



Summary Minutes

Finance and Audit Committee Meeting November 21, 2024

Call to order

The meeting was called to order at 10:31 a.m. by Committee Chair Nancy Backus and was available for viewing in person and online.

The meeting was recorded and can be found at <https://www.soundtransit.org/get-to-know-us/board-directors/livestream-video>.

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) Kristina Walker, Tacoma Councilmember
(P) Christine Frizzell, Lynnwood Mayor	(P) Girmay Zahilay, King County Council Vice Chair
(A) Ed Prince, Renton Council President	

Hunter Rancipher, Board Relations Specialist, announced a quorum of the Committee was present at roll call.

Report of the Chair

None.

CEO Report

Interim CEO Goran Sparrman provided the report. He thanked the Board and staff for their work in accelerating the agency's budget timeline, noting that moving forward on this new timeline helps to bring stability and certainty for the agency, its partners, and its contractors. CEO Sparrman also noted that this accelerated process should assist in streamlining the agency's work.

CEO Sparrman also provided a response to questions from the last meeting of the Committee about the agency's State of Good Repair program. He noted that Deputy CEO Russ Arnold and staff are working to bring a more comprehensive report to the Rider Experience and Operations Committee outlining the agency's State of Good Repair efforts.

Public comment

Chair Backus announced that public comment would be accepted via email to meetingcomments@soundtransit.org and would also be accepted virtually and in person.

There were no written, in-person, or virtual comments received.

Community Oversight Panel Presentation to the Committee

Tina Pierce, COP Chair, provided the presentation. She noted that the COP received a presentation from the Audit division at their October 9, 2024, meeting, and were presented with two recommendations for internal performance audit topics: Disaster preparedness and ADA compliance. COP Chair Pierce also noted that the COP was invited to suggest their own topics for recommendation.

COP Chair Pierce reported that, following discussion, the COP agreed to adopt Disaster Preparedness as their recommendation for the 2025 internal performance audit topic for consideration by the Committee.

Board member Frizzell thanked the COP for their recommendation and asked what other topics were considered during their deliberations. COP Chair Pierce noted that other topics considered were Cybersecurity and Enterprise Risk Management.

Business Items

For Final Committee Action

October 10, 2024, Finance and Audit Committee meeting minutes

It was moved by Board member Walker, seconded by Board member Frizzell, and carried by unanimous voice vote of the committee members present that the minutes of the October 10, 2024, Finance and Audit Committee meeting be approved as presented.

For Recommendation to the Board

Resolution No. R2024-25: Adopting an annual budget for the period from January 1 through December 31, 2025, and adopting the 2025 Transit Improvement Plan.

Ryan Fisher, Finance Executive Director, provided the presentation on the 2025 annual budget and Transit Improvement Plan.

Mr. Fisher noted that the Committee had received a presentation on the budget, and that other committees have reviewed their portions of the budget and forwarded them to the Finance and Audit Committee for recommendation to the Board.

Mr. Fisher reported that there is a small growth in capital spending with a shift from Link projects to Stride BRT as ST2 projects enter service, which will require an increase in operating expenses to account for that revenue service. This year, the budget process focused on zero-based budgeting to reduce lower-priority spending. Additionally, the agency is planning to draw down a large portion of remaining TIFIA loans in order to take advantage of interest rates on investments. The agency would expect a \$300 million budget deficit in 2025 without the drawdown.

Mr. Fisher highlighted that, compared to the 2024 budget, the agency is forecasting a 4.3% increase in tax revenue, a 9.9% increase in fares, a 20.3% decrease from grants, a 5.7% decrease from investments, a 16.6% increase in miscellaneous revenue, and a 1,523% increase in TIFIA drawdowns. The total forecast sources for the 2025 budget totals \$4.4 billion.

Mr. Fisher also noted that, compared to the 2024 budget, the agency is forecasting a 2% increase in expansion spending, a 29% increase in modal operations spending, a 63% increase in service delivery projects, a 60% increase in debt service spending, a 0.3% increase in administrative support, and a 10% increase in contingency/other spending. The total forecast spending for the 2025 budget totals \$3.2 billion.

Mr. Fisher provided updates on the changes to the Transit Improvement Plan, highlighting the 201 projects currently active under the 2025 version of the plan. He noted that 8 new projects were added, including the Project Management Information System, as well as 9 other project closures.

Board member Walker asked for additional detail on the payment schedule and process for TIFIA funding. Mr. Fisher responded that the TIFIA loans that are set to be heavily drawn from in 2025 would not be the last loans taken by the agency, and that staff are looking at what future opportunities may be best pursued.

