
To: STA Board of Directors

From: Karl Otterstrom, Chief Executive Officer
Robert Hamud, Chief Financial Officer

Date: June 4, 2026

Subject: Connect 2035 Funding and Related Financial Context and Considerations

Introduction

This memo addresses STA's current financial position, the factors that shaped it, and the intended use of cash reserves in implementing the *Connect 2035* strategic plan. Key findings in this memo include:

- STA's financial model has long relied on voter-approved sales tax, disciplined reserve management, and a zero-debt approach to funding service and capital investment.
- The 2016 voter-approved 0.2% sales tax funded a substantial expansion in service and supporting infrastructure, with ongoing operating costs that continue beyond the current 2028 sunset.
- STA's current cash balance reflects prudent financial stewardship, stronger-than-forecast sales tax growth, and one-time external funding, rather than excess unrestricted funds available for ongoing operations.
- Renewal of the 0.2% sales tax is important to sustain existing transit service and maintain eligibility and competitiveness for state and federal funding.

Historical Background

STA began providing public transportation services shortly after a ballot measure was approved by voters on March 10, 1981, authorizing a sales and use tax of up to 0.3% to fund public transportation in the Spokane County Public Transportation Benefit Area (PTBA). Sales and use tax is the only local-option tax mechanism directly available to PTBA authorities in Washington State. In addition to sales tax, STA's ongoing capital and operating programs were sustained by state motor vehicle excise tax (MVET), fare revenue, and federal formula grants.

In 2004, voters authorized an increase of an additional tax of 0.3% to compensate for the permanent loss of MVET distributions that previously matched local sales tax. Since its

inception, STA has avoided debt, maximizing its revenue stream to operate transit services, while maintaining operating reserves to address fiscal and economic variabilities. The zero-debt policy was formally adopted into the agency’s comprehensive plan, *Connect Spokane*, in 2010.

The economic downturn commonly referred to as the “Great Recession” resulted in a multi-year decline in sales tax in 2008 and 2009 that negatively impacted STA’s finances. Annual sales tax growth subsequently stagnated, such that it took until 2014 for STA’s annual sales tax revenue to exceed that which was collected in 2007. During that time, STA implemented two rounds of service reductions in 2010 and 2011 to address the structural financial gap and its projected long-term consequences.

Despite the service cuts, ridership grew, and in early 2012, the STA Board of Directors began a planning process, known as “*STA Moving Forward*,” to identify opportunities for improvements and expansion of transit across the region. The planning process included a sequence of evaluative and deliberative steps to arrive at a package of projects that would be advantageous for the community and feasible to implement with potential new resources that could be secured with voter approval.

As part of the development process of a final package of potential improvements, the STA Board of Directors explored potential implementation paths that would allow the agency to deliver improvements in service and infrastructure without incurring debt. The chart below was included in a Board workshop held on September 5, 2013, and depicts the concept of new funding for capital and operating projects.

