the taxing authority determines a budget or dollar amount and adjusts the rates for the taxpayers based on the assessed valuation of their property. The tax abatements related to property taxes did not result in a reduction or loss of revenue to King County because these taxes were effectively reallocated to other property taxpayers pursuant to state law.

   The state of Washington provides tax abatements through six programs, three of which are only available to businesses in the aerospace industry. Tax abatement programs and amounts abated during fiscal year 2023 are disclosed in the 2023 Washington State Annual Comprehensive Financial Report.

New accounting standards adopted – Effective for fiscal year 2023 reporting, Metro Transit implemented the following new GASB standards:

GASB Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs*). This statement establishes accounting and financial reporting guidance for arrangements between governments and an external entity. PPP arrangements generally result in the government conveying control of the right to operate or use a capital asset to an external entity for a period of time in an exchange or exchange-like transaction. APAs are agreements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement did not have an impact on Metro Transit's financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs).* This statement establishes accounting and financial reporting guidance for SBITAs. A SBITA is defined as a contract that conveys control of the right to use another party's information technology (IT) software, alone or in combination with tangible underlying IT assets, in an exchange or exchange-like transaction for a period exceeding 12 months. The government is required to recognize a subscription liability and an intangible right-to-use subscription asset. Cash outlays necessary to place the subscription asset in service can be capitalized during the initial project implementation stage. Metro Transit implemented this statement with no material impact on its financial statements.

GASB Statement 99, *Omnibus 2022*. The purpose of this statement is to enhance the comparability in accounting and financial reporting and improve the consistency of authoritative literature by focusing on practice issues that have been identified during implementation and application of various GASB statements. This statement was issued in April 2022 and had multiple effective dates for various topics. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. These requirements were adopted by Metro Transit in 2023 with no material impact on its financial statements.

Note 2 – Deposits in King County Investment Pool

The King County Treasurer is the custodian of Metro Transit's cash. Its cash on deposit with the King County Treasurer is pooled with cash from other County funds and other jurisdictions and either deposited in the County's bank account or invested by the County.

The Pool functions essentially as a demand deposit account where Metro Transit receives an allocation of its proportionate share of pooled earnings. Metro Transit's equity share of the Pool's net assets is reported as cash and cash equivalents on the statement of net position and reflects the change in fair value of the corresponding investment securities.

The Pool is administered by the King County Treasury Operations Section and is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC), which serves the role of the County Finance Committee as defined in RCW 36.48.070.

The County has deposit and investment policies addressing risks that have the potential to result in losses of deposits and investments. The deposits that are not covered by the Federal Deposit Insurance Corporation (FDIC) are collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC) at no less than fifty percent. Effective June 7, 2018, resolution 2018-1 adopted by the Commission on June 1, 2018, allowed "all well capitalized public depositaries may collateralize uninsured public deposits at no less than fifty percent." The PDPC is a statutory authority established under chapter 39.58 RCW that governs public depositaries and provides that "all public funds deposited in public depositaries, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in the chapter." It constitutes a multiple financial institution collateral pool that can make *pro rata* assessments to all public depositaries within the state for their public deposits. PDPC protection is of the nature of collateral, not of insurance.

The custodial credit risk for deposits is the risk that Metro Transit's deposits may not be returned to it in the event of a bank failure. State statutes require that certificates of deposit be placed in qualified public depositaries in the State of Washington and total deposits cannot exceed the net worth of the financial institution. Those institutions not meeting 100 percent collateralization or the minimum credit rating requirements may receive deposits up to the FDIC or federally guaranteed amounts. The County's diversification policy limits the maximum amount of investment in certificates of deposit to 25 percent of the total amount of the portfolio and five percent from a single issuer.

Assessing Metro Transit's risk exposure, Metro Transit's cash and cash equivalents balance of $1,741.8 million were in the Pool as of December 31, 2023. The County had demand deposits of $11.7 million as of December 31, 2023, of which $8.3 million was exposed to custodial credit risk as uninsured and uncollateralized.

Credit risk – investments – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As of December 31, 2023, the Pool was not rated by a Nationally Recognized Statistical Rating Organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. federal agency securities and mortgage-backed securities, municipal securities, and corporate notes (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

The credit quality distribution below is categorized to display the greatest degree of credit risk as rated by Standard and Poor's and Moody's. For example, a security rated "AAA" by one rating agency and "AA" by another would be listed as "AA."

This table shows the credit quality for all securities in the Pool not backed by the full faith and credit of the United States (in thousands):

	Credit Quality Distribution				
Investment Type	AAA or A-1	AA	A	Not Rated	Total
Repurchase Agreements	$ 347,000	$ -	$ -	$ -	$ 347,000
Commercial Paper	1,146,816	-	-	-	1,146,816
Corporate Notes	6,699	210,934	309,632	-	527,265
U.S. Agency Notes	-	1,099,499	-	-	1,099,499
U.S. Agency Collateralized Mortgage Obligations	-	45,778	-	-	45,778
Supranational Coupon Notes	1,394,596	-	-	-	1,394,596
State Treasurer's Investment Pool	-	-	-	1,723,538	1,723,538
Total investments	$ 2,895,111	$ 1,356,211	$ 309,632	$ 1,723,538	$ 6,284,492