Board member Walker asked what impacts the change in federal administration may have on the agency's funding in the near future. CEO Sparrman responded that staff recognizes that there may be significant changes in the federal policy framework that the agency relies on, and that staff will be working diligently over the next few months to explore what impacts the agency may face, with trips planned to the agency's federal partners to gain a better understanding of what to expect going forward.

Board member Walker asked for clarification if any of the potential changes from the administration may impact the assumptions made in the 2025 budget. Mr. Fisher noted that the TIFIA loans the agency is drawing from in 2025 are already signed and awarded.

It was moved by Board member Walker, seconded by Board member Frizzell, and passed by a unanimous vote of all committee members present that Resolution No. R2024-25 be forwarded to the Board with a do-pass recommendation.

CFO Report

Ryan Fisher, Finance Executive Director, and Jeff Clark, Controller Executive Director, provided the report.

2024 Q3 Financial Report

Mr. Fisher provided the September 2024 year-to-date financial performance report. He highlighted that tax revenues are under budget, although investment income and other revenues are over projected budget figures. He also noted that all expenditures, including operations, system expansion and delivery projects, and debt service, have also been under budget.

Mr. Fisher provided additional details on the underlying causes of the lower-than-expected revenues, noting that tax revenues are under project budget figures primarily due to lower-than-expected sales tax incomes, and that investment incomes are higher than projected due to higher than anticipated interest rates.

Mr. Fisher also provided additional details on the underlying causes of the under-budget expenses, including decreased on-call services costs for Link light rail, lower insurance premiums for Link and Sounder, and lower-than-expected fuel costs for Sounder.

Mr. Fisher reported additional details on system expansion project expenses, highlighting that expenses were under-budget due to timing of the report, and that expenses for East link and Downtown Redmond Link are expected to align closer to budget as the year ends. He also noted that Lynnwood Link came under budget, and that Stride is under-budget due to lower contract spending and materials procurement.

Mr. Fisher also highlighted details from service delivery projects, noting that Downtown Tunnel track repairs and bond box replacements are projected to have savings, and that many other projects will roll over into 2025.

Enterprise Risk Management Update

Mr. Clark noted that staff had shared with the Committee that, earlier in the 2024, efforts were undertaken to establish an Enterprise Risk Management program within the agency, and that this report will provide updates on the status of that effort.

Mr. Clark noted that a current state assessment has been completed with industry best practices have been identified, and that implementation of those practices is now underway. He also noted that future efforts to pursue these improvements will transition from the Finance division to the Agency Oversight department, as part of the agency's Project MOST (Mobilizing One Sound Transit) reorganization.

Board member Frizzell asked for additional details on insurance savings that have been realized. Mr. Clark responded that the agency's insurance cost projections are done far in advance, assuming certain conditions and likely events that would impact insurance rates throughout the year. Since the year's events did not include all the assumptions made in the projection, the agency's actuals came in under-budget.

Quarterly Asset and Liability Management Report

Mr. Clark provided details on the agency's investment portfolio. He noted that Sound Transit currently holds ~\$5.37 billion as of September 30, 2024. He explained that 71% of those investments are unrestricted and noted that staff is monitoring federal reserve actions and will adjust as needed as the reserve eases interest rates over the following months.

Mr. Clark provided further details on the agency's investment returns, noting that the higher-than-projected revenues have been a result of higher investment balances and higher-than-expected interest rates through May.

Mr. Clark also gave an overview of the agency's debt status, noting the agency currently holds approximately \$3.57 billion in outstanding bonds and Transportation Infrastructure Finance and Innovation Act (TIFIA) borrowings, and highlighting that the agency does not expect to access the market for new debt, although further TIFIA drawdowns will be taken early in 2025.

Board member Walker asked if the agency anticipates seeing continued fare growth as the system expands, or if there is a plateau that the agency is advancing towards. Mr. Fisher responded that the 2025 budget anticipates an increase in fare revenue that matches the growth in ridership.

Audit Report

Washington State Auditor's Office Entrance Conference Presentation

Joe Simmons from the State Auditor's Office (SAO) provided the presentation.

Mr. Simmons provided an outline of the different types of audits conducted by the Washington SAO, noting that the topic of today's presentation is Sound Transit's 2023 accountability audit.

Mr. Simmons described the areas that will be covered under the audit, including Accounts payable, payroll, fuel cards, open public meetings act, and financial condition of the agency.

Mr. Simmons noted the agency communicates with the SAO to ensure confidentiality around applicable topics, that audit costs and hours will be similar to previous years, that the agency has the option to pursue an audit dispute process if they find issues with the findings, and thanked staff for their transparency in reporting loss, which is required under state law.

Mr. Simmons also highlighted that the audit has proceeded smoothly and shared his appreciation for the collaboration and responsiveness of Sound Transit audit staff. He also noted that the audit has been completed and documents for the report will be provided to the committee in the near future.

