



## Summary Minutes

### Finance and Audit Committee Special Meeting October 14, 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 Safe Start, Stay Healthy Order, 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) Dylan Counts, 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

Capital Program Realignment – Chair Backus thanked the Board of Directors for its recent work on approving the advancement of various previously halted projects and informed the Committee that it would be receiving information on the Capital Program realignment effort from a more financial perspective during the meeting.

#### CEO Report

Federal and State Update – CEO Rogoff advised that uncertainty around a COVID relief bill persisted, however the U.S. House of representatives passed a revised HEROES Act, which included \$32 billion in funding for transit agencies. Sound Transit would receive \$375 million in additional funding on top of previously issued grants. At the state level, CEO Rogoff and Board Vice-Chair Roberts participated to the Evergreen Transportation Coalition, which would hopefully help decision makers in Olympia improve future transportation investment decisions in the future. Staff also provided some key legislative transportation leaders with budget and realignment updates over the previous weeks which were intended to inform legislators of the agency's current financial picture.

## Public comment

Chair Backus 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).

No public comment submissions were received.

## Business Items

July 16, 2020, Finance and Audit Committee minutes

**It was moved by Boardmember Somers, seconded by Boardmember Prince, and carried by unanimous vote that the minutes of the July 16, 2020, Finance and Audit Committee meeting be approved as presented.**

## Chief Financial Officer Report

Chief Financial Officer Tracy Butler gave the report. She reported that as of August, 2020, transit operating expenses were at 95 percent of the budget. She noted that because reconciliation did not happen until 2021, there wouldn't be a clear picture of operating expenses until that point. Project spending was at 93 percent of spending. Link project spending was at 97 percent of the plan and was expected to exceed the 2020 budget by the end of the fourth quarter. Revenues were at 88 percent of the 2020 budget. Due to this inequity, Sound Transit would be quickly spending down its cash reserve. Staff expected the cash reserve to be exhausted by mid-year of 2021 and the agency would need to draw upon TIFIA loan proceeds to make up the difference.

## Review of Proposed 2021 Budget and Financial Plan Projections

Tracy Butler, Chief Financial Officer, provided the presentation, explaining that the committee would review the long range financial plan and the proposed 2021 budget at a high level. Committees would review their portions of the proposed 2021 Budget.

She advised that current forecasts rendered the program unaffordable without realignment work which was underway. Due to COVID-19 related circumstances, \$2.7 billion in expenditures would be unfunded. \$2.1 billion of that was due to a decrease in available funds, comprised of a combination of loss of fare revenue and tax revenue, offset by federal grants, additional debt, and other factors, mostly attributed to interest income. She then detailed each of the factors which combined to net the \$2.1 billion revenue decrease. A \$600 million net increase in costs completed the total of \$2.7 billion, which was driven by operating and state of good repair costs and debt service, offset by decreases in capital cost escalation. Ms. Butler detailed the various factors which contributed to this net total. She explained that this was very uncertain time for forecasting construction costs.

Ron Lewis, Executive Director of Design, Engineering, and Construction Management added that large construction projects across the region were proceeding, unlike the last large recession in 2008, driving costs upward. Ms. Butler advised that lower inflation reduced expenses, but also led to lower property tax revenue and a lowered debt limit.

She compared the 2019 and 2020 Financial Plan debt capacity forecasts, which lowered over the course of the year due to a combination of increased borrowing and decreased property values. She demonstrated the effect that program realignment would have. A blanket four-year delay would make the program affordable. She stressed that this was only used as an example and was not staff's recommendation.

A severe recession scenario, however, could potentially lead to a forecasted \$12 billion in tax revenue loss. She demonstrated a similar comparison of 2019 and 2020 debt capacity. In the case of a severe recession scenario, a blanket five-year delay would still not make the program affordable.

Considerations needed to manage the financial plan moving forward included scope discipline across the entire program, containing operating expense growth, and pursuit of additional funding and debt capacity options.

Mr. Rogoff advised that developing the Long Term Financial Plan was generally a difficult task, but that this was perhaps the most uncertain financial plan provided to the Board since economic conditions were so uncertain. The plan was constantly being updated as new data was made available, especially as realignment discussions advanced.