The Pool's policies limit the maximum amount that can be invested in various securities. At 2023 year-end the Pool was in compliance with these policies. The Pool's actual composition, as of December 31, 2023, is as follows (in thousands):

	Total	Allocation Percentage
Investment type		
Repurchase agreements	$ 347,000	3.63%
Commercial paper	1,146,816	12.00%
Corporate notes	527,265	5.52%
Government National Mortgage Association collateralized mortgage obligations	856,915	8.97%
U.S. Treasury notes	2,415,126	25.27%
U.S. Agency notes	1,099,499	11.51%
U.S. Agency collateralized mortgage obligations	45,778	0.48%
Supranational coupon notes	1,394,596	14.59%
State treasurer's investment pool	1,723,538	18.03%
	$ 9,556,533	100.00%

Custodial credit risk – investments – Custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. County policy mandates that all security transactions, including repurchase agreements, are settled "delivery versus payment (DVP)." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the County's safekeeping bank or its tri-party custodian banks. Exempt from the DVP policy are Certificates of Deposits (CDs) and funds placed with the State of Washington Local Government Investment Pool.

Concentration of credit risk – investments – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issue. At 2023 year-end, the Pool had concentrations greater than 5.0 percent of the total investment pool portfolio in the following issuers: Federal Home Loan Banks, 6.5 percent; and Inter-American Development Bank, 5.1 percent.

Interest rate risk – investments – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Pool. The policy limit for the Pool's maximum effective duration is 1.5 years, and 40 percent of the Pool's total value in securities must have a maturity of 12 months or fewer. Securities in the portfolio cannot have an average life greater than five years at purchase. The combined effective duration of the liquidity and core portfolios was 0.788 years at December 31, 2023.

Fair Value Hierarchy

The County categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of inputs in valuing the County's investments as of December 31, 2023 (in thousands):

KING COUNTY INVESTMENT POOL

Investments by Fair Value Level	Fair Value 12/31/2023	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Commercial paper	$ 1,146,816	$ -	$ 1,146,816	$ -
Corporate notes	527,265	-	527,265	-
Government National Mortgage Association collateralized mortgage obligations	856,915	-	856,915	-
U.S. treasury notes	2,415,126	2,415,126	-	-
U.S. agency notes	1,099,499	-	1,099,499	-
U.S. agency collateralized mortgage obligations	45,778	-	45,778	-
Supranational coupon notes	1,394,596	-	1,394,596	-
Subtotal	7,485,995	$ 2,415,126	$ 5,070,869	$ -
Investments Measured at Amortized Cost (Not Subject to Fair Value Hierarchy)				
Repurchase agreements	347,000			
State treasurer's investment pool	1,723,538			
Subtotal	2,070,538			
Total investments in Investment Pool	$ 9,556,533			

U.S. Treasury Notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

Commercial Paper, U.S. Agency Discount Notes, Corporate Notes, Corporate Notes Floating Rate, U.S. Agency Notes, Supranational Discount Notes, U.S. Agency Collateralized Mortgage Obligations and Supranational Coupon Notes are valued using standard inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Interactive Data also monitors market indicators, industry and economic events and corroborating market data and are classified in Level 2 of the fair value hierarchy.

Note 3 – Restricted Assets

A portion of Metro Transit's assets is restricted as to use by legal and contractual provisions. Restricted assets, which include cash, certain receivables, and net pension asset, comprise $160.2 million at December 31, 2023, to fund future capital projects and comply with other requirements. The December 31, 2023, restricted assets consist of the reserve of $7.5 million for capital projects, $307 thousand for retainage requirements, and $152.4 million for net pension asset.

Liability amounts payable from restricted assets consist of escrow and in-house retainage payables. These amounted to $307 thousand at December 31, 2023.

Note 4 – Risk Management

Metro Transit is exposed to a wide range of risks of loss, including those related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters.

Metro Transit participates in three County internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits self-insurance programs. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

During 2023, Metro Transit claims paid by the Insurance Fund of King County were $11.6 million. There was one occurrence that resulted in payment in excess of the self-insured retention (SIR) of $7.5 million in the past three years.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments, for paying claims settlements, and for purchasing certain policies. Premiums attributable to Metro Transit are assessed by the County's internal service funds on the basis of claims experience, actuarial evaluation of future claims risk, and adequacy of available reserves. Premiums are recorded as an expense in the year paid and/or accrued.

Note 5 – Leases and Subscription-Based Information Technology

Lessee and subscription activity – Metro Transit leases land, buildings, equipment, and other assets under a variety of long-term, noncancellable lease agreements. Metro Transit also has a noncancellable subscription-based information technology arrangement (SBITA) for the right to use information technology software.

