



Summary Minutes

Finance and Audit Committee Meeting October 21, 2021

Call to order

The meeting was called to order at 12:00 p.m. by Committee Chair Nancy Backus virtually on WebEx.

The meeting was streamed on

<https://soundtransit.webex.com/soundtransit/onstage/g.php?MTID=ed22c19fb5d06f6bec472119472c3ad0d>

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	(P) Dylan Counts, WSDOT Secretary alternate
(P) Joe McDermott, King County Councilmember	(P) Ed Prince, Renton Councilmember
	(P) Dave Somers, Snohomish County Executive

Katie Flores, Board Administrator, announced that a quorum of the Committee was present at roll call.

Report of the Chair

None.

CEO Report

CEO Peter Rogoff gave the CEO Report.

Federal Update – Conversations and negotiations regarding the bipartisan infrastructure bill continue. The Senate Appropriations Committee released its remaining nine appropriations bills for fiscal year 2022. The Transportation, House and Urban Development bill included a Congressionally Directed Spending Project for Sound Transit secured by Senator Murray allocating \$3 million for the I-405 BRT Project, but was not yet finalized.

Public comment

Chair Backus announced that public comment would be accepted via email to emailtheboard@soundtransit.org and would also be accepted verbally.

There were no written or verbal comments.

Business Items

July 15, 2021, Finance and Audit Committee meeting minutes

It was moved by Boardmember Somers, seconded by Boardmember Prince, and carried by

unanimous voice vote of the committee members present that the minutes of the July 15, 2021, Finance and Audit Committee meeting be approved as presented.

Chief Financial Officer Report

Boardmember McDermott arrived at this time.

Chief Financial Officer, Tracy Butler, gave the report. She reviewed the year-to-date as of August 2021 tax revenue performance. Tax revenues were \$208 million over budget, due largely to the Federal stimulus packages. She expected the final year-end revenues would land at 19 percent above budget.

Ridership was \$5.8 million under budget, although all modes continued to trend upward. Relatedly, fare revenues and farebox recoveries were 50 percent, or \$14.6 million below budget. Year-end forecasts expected this to improve to 38 percent, or \$33.8 million below budget. Farebox recovery ratio was below policy target mainly due to low ridership and fare compliance hardships returning to pre-COVID levels. August 2021 data was compared to August 2019 data and it showed a significant increase in non-fare boardings across all modes.

Operating expenses were 6 percent, or \$15.9 million below budget likely due to timing of expenses, partnership reconciliation, higher full time employee vacancies, and timing of Downtown Seattle Transit Tunnel (DSTT) transition. The 2021 budget assumed the DSTT transition in Q3 and has shifted to take place during Q1 of 2022.

System Expansion Projects were 18 percent, or \$247.7 million under budget. Link was 14 percent below budget, Sounder was 39 percent under budget, Region express was 94 percent under budget, Stride was 62 percent under budget, and Tacoma Link was 17 percent under budget.

Non-System expansion projects were 51 percent, or \$24.6 million under budget and was expected to perform at 70 percent of budget by year end. Enhancements were \$14.8 million under budget, State of Good Repair (SOGR) was \$8.1 million under budget, and Administrative was \$2.9 million under budget.

Ms. Butler explained that on September 10, 2021, all five TIFIA Loans were refinanced and a new loan was approved for the Downtown Redmond Link Expansion. The refinanced, blended rate was 1.91 percent; a reduction of 2.66 percent. Leading to a projected savings of \$810 million.

Boardmember Somers asked if ridership revenue year-end projects were based on trends observed or just general expectations. Ms. Butler advised that both approaches were used and staff updated projections with ridership data. Boardmember Somers also asked if the system expansion projects were under budget because of underspending and not due to project savings. Ms. Butler confirmed that was the case and also due to delays and right-of-way acquisitions. CEO Rogoff mentioned it was not a reflection of a cancellation to any capital project but a matter of execution, supply chain, and COVID impacts.

Chair Backus asked if cost increases were expected due to the unspent system expansion projects. Ms. Butler explained that staff did not expect any increased costs, but if that were the case, they would bring it to the Board.

Review of Proposed 2022 Budget and Financial Plan Projections

CEO Rogoff reflected on the realignment process work that concluded on August 5, 2021. He noted that in addition to providing the basis to keep projects moving forward, another requirement that was fulfilled was to enable the agency to have a balanced Long-Range Financial Plan. Realignment responded to the challenging financial environment by closing the financial gap that had previously established affordable timelines for advancing every project while simultaneously establishing more ambitious target schedules for four key projects. Meeting those schedules would require intensive and ongoing work to

close affordability gaps by securing additional revenues and by reducing project costs to a great extent while still delivery high-level projects. The Long-Range Financial Plan assumptions may reflect what projections show as affordable at this time, but Mr. Rogoff emphasized that the agency would continue to manage the projects with focus on achieving the target schedules. The realignment plan also reflected a new process for the agency of launching an Annual Program Review to look closely at how the agency was progressing with achieving the targets. The first Annual Program Review would be in the second quarter of 2022. Looking towards the 2046 project completion dates, the Committee would be recipients of more visibility and transparency in terms of future financial projections to guide the agency's work.