Ms. Butler reviewed the 2021 budget goals, which intended to achieve efficiencies and fiscal discipline by tightly managing expenses, to follow program realignment guidance, and to maintain long-term fiscal sustainability. She reviewed the process and advised that additional action may be required in 2021 depending on ridership trends.

She reviewed major cost-saving initiatives between 2020 and 2021 which included position control, salary and benefit reductions, and 9.2 percent reduction of total non-labor costs through two control exercises.

\$1.8 billion in tax revenue was sought for 2021. MVET and sales tax revenues were expected to be reduced in 2021. Property taxes were expected to increase by 11 percent, however decreases were anticipated in 2022 consistent with past recessions. Rental Car taxes decreased as well. Total tax revenue was approximately 13 percent below what was forecasted prior to the COVID-19 pandemic. Taxes represented around 66 percent of the agency's total funding resources. Other revenues totaled \$1.2 billion. Ms. Butler briefly reviewed 2021 expenses. 2021 project expenses totaled \$2.5 billion and transit operating budget expenses totaled \$381 million. She advised that the budgeted amount would likely be higher than what the agency would end up paying due to reduced ridership, and delayed partner agency reconciliation. Debt service and other costs totaled \$208 million.

To limit expenses, the agency would maintain costs at 2020 levels with growth only in the areas necessary to support system expansions at Northgate and the Operations and Maintenance Facility – East. It would also adjust purchased transportation service levels to meet ridership demand. With that in mind, a budget increase may be needed if ridership increased above projected levels.

Mr. Rogoff advised that the capital budget was going to be increased due to the ongoing construction projects. The operating budget was the most austere offered in such a time of growth. If more riders returned than planned, staff would likely return to the Board for a budget amendment to increase service as needed.

## **Audit Update**

### 2020 Financial Audit Entrance – Moss Adams

Laurie Tish, Partner and Moss Adams, provided the presentation. She reviewed the various audit activities related to Moss Adams's responsibilities as the agency's auditor and the relationship with the Board, management.

She outlined the various steps of the audit process in detail, from internal control investigation, to analytical procedures, to substantive procedures. Since 2020 was a unique year, more attention would be paid to substantive procedures.

Amy Sutherland, of Moss Adams, explained that certain requirements which would have been instituted in 2020 were delayed. Certain requirements would need to be implemented, and others were issued

which necessitated review by Sound Transit as to whether the agency's retirement plans would need to be reported as financial activity. She briefly reviewed the areas of audit emphasis and explained the procedure for review of any potential fraud. Finally she outlined the timeline for the audit.

#### 2019 Accountability Audit Entrance – State Auditor's Office

Joe Simmons, Daniel Thompson, and Eileen Du from the State Auditor's Office provided the report. Mr. Simmons advised that the team was early in the process and that specific topics were still in development.

Mr. Thompson outlined the scope of the accountability audit. He advised that the office provided and received back the signed engagement letter. Other auditors were working on financial and matters and the office would focus on other matters to ensure no crossover. He reviewed the various levels of reporting.

Ms. Du explained important factors which included dispersal of confidential information, communications, and dispute processes. She advised that the office was peer reviewed, and a survey would be available after the audit was complete.

#### Internal Audit Update

Patrick Johnson, Audit Director provided the presentation. He reviewed status of internal audits, eight of which were complete at the time. He advised that following a delay in 2019 audits, the department would be caught up by the end of the year. He explained the Construction Contract Procurement Process Audit and advised that there were no findings.

#### Discussion and Potential Action to carry over 2020's Performance Audit Topic to 2021

Mr. Johnson advised that procurement for the 2020 Performance Audit on construction performance metrics management was delayed several times due to the COVID-19 pandemic. He recommended carrying over the topic into 2021 instead of choosing a new topic.

Chair Backus informed the Committee that because it was in a special meeting, it could not take an action on selecting the 2021 performance audit topic, but would take up the matter at its December meeting.

### **Executive session**

None.

### **Other business**

None.

### **Next meeting**

Thursday, December 17, 2020  
11:00 a.m. to 12:30 p.m.  
Virtually via WebEx

## **Adjourn**

The meeting adjourned at 2:32 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.