The following is a summary of Metro Transit's right-to-use lease asset activity for the year ended December 31, 2023 (in thousands):

	Balance January 1, 2023	Increases	Decreases	Balance December 31, 2023
Furniture, machinery, and equipment	$ 537	$ -	$ (84)	$ 453
Buildings	13,518	19,931	-	33,449
Land	36,285	-	-	36,285
Improvements other than building	7,179	-	-	7,179
Right-to-use lease assets, being amortized:	57,519	19,931	(84)	77,366
Furniture, machinery, and equipment	(159)	(156)	84	(231)
Buildings	(1,112)	(7,334)	-	(8,446)
Land	(2,767)	(2,768)	-	(5,535)
Improvements other than building	(623)	(623)	-	(1,246)
Total accumulated amortization	(4,661)	(10,881)	84	(15,458)
Total right-to-use lease assets, net	$ 52,858	$ 9,050	$ -	$ 61,908

At December 31, 2023, future annual lease principal and interest payments are as follows (in thousands):

	Right-to-Use Lease Agreements	
Year(s) Beginning	Principal	Interest
January 1, 2024	$ 7,802	$ 555
January 1, 2025	7,928	494
January 1, 2026	8,071	434
January 1, 2027	5,689	376
January 1, 2028	4,085	340
January 1, 2029-2033	16,378	1,240
January 1, 2034-2038	3,509	773
January 1, 2039-2043	1,703	548
January 1, 2044-2048	2,120	362
January 1, 2049-2053	2,463	131
January 1, 2054-2058	28	9
January 1, 2059-2063	30	6
January 1, 2064-2068	34	2
January 1, 2069-2073	7	-
	$ 59,847	$ 5,270

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, and other payments that are not known or certain to be exercised are excluded from the measurement of the lease liability. During 2023, Metro Transit recognized $1.4 million for variable lease and other payments not included in the measurement of the lease liability.

The following is a summary of Metro Transit's subscription asset activity for the year ended December 31, 2023 (in thousands):

	Balance January 1, 2023	Increases	Decreases	Balance December 31, 2023
Subscription asset	$ -	$ 1,372	$ -	$ 1,372
Accumulated amortization	-	(149)	-	(149)
Subscription asset, net	$ -	$ 1,223	$ -	$ 1,223

At December 31, 2023, future annual SBITA principal and interest payments are as follows (in thousands):

	SBITA	
Year(s) Beginning	Principal	Interest
January 1, 2024	$ 172	$ 25
January 1, 2025	181	21
January 1, 2026	191	17
January 1, 2027	202	13
January 1, 2028	212	9
January 1, 2029-2033	223	5
	$ 1,181	$ 90

As of December 31, 2023, Metro Transit has one SBITA that has not yet commenced with payments due on an undiscounted basis of $9.7 million. The SBITA will commence in 2024 with a subscription term of ten years.

Lessor activity – Metro Transit leases land and buildings. Metro Transit records lease receivable and deferred inflows of resources based on the present value of expected receipts over the term of the lease. The expected receipts are discounted using the County's incremental borrowing rate.

During 2023, the amount recognized as lease revenue and lease interest was $69 thousand and $9 thousand, respectively.

Variable lease receipts, other than those that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease receivable. During 2023, Metro Transit recognized revenue of $3.6 million for variable receipts not included in the measurement of the lease receivable.

Note 6 – Long-Term Liabilities

General obligation bonds – At December 31, 2023, bonds outstanding included $58.1 million of serial bonds maturing from June 1, 2023, through December 1, 2050, bearing interest at stated rates of 2.85 percent to 6.05 percent per annum. The bonds were issued to provide funding for Metro Transit's capital improvement programs.

The following table summarizes Metro Transit's general obligation bonds (in thousands):

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/23
2010B LTGO bonds	11/15/10	12/01/30	2.85-6.05%	$ 20,555	$ 10,085
2018A LTGO bonds	08/08/18	06/01/38	4.00-5.00%	6,330	5,260
2020A LTGO bonds	11/03/20	12/01/50	5.00%	21,065	20,140
2022A LTGO bonds	04/14/22	07/01/34	5.00%	24,375	22,660
				$ 72,325	$ 58,145

At December 31, 2023, the required bond principal and interest payments due are as follows (in thousands):

	General Obligation Bonds		
Years Ending December 31,	Principal	Interest	Total
2024	$ 3,500	$ 2,959	$ 6,459
2025	3,650	2,781	6,431
2026	3,815	2,592	6,407
2027	3,995	2,387	6,382
2028	4,170	2,171	6,341
2029–2033	18,755	7,589	26,344
2034–2038	8,070	3,914	11,984
2039-2043	4,230	2,645	6,875
2044-2048	5,405	1,476	6,881
2049-2051	2,555	193	2,748
Principal and interest amounts due	$ 58,145	$ 28,707	$ 86,852

Changes in long-term liabilities – Long-term liability activity for the year ended December 31, 2023, is as follows (in thousands):

	Balance 01/01/23	Additions	Reductions	Balance 12/31/23	Due Within One Year
Bonds payable	$ 61,485	$ -	$ (3,340)	$ 58,145	$ 3,500
Bond premiums	9,720	-	(971)	8,749	-
Total bonds payable	71,205	-	(4,311)	66,894	3,500
Lease payable	49,798	17,579	(7,530)	59,847	7,802
Subscription liability	-	1,372	(191)	1,181	172
Compensated absences	56,417	45,111	(48,143)	53,385	4,502
Other post employment benefits	18,758	3,044	(1,382)	20,420	1,446
Net pension liability	101,637	23,757	(57,381)	68,013	-
Environmental remediation	708	1,248	(41)	1,915	-
Asset retirement obligations	9,300	-	-	9,300	-
Total long-term liabilities	$ 307,823	$ 92,111	$ (118,979)	$ 280,955	$ 17,422

Note 7 – Asset Retirement Obligations

In 2023, Metro Transit reported an asset retirement obligation (ARO) of $9.3 million in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations*. The liability is measured at its current value and based on professional judgment, experience, and historical cost data.