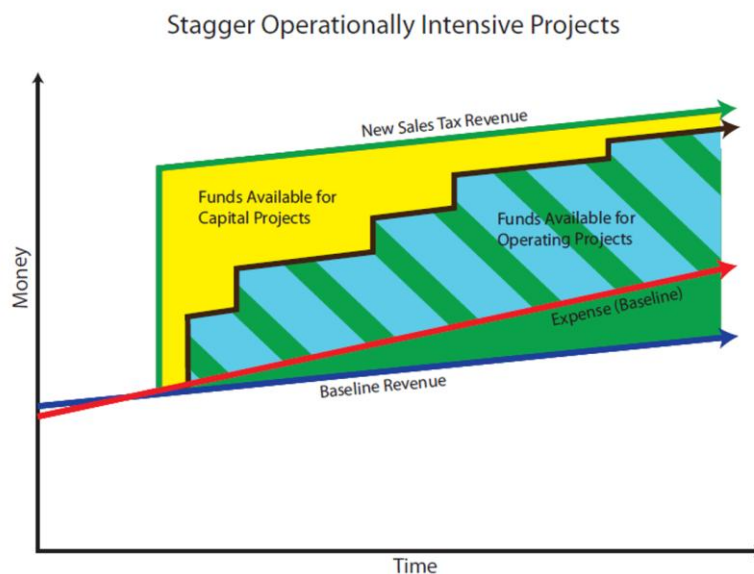


Figure 1 Conceptual Outlays of New Revenue for Transit Expansion, September 2013

Transit is decidedly operations-focused given its ultimate function is moving passengers, therefore, new revenues are largely dedicated to the ongoing operation of new service. Capital investments are essential to facilitating transit service, both to replace aging equipment and infrastructure, and to improve the convenience, quality and safety of transit services and facilities. If those capital improvements are funded with debt financing, a new ongoing cost is introduced into the equation to repay the debt, including interest payments. In the illustration above, the annual expense to repay the debt would reduce the share of funding available to add and maintain new service.

In November 2016, voters approved a proposition authorizing an additional 0.2% sales and use tax to maintain and improve transit. *STA Moving Forward*, STA's first strategic plan, was central to the planned transit expansion funded through the 2016 measure and was to be implemented over a ten-year period. The measure included a sunset clause, stipulating an expiration of the tax no later than December 31, 2028. The sunset clause was included by the STA Board of Directors in the proposition to demonstrate accountability to taxpayers for the commitments of the *STA Moving Forward* plan.

Since 2016, STA has increased Fixed Route (bus) service by over 35% or approximately 140,000 annual revenue hours, significantly higher than the 25% increase originally committed to in 2016. Revenue hours represent additional buses, coach operators, mechanics, and support staff to manage the larger system. STA has also invested in expanded and improved infrastructure to support the operations and to increase the quality and accessibility of bus service for customers. While STA is nearing the substantial completion of all investments in the *STA Moving Forward* plan, the continuation of existing service and any service growth relies on continued funding beyond the 2028 sunset,

Current Conditions and Opportunities

Spokane Transit finds itself well-positioned financially as of June 2026 with a strong cash balance that includes both restricted reserves and funding to fulfill STA's proposed 2027-2032 Transit Development Plan (TDP). This forecast includes the assumption that voters reauthorize the 0.2% sales tax first authorized in 2016 at the end of 2028. STA's sales tax revenues exceeded the initial forecast for the *STA Moving Forward* initiative in 2016 due to both the increase in population growth and the broadening of the sales tax base. According to statistics from the Washington Office of Financial Management, the Spokane County PTBA population growth was higher than forecasted, going from a population of 413,045 in 2015 to 481,616 in 2025. This represents a 17% increase over ten years compared to the estimated Growth Management Act forecast of 10% over that time period.

Sales tax changes during this time period include:

- Newly collected tax on out-of-state e-commerce retailers after *Wayfair v. South Dakota* US Supreme Court decision in 2018, and a doubling of the portion of e-commerce as a part of total retail sales.
- Ending of sales tax exemptions in 2019 for Alaska, Alberta, Oregon, and Montana residents that pay for goods and services within the Spokane PTBA.
- Large scale construction projects such as the North-South Corridor and Spokane Airport rehabilitation and expansion that added to the sales tax revenues.

In addition to extraordinary yet temporary increases in sales tax growth, STA was the recipient of \$83 million in federal relief funding during the COVID-19 Pandemic as detailed in the next section. This funding, coupled with favorable tax revenues, prompted the development of a new strategic plan, “*Connect 2035*,” to define investments beyond that which was committed to in *STA Moving Forward*.

Developed over a three-year period from 2022 through 2024, *Connect 2035* is a plan that promotes and expands “an accessible, reliable, and connected transportation network,” which is in line with the voter’s intentions when they approved *STA Moving Forward* in 2016, and nearly \$141 million of local funds be directed specifically towards these projects and initiatives over the next ten years. Through the planning process, the STA Board updated its mission and vision statements and identified three strategic goals that have become the means to organize and think about over 40 distinct initiatives identified in the plan that could be implemented for a ten-year period beginning in 2025.

