



## Summary Minutes

### Finance and Audit Committee Meeting July 16, 2020

#### Call to order

The meeting was called to order at 1:02 p.m. by Committee Chair Nancy Backus virtually on WebEx.

Due to the Governor's Stay Home – Stay Healthy Order issued on March 23, 2020, public viewing of the meeting was only available via WebEx. The meeting was streamed on <https://soundtransitpublic.webex.com/soundtransitpublic/onstage/g.php?MTID=ebbc51f9a9cb7dcf00ff683698778cfd4>.

#### Roll call of members

Chair	Vice Chair
(P) Nancy Backus, Auburn Mayor	(A) Bruce Dammeier, Pierce County Executive

Board Members	
(A) Dow Constantine, King County Executive	(A) Roger Millar, WSDOT Secretary
(A) Joe McDermott, King County Councilmember	(P) Patty Rubstello, WDOT Secretary alternate
	(P) Ed Prince, Renton Councilmember
	(P) Dave Somers, Snohomish County Executive

Adam Montee, Board Relations Specialist, announced that a quorum of the Committee was present at roll call.

#### Report of the Chair

None.

#### CEO Report

Chief executive officer Peter M. Rogoff gave the CEO Report.

Federal Way Groundbreaking Video – The day of the meeting, a video was released marking the groundbreaking of the Federal Way Link Extension. Traditionally, groundbreakings were celebrated on site, but due to the COVID-19 Pandemic, the event became the agency's first-ever "virtual groundbreaking." The video featured Board Chair Keel, Vice Chair Constantine, Boardmembers Von Reichbauer, Upthegrove, and Millar, Kent Mayor Ralph, Federal Way Mayor Ferrell, Labor Liaison Riker, and community members from throughout the Federal Way area.

Annual Report – The 2019 Annual Report was released the day of the meeting in an online-only format for the first time. The report to shareholders about the agency's finances including an independent auditor's report from Moss Adam's LLP.

State Auditor's Office Performance Audit – CEO Rogoff prefaced the presentation on the State Auditor's Office performance audit on improving Sound Transit's project planning and design to reduce costs. Sound Transit provided a response to the State Auditor's Office which would be presented later in the

meeting by DECM Executive Director Ron Lewis and Joe Gildner, Deputy Director of Project Management. Deputy Chief Executive Officer Kimberly Farley and Mr. Lewis were attending the Joint Legislative Audit & Review Committee public hearing on the audit being held on July 22, 2020 as well.

National Rally with Transit CEOs – On Tuesday, July 14, 2020, Mr. Rogoff took part in a virtual rally with other national transit leaders who called on the U.S. Senate to follow the lead of the House by approving a COVID-19 relief package. The financial aid to the industry would help replenish transit funding and enable transit agencies to play a critical role in economic recovery. In addition to a rally, a joint letter was sent to Senate leaders.

Rob Gannon Resignation – On July 15, 2020, Rob Gannon, General Manager of King County Metro, announced that he was leaving his position at the end of July to take a job as the Chief Financial Officer for the City of Missoula, Montana. Mr. Rogoff recounted the many commendations and achievements Mr. Gannon accomplished in his four years as King County Metro General Manager and wished him well.

Emmett Heath Retirement – Emmet Heath, CEO of Snohomish County's Community Transit announced earlier in the month that he planned on retiring after 40 years in public service, including six years as CEO of Community Transit. Mr. Rogoff recounted the many achievements accomplished by Mr. Heath and thanked him for his service to the region.

## Public comment

Chair Roberts announced that due to the Governor's stay home stay healthy order, public comment would only be accepted via email to [emailtheboard@soundtransit.org](mailto:emailtheboard@soundtransit.org). The following people submitted email public comments prior to the meeting.

No public comment submissions were received.

## Business Items

March 19, 2020, Finance and Audit Committee minutes

**It was moved by Boardmember Prince, seconded by Boardmember Somers, and carried by unanimous vote that the minutes of the March 19, 2020, Finance and Audit Committee meeting be approved as presented.**

## Chief Financial Officer Report

Chief Financial Officer Tracy Butler gave the report. She reviewed the May 2020 year-to-date tax revenue performance, highlighting the decreased collections in sales tax, MVET, and April 2020 rental car tax. She forecasted a 2020 revenue of \$1.3 billion, which is 72 percent of the 2020 budget.

Year-to-date transit operating expenses through May were at 97 percent of budget, primarily due to reduced service, although contractual costs were fixed and would be realized regardless of service reductions. May 2020 year –to-date capital expenses were at 94 percent of budget since 80 percent of the agency's construction was suspended in April and 10 percent in May due to COVID-19 restrictions. Year-end forecasts put the expenses at 99 percent of budget. Drastic ridership declines were realized across all modes due to the COVID-19 pandemic. Likewise, fare revenue was projected to be 65 percent under budget by the end of 2020 and farebox recovery rates were forecast to be well below the agency's targets. The large decrease in revenue led to an anticipated depletion of the agency's cash reserves by mid-2021.

Ms. Butler provided an update on the economic status of the region in relation to Sound Transit. She compared what is known about the state of the economy versus impactful factors which were not yet

known. With the information available, under a moderate recession scenario, revenue losses were projected to be \$753 million in 2020 and 2021, or 22 percent. For the period between 2020 and 2041, losses were projected to total \$7.2 billion, or an 11 percent loss. Under a severe recession scenario, the losses were projected to be \$912 million and \$11.9 billion respectively.