Metro Transit’s ARO relates to the disposition of underground storage tanks (USTs) due to applicable regulations and requirements. The estimated remaining useful life of the USTs ranges from one to sixteen years.

The liability could change over time as new information becomes available as a result of changes in technology, legal or regulatory requirements, and types of equipment, facilities or services that will be used to meet the obligation to dispose of the USTs.

Note 8 – Capital Assets

Changes in capital assets are shown in the following tables for the year ended December 31, 2023 (in thousands):

	Balance 01/01/23	Increases	Decreases	Balance 12/31/23
Land	$ 139,644	$ -	$ (2)	$ 139,642
Right of way and easements	15,001	-	(12,949)	2,052
Art collections	1,581	-	-	1,581
Work in progress	236,696	130,494	(54,712)	312,478
Total nondepreciable assets	392,922	130,494	(67,663)	455,753
Property and land improvements	1,461,283	6,358	(429,916)	1,037,725
Transportation equipment	1,405,109	18,287	(43,712)	1,379,684
Major equipment and vehicles	215,585	17,485	(2,909)	230,161
Shop and other equipment	81,342	873	(2,726)	79,489
Software development	100,550	2,389	(12,188)	90,751
Total depreciable assets	3,263,869	45,392	(491,451)	2,817,810
Accumulated depreciation and amortization				
Property and land improvements	(996,253)	(25,519)	281,446	(740,326)
Transportation equipment	(823,081)	(103,800)	43,685	(883,196)
Major equipment and vehicles	(145,112)	(6,450)	2,807	(148,755)
Shop and other equipment	(60,511)	(6,438)	2,668	(64,281)
Software development	(70,914)	(10,876)	12,188	(69,602)
Total depreciation and amortization	(2,095,871)	(153,083)	342,794	(1,906,160)
Depreciable assets—net	1,167,998	(107,691)	(148,657)	911,650
Right-to-use lease assets - net (see Note 5 for detail)	52,858	17,579	(8,529)	61,908
Subscription asset - net (see Note 5 for detail)	-	1,372	(149)	1,223
Total lease and subscription assets-net	52,858	18,951	(8,678)	63,131
Total capital assets—net	$ 1,613,778	$ 41,754	$ (224,998)	$ 1,430,534

Note 9 – Employee Benefit Plans

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the County elected to use June 30, 2023, as the measurement date for reporting the net pension liability as of December 31, 2023.

The following table represents the aggregate pension amounts allocated to Metro Transit for all pension plans subject to the requirements of GASB Statement No. 68 for the year 2023 (in thousands):

	Aggregate Pension Amounts- All Plans
Net pension liability	$ (68,013)
Net pension asset	152,431
Deferred outflows of resources	126,077
Deferred inflows of resources	(84,318)
Pension expense (benefit)	(50,100)

Pension plans – Substantially all full-time and qualifying part-time employees of Metro Transit participate in one of the following retirement plans: Washington State Public Employees' Retirement System (PERS) Plan 1, 2 and 3.

PERS is administered by the Washington State Department of Retirement Systems under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all statewide public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR may be downloaded from the DRS website at 2023 ACFR Document (wa.gov).

Public Employees Retirement System – PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. AFC is the average of the member's 24 highest consecutive service credit months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include an optional cost-of-living adjustment (COLA). PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants after September 30, 1977.

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary (OSA) and includes an administrative expense component. The Plan 1 employer contribution rate is adopted by the Pension Funding Council each biennium and subject to change by the Legislature. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January – June 2023		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	10.39%	
July – August 2023		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
Total	9.39%	
September – December 2023		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Total	9.53%	

Metro Transit's actual contributions to the PERS Plan 1 were $18.1 million for the year ended December 31, 2023.

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. AFC is the monthly average of the member's 60 highest-paid consecutive service credit months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the Consumer Price Index, capped at 3 percent annually.

PERS Plan 2 members are vested after completing five years of eligible service. PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 2/3 is considered a single defined benefit plan for reporting purposes. PERS Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Local government employees joining the system on or after September 1, 2002, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 2.

PERS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. As established by statute, PERS Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

The PERS Plan 2/3 employer and employee contribution rates are developed by the OSA to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL) and an administrative expense. The rates are adopted by the Pension Funding Council each biennium and subject to change by the Legislature. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

	PERS Plan 2/3		
Actual Contribution Rates	Employer Plan 2/3	Employee Plan 2	Employee Plan 3
January – June 2023			
PERS Plan 1	6.36%	6.36%	Varies
PERS Plan 1 UAAL	3.85%		
Administrative Fee	0.18%		
Total	10.39%		
July – August 2023			
PERS Plan 1	6.36%	6.36%	Varies
PERS Plan 1 UAAL	2.85%		
Administrative Fee	0.18%		
Total	9.39%		
September – December 2023			
PERS Plan 1	6.36%	6.36%	Varies
PERS Plan 1 UAAL	2.97%		
Administrative Fee	0.20%		
Total	9.53%		

Metro Transit's actual contributions to the PERS Plan 2/3 were $34.2 million for the year ended December 31, 2023.