Exemplifying Transparency and Accountability

STA has a proven track record of providing fiscal responsibility and taxpayer accountability through its history of clean audits, publicly available information and the securing of competitive grant funding for its major projects as indicated in the following paragraphs.

STA’s cash balance reflects responsible fiscal stewardship positively influenced by external factors.

STA’s 2025 preliminary unaudited end of year cash and cash equivalents of \$248.3 million is the result of several factors over multiple years that provided STA with a unique opportunity to implement one-time projects through *Connect 2035*. In addition to the sales tax revenue increases previously discussed, other contributing factors include:

- \$83 million in federal dollars awarded during and after the Covid Pandemic through CARES Act of 2020, ARPA of 2021, and the CRRRA Act of 2021. STA fully spent these funds by the end of 2023, enabling a temporary reduction on the reliance on local

sales tax for operating expenses and thereby contributing to STA's favorable cash balance.

- New transit funding approved in 2022 through the state's Move Ahead Washington program that included funding increases available from the newly established Carbon Emission Reduction Account:
 - STA was appropriated \$16.2 million for the State transit support grant and \$8.1 million for the Paratransit support grant in the 2025-2027 biennial State Transportation Budget, respectively.
 - State funds allowed STA to deliver more service than originally planned in *STA Moving Forward*.

The 0.2% sales and use tax helps STA qualify for key state and federal funding programs.

- STA has zero debt in the history of the agency, and the 0.2% sales tax continues the ongoing support for STA's services and projects.
- The 0.2% assists STA in securing the ongoing State Transit Support Grant, which helps offset costs for the Youth Ride Free program that was implemented in 2022. The 0.2% also supports eligibility for the Paratransit and Special Needs Grant program that helps fund paratransit services. Under state law, STA would not be eligible for these state grants if the 0.2% is not renewed.
- Federal and state grant funding, estimated to account for 22% of all agency revenue over the next six years, is contingent on maintaining a stable local share of revenue in a competitive funding environment. The ending of the 0.2% sales tax would reduce STA's ability to match competitive funding grants, including the \$82 million of already appropriated federal funds for the Division BRT project. It's important to note that STA's ability to secure the original federal grant for the City Line BRT project was similarly contingent on the local funding provided by the 0.2% sales tax.

STA continues its legacy of accountability and transparency with clean audits and designated reserve funds.

The agency has received clean financial audits dating back to 2008 and is audited annually by the Washington State Auditor and triennially by the Federal Transit Administration. STA is committed to transparency and stronger accountability on its cash balance. In April 2026, the Board of Directors approved creating designated special revenue and reserve funds for better tracking and reporting beginning with the 2027 annual budget. Reserves and funds are set aside by policy for specific purposes such as general fund reserves, capital spending, and vehicle replacement. Setting clear reserve and funding categories helps the public see what money is designated for, what is available, and what is not.

Clarification on STA revenues

Approximately 75% of the agency's revenue comes from voter-authorized sales taxes. This includes, but is not limited to, the 0.2% sales tax authorized in 2016. (It was recently incorrectly asserted that STA misstated this figure.) The 0.2% tax funds the ongoing operating costs tied to the 35% service increase delivered through *STA Moving Forward*. In other words, the 0.2% supports the buses, drivers, fuel, maintenance, and day-to-day costs needed to keep that added service running. Not renewing the 0.2% sales tax would require using cash reserves to fund these ongoing expenses, which would drain the reserves by as early as two years after its current expiration.

Conclusion

STA is committed by policy and practice to continue its fiscal resilience into the future. This includes cash funding of the local share of projects at all times, continuing the zero debt policies and carrying reasonable, Board-mandated reserves. While many elements of funding are beyond the direct control of the organization, STA's track record of fiscal discipline established through practices and policies will ensure STA continues to exemplify financial stewardship into future. These same practices and policies will be critical to STA's delivery of the goals and initiatives of the *Connect 2035* plan, should sales tax funding be reauthorized by voters.