Under the previously mentioned severe recession scenario, the agency's legal debt limit was projected to be reached by 2028, rendering the program unaffordable. Ms. Butler stressed that this was not a static scenario and there were steps the Board of Directors could take to mitigate the trend.

Ms. Butler informed the committee that the standard financial planning and budgeting efforts would be altered in light of the economic circumstances. For example, the financial plan was being updated on a monthly basis as opposed to annually to capture new data, and spending reductions were taking place across the agency in 2020 and would be reflected in the 2021 budget. She reviewed the information which would be provided at the next Finance and Audit Committee meeting in October, and the high level steps to be taken going forward.

## **Audit Update**

### 2019 Financial Audit Report Review

Laurie Tish, Partner and Moss Adams, provided the presentation. She reviewed completed 2019 financial audits notifying the committee that there were no findings. The review of significant accounting policies and unusual transactions found nothing of note. In respect to management judgements and accounting estimates, all actions were deemed to be reasonable. No significant difficulties were encountered during the audit and no disagreements were had with management. There were no corrected or uncorrected audit adjustments noted and the team was not aware of any significant accounting or auditing matters for which management consulted with other accountants. A management representation letter was provided, which was available to the Committee upon request.

Finally, Ms. Tish provided a summary of other projects in progress, such as an audit of the Regional Fare Coordination System which was presented to the Joint Board on April 13, the Agreed upon Procedures for the Federal Transit Administration – National Transit Database reports which had no findings, and the Agreed Upon Procedures on the Schedule of Sources and Uses of Funds by Subarea, which was expected to be complete by July 31, 2020.

### State Auditor's Office Performance Audit Results

CEO Rogoff informed the Committee that as part of the agency's internal restructuring effort and as a cost savings initiative, the Internal Audit Department and Safety Audit Department were combined, creating a single audit group. He introduced Patrick Johnson as the new Director of Audits.

Mr. Johnson reviewed the steps for the 2019 Performance Audit performed by the State Auditor's office and then introduced the representatives from the State Auditor's Office, Michael Huynh and Holland Kitchell. Mr. Huynh outlined the key questions investigated during the audit and the factors which prompted the audit.

The audit found that change orders were common in construction but can be costly and should be minimized by the agency. Many of the factors driving change orders had to do with issues in design deficiencies and insufficient research. More planning work around underground conditions, in particular, prior to construction could reduce rework and other change orders, such as efforts undertaken by the Regional Transportation District of Denver and Los Angeles Metro. Similarly, additional exploration of underground conditions prior to design could have saved money in the Tacoma Link Extension. Finally design deficiencies, like the UW Station escalators, could be avoided by double checking key areas and adopting standard review checklists.

The audit recommended improvements to the design review process to reduce avoidable design deficiencies, use of information from investigations and change orders to help determine the likelihood of adverse underground conditions, and the development of a formal, agency-wide lessons learned program to track and incorporate lessons into future project planning.

Ron Lewis, Executive Director of Design, Engineering, and Construction Management, and Joe Gildner, Deputy Director of Project Management, presented Sound Transit's management response. Mr. Lewis advised that for the nearly \$2.3 billion in construction projects reviewed by the State Auditor's office, the total change order amount was \$172 million, or approximately eight percent which is within the standard range for the construction industry. Mr. Lewis described the various categories of change orders which made up the \$172 million which consisted of betterments, design deficiencies, errors and omissions, and other reasons.

Mr. Gildner explained that change orders are common and routine in construction projects. Much of it revolves around the risk allocation of a contract, which varies depending upon the type of construction project and the type of delivery methodologies used. The degree to which risks materialize drive the change orders during any given project. Mr. Gildner used differing site conditions as a common example of a perpetual risk. He recalled various agency projects which experienced challenges due to differing site conditions and detailed the degree to which hydro-geologic nature of the region plays into those conditions.

Mr. Lewis reviewed the actions which were underway to address suggestions made by the State Auditor's Office. One such action was to update design deliverable expectations including field investigations early in the planning process, and to develop an ongoing lessons learn program. Mr. Lewis advised that the agency held the belief that had the State Auditor's Office performed a more in-depth review of change orders, they would have found many instances of successes in addressing challenges which frequently arise during large construction projects. He added that the agency had a proven record of implementing improvements based on previous projects and operating conditions and that improvements to processes were already underway and the audit suggestions would inform those improvements.

Boardmember Somers asked if there were an industry standard for a lessons learned database. Mr. Lewis advised that there was no "off the shelf" process, but the agency was in communication with RTD in the Denver area and Los Angeles Metro to learn from them. He admitted that while the agency had a lessons learned program, it was not as robust as it could be, and the agency's work aimed to improve it.

#### Internal Audit Update

Mr. Johnson provided an update on recently completed internal audits. The two audits completed were the safety assurance program Audit and work order process audit. He advised that audit reports and management responses were provided to the Boardmembers on both audits and that in-depth updates would be provided at a future meeting.

### **Executive session**

None.

### **Other business**

None.

## **Next meeting**

Thursday, October 15, 2020  
11:00 a.m. to 12:30 p.m.  
Location to be determined

## **Adjourn**

The meeting adjourned at 2:25 p.m.

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Nancy Backus  
Finance and Audit Committee Chair

ATTEST:

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Kathryn Flores  
Board Administrator

APPROVED on \_\_\_\_\_. AM.