Actuarial assumptions – The total pension liability (TPL) for each of the DRS plans was determined an actuarial valuation as of June 30, 2022, with the results rolled forward to June 30, 2023, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- Inflation: 2.75 percent total economic inflation; 3.25 percent salary inflation.
- Salary increases: In addition to the base 3.25 percent salary inflation assumption, salaries are also expected to grow by service-based salary increases.
- Investment rate of return: 7.0 percent.

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

The actuarial assumptions used in the June 30, 2022, valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2021 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report.

Long-term expected rate of return – OSA selected a 7.00% long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns the Washington State Investment Board (WSIB) provided.

The WSIB's Capital Market Assumptions (CMAs) contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons. The expected future rates of return (expected returns, net of pension plan investment expense, including inflation) are developed by the WSIB for each major asset class.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023, are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return Arithmetic
Fixed income	20.00%	1.50%
Tangible assets	7.00%	4.70%
Real estate	18.00%	5.40%
Global equity	32.00%	5.90%
Private equity	23.00%	8.90%
	100.00%	

The inflation component used to create the table above was 2.20 percent and represents the WSIB's long term estimate of broad economic inflation consistent with their 2021 CMAs.

Discount rate – The discount rate used to measure the total pension liability for all DRS plans was 7.0 percent. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members.

Based on OSA's assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0 percent was used to determine the total pension liability.

Sensitivity of net pension liability (asset) – The table below presents Metro Transit's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.0 percent, as well as what Metro Transit's proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1-percentage point higher (8.0 percent) than the current rate (in thousands).

Pension Plan	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
PERS 1	$ 95,019	$ 68,013	$ 44,443
PERS 2/3	165,787	(152,431)	(413,867)

Pension plan fiduciary net position – Detailed information about the fiduciary net position of the State's pension plans is available in the separately issued DRS financial report.

Pension liabilities (assets), pension expense (benefit), and deferred outflows of resources and deferred inflows of resources related to pensions – At December 31, 2023, Metro Transit reported a net pension liability of $68.0 million and a net pension asset of $152.4 million for its proportionate share of the net pension liabilities (assets) as follows (in thousands):

	Liability (Asset)
PERS 1	$ 68,013
PERS 2/3	(152,431)

Metro Transit's proportionate share of the collective net pension liability/asset was as follows:

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	3.65%	2.98%	(0.67%)
PERS 2/3	3.37%	3.71%	0.34%

Employer contribution transmittals received and processed by the DRS for its fiscal year ended June 30, 2023, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations for all plans except Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1.

Pension expense (benefit) – For the year ended December 31, 2023, Metro Transit recognized pension benefits as follows (in thousands):

	Pension Expense (Benefit)
PERS 1	$ (20,800)
PERS 2/3	(29,300)

Deferred outflows of resources and deferred inflows of resources – At December 31, 2023, Metro Transit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments.	$ -	$ (7,671)
Contributions subsequent to the measurement date.	8,819	-
Total	$ 8,819	$ (7,671)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience.	$ 31,050	$ (1,703)
Net difference between projected and actual investment earnings on pension plan investments.	-	(57,445)
Changes of assumptions.	63,996	(13,949)
contributions and proportionate share of contributions.	4,454	(3,550)
Contributions subsequent to the measurement date.	17,758	-
Total	$ 117,258	$ (76,647)

Deferred outflows of resources related to pensions resulting from Metro Transit's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense (benefits) as follows (in thousands):

Years Ending December 31,	PERS 1	PERS 2/3
2024	$ (5,219)	$ (26,826)
2025	(6,564)	(32,833)
2026	4,047	48,130
2027	65	17,073
2028	-	16,824
Thereafter	-	485

Note 10 – Other Postemployment Benefits

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes standards for recognizing and measuring other postemployment benefits (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The following table represents Metro Transit's allocated OPEB amounts subject to the requirements of GASB Statement No. 75 for the year 2023 (in thousands):

	OPEB Amounts
OPEB liabilities	$ (20,420)
Deferred outflows of resources	2,270
Deferred inflows of resources	(5,138)
OPEB expense	1,003

Plan description – The County administers a single-employer defined-benefit postemployment healthcare plan (the Plan). The Plan provides healthcare insurance for eligible retirees and their spouses and children through the County's health insurance plan, which covers retired members. The Plan provides healthcare insurance benefits and prescription coverage. The Plan offers dental and vision benefits, but the retiree premiums are assumed to cover the full cost of those benefits. The Plan does not issue a separate stand-alone fiancial report.

As a self-insurer, the County establishes a monthly premium rate for insurance benefits each budget year. Eligible retirees may continue to receive insurance benefits by contributing 100 percent of the COBRA rate for these benefits. The program provides the same level of healthcare benefits to retirees as the active group plan. LEOFF1 retirees are not required to contribute as the County pays 100 percent of their medical costs. The County pays benefits as they come due.

Employees covered by benefit terms – At December 31, 2023, the benefit terms covered the following County employees:

Category	Count
Inactive employees, spouses, or beneficiaries currently receiving benefit payments	510
Active employees	14,525
Total	15,035

Total OPEB liability – The County's total OPEB liability was valued as of December 31, 2022, and was used to calculate the total OPEB liability measured as of December 31, 2023.