2024 Q4 Internal Audit Update

Patrick Johnson, Audit Director, provided the report. He noted that 80% of 2024 audits have been completed, consisting of 12 different audits. Five compliance audits have been completed, with two still in progress; five capital project certification audits have been complete, with one still in progress; and both performance audits have been completed.

Mr. Johnson provides updates on compliance audits, which primarily consist of safety audits of different modes. He reported that in Q4 2024, the Sounder Commuter Rail Internal Safety and FRA Railroad Accidents/Incidents Safety audits were completed, with the former having one finding and the latter having none. The lone finding noted that Amtrak, Sound Transit's operating and maintenance partner, had no process for checking and maintaining defibrillators on Sounder Cars, which corresponded with other internal audit findings. Mr. Johnson noted that while the defibrillators are in working order and ready for use, Amtrak was unresponsive to requests to produce documentation to verify the process, and that staff is currently working with Amtrak to address this finding. Two additional audits, Public Safety and Emergency Management, and ST Express Annual Safety, are still in progress.

Mr. Johnson shared progress on Capital Project certification audits, sharing the findings from the recently completed Lynnwood Link Operations Readiness Safety and Security Certification Audit. There was an administrative finding where references to certifiable items to check were not transposed, a quality assurance finding where training records could not be located and confirmed, and a compliance finding where the agency's safety and security management plan did not reflect current practices for operator training. Mr. Johnson noted that none of these findings have a detrimental effect or incur risk to the agency. The Federal Way Link Extension Design Conformance Safety and Security Certification Audit is still in progress.

Mr. Johnson moved on to discuss the follow up to a 2022 Vendor Management Performance Audit. That the Vendor Management Follow Up audit focused on previous audit results including compliance and implementation status, which resulted in two findings. The first finding affirmed that performance assessments for public works, including architecture and engineering contracts, were not formalized; and the second finding found that IT vendor performance is not well documented nor considered in procurement decisions. He noted that management concurred with both findings and are currently working to rectify these issues in Management Action Plans.

Tammy Lohr-Schweitzer, from Moss Adams, discussed the six findings of the Capital Project Time-Coding Performance Audit. The first four findings were related to agency time charging practices: while the agency has a policy of charging project time in 15-minute increments – and all non-project time being charged to their home business unit – agency staff were not aware of these procedures and would charge all their time to individual capital projects. This leads to inflated project labor costs, which while non detrimental to overall agency finances due to all funds coming from a shared capital budget, would produce inaccurate information about individual project costs. The last two findings were related to poor internal controls for time approval processes. It was noted that individual supervisors are responsible for timecard approvals, who are not always aware of specific activities that their direct reports were undertaking, limiting the ability to verify accuracy of charged time. It was also found that project reporting was unclear, making it more difficult for project directors to get complete information on total charged amounts and number of hours charged. Additionally, it was noted that overhead costs do not have a formalized procedure and process, although finance does informally track this information through a spreadsheet.

Board member Walker asked if any policy recommendations based on these findings would require committee approval. CEO Sparman responded that many of the changes that the agency is pursuing are related to enhancing tools for directors and project managers to better track their areas of responsibility, noting that these changes are primarily undertaken at the staff level, with some specific changes being pursued at the System Expansion Committee.

Mr. Johnson provided an update on the committee's request for a report on previous audit findings. He provided information on the creation of an audit division dashboard that would allow for better communication of audit findings and progress. He highlighted that since 2017, there have been 150 audit findings, with 33 of them still open, resulting in a closure rate of 78%.

Mr. Johnson provided updates on the 2025 comprehensive audit plan. He highlighted that as part of the agency's project Mobilizing One Sound Transit (MOST), that the Audit Division has been tasked with being the "one stop shop" for all agency audits, with a focus on compliance. Mr. Johnson provided a breakdown of the different divisions undertaking audits in 2025, and the timeline for when they will be conducted.

Discussion on 2025 Internal Performance Audit Topic

Chair Backus shared her thoughts on the topic of disaster preparedness, thinking of it as timely and appropriate for the agency to analyze this topic. She asked whether a formal action is needed.

Board Relation Specialist Hunter Rancier reported that since a quorum of the committee was no longer present, a formal action cannot be taken by the committee. He noted that staff can move forward based on the committee's discussion, with ratification at the next Finance and Audit Committee meeting.

Executive session – None

Other business – None

Next meeting

Thursday, March 13, 2025
10:30 a.m. to 12:00 p.m.
Ruth Fisher Boardroom and Virtually via an online meeting platform

Adjourn

The meeting adjourned at 11:36 a.m.

ATTEST:

Nancy Backus
Finance and Audit Committee Chair

Kathryn Flores
Board Administrator

APPROVED on _____ HRR.