Tracy Butler, Chief Financial Officer, explained that the largest financial guideline was the long-range financial plan, which was financial projections through 2046. Below that was the Transit Improvement Plan, which captured approved costs for active projects through 2027. Within that was the annual budget, capturing revenues and expenditures for 2022.

The basis for the financial plan projections were on affordable schedules approved in realignment. Staff continued to manage projects with a focus on achieving the target schedules, however. Ms. Butler outlined the various factors that contributed to the financial projections within the Long-Range Financial Plan.

The realigned financial plan remained affordable, and updates would have little impacts on caps for achieving target schedules. Projected higher revenues were offset by projected higher inflation, higher debt capacity was offset by higher right-of-way costs. As cost growths continued to outpace revenue increases, debt would need to be issued to remain affordable.

Tax revenues were projected to increase by \$2.6 billion driven by increases in sales tax, property tax, and rental car tax revenues. Fare revenues were projected to decrease by \$0.6 billion, or 7.2 percent based on lower near-term ridership expectations. Long term ridership updates were expected in the following six to eight months and projections would be updated accordingly. Capital and State of Good Repair Costs were projected to increase by \$2 billion, or 2.5 percent. Higher inflationary pressures led to capital cost increases of \$1.5 billion and \$500 million in state of good repair costs. Operating cost increases were projected at \$3 billion, or 9.1 percent. Projected purchased transportation drove \$2.1 billion due to East Link staffing additions, forecasted additional Link staffing additions for Lynwood Link Extension, Federal Way, and Downtown Redmond Extension, and Long term purchased transportation cost inflation. Projected Agency costs to keep pace with system growth was \$0.9 billion. Increased bond proceeds were projected to bring an additional \$3.8 billion, however increased debt issuance would lead to \$1.3 billion in increased debt service costs.

Ms. Butler explained the agency's debt capacity through the long-range financial plan. The realigned affordable schedule remained affordable following the update to the financial plan, however the target schedule was still unaffordable.

In spring 2022, the first Annual Program Review required by the Board's realignment plan, Resolution No. R2021-05, would begin. As part of the program review, project-level affordability gaps would be reviewed and updated.

Ms. Butler continued with the proposed 2022 budget overview. She advised that each committee would receive a more detailed briefing on the budget sections under their purview. 2022 Budget priorities focused on maintaining long-term financial sustainability, allocate resources consistent with the realignment resolution, ensure adequate resources to support system expansion, and have service levels and budget reflect current ridership demands. Ms. Butler also outlined the internal initiatives focused on cost consciousness, noting that a revamped non-system expansion project review process prioritized those projects.

2022 tax revenues were \$2.3 billion. Total tax revenues were six percent above the 2021 forecast. Other revenues and financing sources would yield \$1.2 billion. This was 33 percent lower than the 2021 forecast due to lower federal funding. Other revenues and financing sources would yield \$1.2 billion. This was 33 percent lower than the 2021 forecast due to lower federal funding.

2022 proposed expenditures were \$3 billion. 2022 projects would contribute \$2.4 billion. Transit operating costs grew 21 percent over the 2021 forecast. Most of this was due to support to service expansion, while inflation, increased ridership demand, state of good repair and maintenance, and insurance costs increased at smaller rates. Ms. Butler reviewed modal transit operations budgets briefly.

Ms. Butler advised that a mid-year budget adjustment may be needed if ridership increased more than projected or if COVID-19-related costs increased. The Board would receive a similar update at its October, the Committees would review their portions of the Budget in November, along with the property tax levy approval, followed by budget approval in December.

Chair Backus thanked Ms. Butler for her service at Sound Transit, noting that this was her last Finance and Audit Committee meeting. CEO Rogoff added that Sound Transit received clean audits every year thanks to Tracy's hard work.

Audit Update

2021 Financial Audit Entrance – Moss Adams

2021 Accountability Audit Entrance – State Auditor's Office

Chair Backus explained that there would be no presentations on the audit update. The presentation from Moss Adams on the 2021 financial audit entrance was in the Board packets provided to the Committee ahead of the meeting.

Internal Audit Updates

Patrick Johnson, Audit Director, advised that the internal audit reports and a presentation were included in the Board packets provided to the Committee ahead of the meeting.

Executive session – None

Other business – None

Next meeting

Thursday, December 16, 2021
11:00 a.m. to 12:30 p.m.
Virtually via WebEx

Adjourn

The meeting adjourned at 1:19 p.m.

ATTEST:

Nancy Backus
Finance and Audit Committee Chair

Kathryn Flores
Board Administrator

APPROVED on _____. JG.