Actuarial assumptions – The total OPEB liability in the December 31, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement Date	December 31, 2023	
Discount rate	3.77%	
Inflation	2.75%	
Healthcare cost trend rates		
Pre-Medicare	6.80%	*
Medicare	4.17%	*
Salary increases	3.25%	**
Mortality rates	Public Employer Mortality Tables - Society of Actuaries	

* Trending down to 4.14 percent over 51 years, Applies to calendar years.
** Additional merit-based increaes based on State of Washington merit salary increase tables.

- Projections of the sharing of benefit-related costs are based on an established pattern of practice.
- Experience studies come from the State of Washington 2018 reports.
- Inactive employees (retirees) pay 100 percent of the cost of benefits, except for LEOFF1, which pays zero percent.

- There were no ad hoc postemployment benefit changes (including ad hoc COLAs) to the plan.

The discount rate used to measure the total OPEB liability is 3.77 percent. The County's OPEB Plan is an unfunded plan, therefore the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date.

Changes in total OPEB liability – Metro Transit’s allocated changes in the total OPEB liability for the year ended December 31, 2023, were as follows (in thousands):

Total OPEB liability - 1/1/2023	$ 18,758
Changes for the year	
Service cost	637
Interest	808
Differences between expected and actual experience	(14)
Changes of assumptions	375
Benefit payments	(755)
Implicit subsidy credit	(627)
Other changes	1,238
Net changes	1,662
Total OPEB liability - 12/31/2023	$ 20,420

Sensitivity of total OPEB liability to changes in the discount rate – The table below presents Metro Transit’s proportionate share of the total OPEB liability as well as what Metro Transit's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.77 percent) or one percentage point higher (4.77 percent) than the current rate (in thousands).

	1% Decrease (2.77%)	Discount Rate (3.77%)	1% Increase (4.77%)
Total OPEB liability	$ 21,817	$ 20,420	$ 19,113
Increase (Decrease)	1,397		(1,307)
% change	6.84%		-6.40%

Sensitivity of total OPEB liability to changes in the healthcare cost trend rates – The healthcare trend for this valuation started at 6.80 percent and decreased to 4.14 percent over 51 years. The table below presents Metro Transit's proportionate share of the total OPEB liability as well as what Metro Transit's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.80 percent) or one percentage point higher (7.80 percent) than current healthcare cost trend rates rate (in thousands).

	1% Decrease (5.80%)	Trend Rate (6.80%)	1% Increase (7.80%)
Total OPEB liability	$ 18,535	$ 20,420	$ 22,591
Increase (Decrease)	(1,885)		2,171
% change	-9.23%		10.63%

Deferred outflows of resources and deferred inflows of resources – At December 31, 2023, Metro Transit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Outflows of Resources	Inflows of Resources
Difference between expected and actual experience	$ 1,359	$ (1,036)
Changes of assumptions	911	(4,102)
Total	$ 2,270	$ (5,138)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows (in thousands):

Years Ending December 31,	Amount
2024	$ (530)
2025	(530)
2026	(530)
2027	(443)
2028	(358)
Thereafter	(477)

Expected average remaining service lives (EARSL) – The effects on the total OPEB liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period. The EARSL for the current period is 8.9 years.

Note 11 – Operating Subsidies and Grant Revenue

The Federal Transit Administration and other government agencies award grants to Metro Transit to subsidize operating costs (operating subsidies) and to partially subsidize acquisition of facilities, vehicles, and equipment (capital grants). Operating subsidies are recorded as nonoperating revenue on the statements of revenues, expenses, and changes in net position.

Capital grants and operating subsidies are subject to audit. During 2022, audits and review of various capital grants and operating subsidies resulted in no material disallowance of prior expenditures. Expenditures determined to be disallowed could result in liabilities for Metro Transit to the original granting organization. Management is of the opinion that 2023 grant-funded expenses are in compliance with the grant terms.

Note 12 – Interfund Balances and Transfers

Metro Transit is an enterprise fund of the County and reports in its financial statements interfund balances and transfers as a result of intracounty activity with other County agencies.

Interfund balances – The balances result from the time lag between the dates when interfund goods and services were provided or reimbursable expenditures incurred and when interfund payments were made, Metro Transit reported total due from other funds of $14.3 million and due to other funds of $8.9 million at December 31, 2023.

Interfund transfers – The King County Council approves ordinances and/or motions authorizing Metro Transit to contribute and receive amounts to and from various County funds. During 2023, total transfers to other County funds from Metro Transit were $2.6 million.

Note 13 – Related Party Transactions

Metro Transit entered into a ground lease agreement as lessor with King County Housing Authority (KCHA) for the development of affordable housing units and a parking garage in the City of Redmond. The land under the lease has a cost of $1.3 million. KCHA is a related organization of King County. The lease provides for a set-aside of a minimum of 150 parking stalls for use by park and ride commuters.

The lease calls for an annual lease payment with a 3.0 percent increase each year, commencing with the year ended December 31, 2003. The lease payment is due within 90 days following the end of each calendar year. A portion of the annual lease payment is restricted for use on future Federal Transit Administration projects. The term of the lease is 50 years with one option to extend for 25 years. The lease payments are payable out of net cash flow in the order and priority established in the lease. Metro Transit reported lease revenue of $54 thousand in 2023.

Note 14 – Commitments and Contingencies

Construction and maintenance programs – To support public transportation service delivery and expansion, Metro Transit has active construction projects and contractual commitments of approximately $297.5 million at December 31, 2023.

Environmental remediation – Metro Transit reported an environmental remediation liability of $1.9 million at December 31, 2023. The pollution obligation is primarily related to monitoring soil and ground water contamination at the Lake Union Tank Farm (under consent decrees from the Washington State Department of Ecology (DOE)), East Base Operation and Maintenance (O&M) Facility, South Base O&M Facility, and the South Facilities/South Annex Parcel. Additional pollution obligation is associated with soil and groundwater contamination underlying the South Campus Office and Storage Auxiliary (SCOSA) property. Metro Transit has an on-going program of monitoring groundwater contamination resulting from spill events at the facilities and reporting the results to DOE. These four properties are listed as hazardous sites by DOE. DOE has communicated to Metro Transit that actions should be taken to address contamination at the hazardous sites. Remedial Investigations (RI) have been initiated at East Base and South Facilities/South Annex and will be initiated at SCOSA during 2024. Metro Transit anticipates initiating the RI at South Base during 2025.

The liability amounts were estimated by Metro Transit staff with knowledge of environmental issues at the sites, using the expected cash flow technique. Cost estimates are subject to changes when additional information becomes available regarding the level of contamination at specific sites, when existing agreements or remediation methods are modified, or when new applicable regulations emerge.

In the 1970s Metro Transit acquired a former Chevron bulk fueling terminal on the north shore of Lake Union in the vicinity of Gasworks Park and used it as a maintenance base and fuel-storage facility. In the early 1990s the upland portion of the site was identified by DOE as a potential source of environmental contamination under the Model Toxics Control Act. In 1999 Chevron and Metro Transit entered into an interim cost-sharing agreement, and also entered into a Consent Decree with DOE for final cleanup actions and over a period of years performed shallow soil remediation and groundwater remediation required under the Consent Decree. In 2009 King County sold a portion of the site to a developer (Touchstone) after the developer entered into a separate Prospective Purchaser Consent Decree (PPCD) for its portion of the site in 2007. In 2014–2015, Touchstone performed the deep soil excavation required under its PPCD and in 2016 DOE declared Touchstone's cleanup complete and closed out the PPCD. However, under the 1999 Consent Decree, Chevron and Metro Transit remain obligated to monitor groundwater on the site, and DOE has reserved the right to require additional or different remedial actions at the site if new or different information comes to light. Metro Transit presently is unable to determine an amount, if any, for which Metro Transit may be responsible.

Required Supplementary Information

Schedule of the County's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30*
(dollars in thousands)

	2023	2022	2021	2020	2019
County's proportion of the net pension liability	8.44%	8.27%	8.61%	8.85%	8.25%
County's proportionate share of the net pension liability	$ 192,692	$ 230,262	$ 105,126	$ 312,368	$ 317,333
Covered payroll	$ 1,490,885	$ 1,302,359	$ 1,266,269	$ 1,283,745	$ 1,196,465
County's proportionate share of the net pension liability as a percentage of covered payroll	12.92%	17.68%	8.30%	24.33%	26.52%
Plan fiduciary net position as a percentage of the total pension liability	80.16%	76.56%	88.74%	68.64%	67.12%

	2018	2017	2016	2015
County's proportion of the net pension liability	8.56%	8.45%	8.90%	8.76%
County's proportionate share of the net pension liability	$ 382,129	$ 400,803	$ 477,872	$ 458,477
Covered payroll	$ 1,124,434	$ 1,031,025	$ 1,007,624	$ 1,000,211
County's proportionate share of the net pension liability as a percentage of covered payroll	39.98%	38.87%	47.43%	45.84%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of the County's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30*
(dollars in thousands)

	2023	2022	2021	2020	2019
County's proportion of the net pension liability (asset)	(10.44%)	(10.31%)	(10.53%)	10.85%	10.06%
County's proportionate share of the net pension liability (asset)	$ (427,975)	$ (382,490)	$ (1,049,145)	$ 138,736	$ 97,735
Covered payroll	$ 1,443,510	$ 1,298,630	$ 1,036,103	$ 1,219,052	$ 1,144,724
County's proportionate share of the net pension liability (asset) as a percentage of covered payroll	(29.65%)	(29.45%)	-(101.26%)	11.38%	8.54%
Plan fiduciary net position as a percentage of the total pension liability	101.54%	106.73%	120.29%	97.22%	97.77%

	2018	2017	2016	2015
County's proportion of the net pension liability (asset)	10.29%	10.14%	10.52%	10.36%
County's proportionate share of the net pension liability (asset)	$ 175,728	$ 352,361	$ 529,855	$ 370,294
Covered payroll	$ 1,072,968	$ 995,800	$ 953,254	$ 949,860
County's proportionate share of the net pension liability (asset) as a percentage of covered payroll	16.38%	35.38%	55.58%	38.98%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of the County's Contributions
Public Employees' Retirement System (PERS) Plan 1
For the Year Ended December 31*
(dollars in thousands)

	2023	2022	2021	2020	2019
Contractually required contributions	$ 53,584	$ 53,488	$ 56,706	$ 60,884	$ 62,259
Contributions in relation to the contractually required contributions	53,584	53,488	56,708	60,884	62,259
Contribution deficiency (excess)	$ -	$ - **	$ (2)	$ -	$ -
Covered payroll	$ 1,590,944	$ 1,388,530	$ 1,316,507	$ 1,306,676	$ 1,245,598
Contributions as a percentage of covered payroll	3.37%	3.85%	4.31%	4.66%	5.00%

	2018	2017	2016	2015
Contractually required contributions	$ 59,366	$ 54,111	$ 50,154	$ 25,283
Contributions in relation to the contractually required contributions	59,366	54,111	50,154	25,283
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 1,154,804	$ 1,082,715	$ 1,028,598	$ 507,206
Contributions as a percentage of covered payroll	5.14%	5.00%	4.88%	4.98%

* This schedule is to be built prospectively until it contains ten years of data.
** The excess contribution in PERS 1 and deficiency in PERS 2 resulted from the employer contributions of King County Flood Control District, a component unit of the County.

Schedule of the County's Contributions
Public Employees' Retirement System (PERS) Plan 2/3
For the Year Ended December 31*
(dollars in thousands)

	2023	2022	2021	2020	2019
Contractually required contributions	$ 95,119	$ 86,165	$ 92,418	$ 101,390	$ 93,935
Contributions in relation to the contractually required contributions	95,119	86,165	92,416	101,390	93,935
Contribution deficiency (excess)	$ -	$ - **	$ 2	$ -	$ -
Covered payroll	$ 1,495,774	$ 1,336,109	$ 1,264,018	$ 1,251,724	$ 1,188,641
Contributions as a percentage of covered payroll	6.36%	6.45%	7.31%	8.10%	7.90%

	2018	2017	2016	2015
Contractually required contributions	$ 84,792	$ 72,763	$ 62,650	$ 72,853
Contributions in relation to the contractually required contributions	84,792	72,763	62,650	72,853
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 1,103,984	$ 1,031,418	$ 977,342	$ 933,304
Contributions as a percentage of covered payroll	7.68%	7.05%	6.41%	7.81%

* This schedule is to be built prospectively until it contains ten years of data.
** The excess contribution in PERS 1 and deficiency in PERS 2 resulted from the employer contributions of King County Flood Control District, a component unit of the County.

Notes to Pension Required Supplementary Information

For PERS, the Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 the Revised Code of Washington (RCW).

Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. The actuarial valuation with a June 30, 2019, valuation date, completed in the fall of 2020, plus any supplemental contribution rates from the preceding legislative session, determined the ADC for the period beginning July 1, 2021 and ending June 30, 2023.

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates could be different pending the actions of the governing bodies.

For cost-sharing plans, OSA calculates the contractually required contributions (CRC) using the same assumptions and methods as the ADC except the CRC reflect the adopted contribution rates for the time period shown, which might differ from the contribution rates produced for the ADC.

A ten-year schedule of Annual Money-Weighted Rates of Return is available in the 2023 Washington State Department of Retirement Systems Annual Comprehensive Financial Report (ACFR). The ACFR is available online at 2023 ACFR Document (wa.gov).

Schedule of the County's Changes in Total OPEB Liability and Related Ratios
For the Year Ended December 31*
(dollars in thousands)

	2023	2022	2021	2020	2019
Total OPEB liability - beginning of year	$ 92,158	$ 106,488	$ 106,619	$ 111,272	$ 111,412
Service cost	2,936	3,044	2,865	2,220	2,155
Interest	3,723	1,960	2,125	4,149	4,138
Differences between expected and actual experience	(65)	6,526	-	(8,646)	-
Changes of assumptions	1,728	(19,885)	1,300	3,310	-
Benefit payments	(3,478)	(3,863)	(4,404)	(3,922)	(4,953)
Implicit rate subsidy fulfilled	(2,888)	(2,112)	(2,017)	(1,764)	(1,480)
Net change in total OPEB liability	1,956	(14,330)	(131)	(4,653)	(140)
Total OPEB liability - end of year	$ 94,114	$ 92,158	$ 106,488	$ 106,619	$ 111,272
Covered-employee payroll	$ 1,440,957	$ 1,395,600	$ 1,370,460	$ 1,324,116	$ 1,219,237
Total OPEB liability as a percentage of covered-employee payroll	6.53%	6.60%	7.77%	8.05%	9.13%

	2018
Total OPEB liability - beginning of year	$ 118,120
Service cost	2,092
Interest	4,147
Differences between expected and actual experience	3,332
Changes of assumptions	(9,652)
Benefit payments	(5,244)
Implicit rate subsidy fulfilled	(1,383)
Net change in total OPEB liability	(6,708)
Total OPEB liability - end of year	$ 111,412
Covered-employee payroll	$ 1,217,867
Total OPEB liability as a percentage of covered-employee payroll	9.15%

* This schedule is to be built until it contains ten years of data.

Notes to OPEB Required Supplementary Information

The plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, salary projections, benefit terms, and participation percentages.

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Metropolitan King County Council
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the King County Public Transportation Enterprise Fund (the Fund), which comprise the statement of net position as of December 31, 2023, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 8, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Seattle, Washington
May 8, 2024

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