



Summary Minutes

Finance and Audit Committee Meeting March 19, 2020

Call to order

The meeting was called to order at 11:02 a.m. by Committee Chair Nancy Backus, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

Chair Backus announced that due to the impact of the COVID-19 pandemic and in the interest of public health she determined that Section 3.11.2 of the Board rules, allowing meetings to be held by phone or video conference due to emergency was appropriate. She encouraged members of the public to view the meeting through the Sound Transit website's live stream service. Members of the public who still wished to view the meeting in person were able to do so in the Ruth Fisher Boardroom.

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
(P) 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

Chair Backus expressed appreciation for staff and the committee members willing to call in to ensure the meeting could take place.

CEO Report

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

COVID-19 Update

Mr. Rogoff informed the Committee that the lookback on 2019 showed strong financial performance and health for the agency, but economic conditions changed drastically since the beginning of the year due to the impacts of the COVID-19 pandemic. If the pandemic were to cause a recession, sharp revenue declines would likely put the agency's ability to deliver system expansion in jeopardy. A drastic drop in ridership due to the pandemic occurred, with system-wide totals down 69 percent as of March 17, 2020. He suggested that out-of-schedule meetings be considered in the near future to further monitor and react to the changing conditions when more information was available.

Mr. Rogoff explained the steps taken to mitigate the virus's spread through the agency and through the system, detailing a work from home order to staff and coordination with partner agencies to sanitize vehicles. Service reductions were planned to be announced later that day.

Letter to Sound Transit Congressional Delegation

Mr. Rogoff sent a letter to members of the region's Congressional delegation, thanking them for their work in developing the federal response to the pandemic. The letter explained the potential financial difficulty and severe decline in ridership. The agency would continue to work with the delegation as the nation responded to the unprecedented circumstances.

Connect 2020 Update

The agency intended to complete the Connect 2020 project's construction and return to regular service on Monday, March 16, 2020. However, while completing final systems testing over the preceding weekend, a portion of the track was found to be insufficiently electrically insulated. The problem was identified and solution was being developed. Downtown stations would be shut down one final time the following weekend to allow for repairs and reopen on Monday March 23, 2020. Regular service would resume at that time.

Public comment

Chair Backus explained that the committee would receive public comment in two ways. Anybody present in the Ruth Fisher Boardroom who signed up to speak would be allowed to do so, but members of the public were also able to submit their public comments by email prior to the meeting.

No written public comments were received by email and the following people provided in-person comments:

Alex Tsimerman
Marguerite Richard
Will Knedlik

Business Items

December 19, 2019, Finance and Audit Committee minutes

It was moved by Boardmember Baker, seconded by Boardmember Prince, and carried by unanimous vote that the minutes of the December 19, 2019, Finance and Audit Committee meeting be approved as presented.

Chief Financial Officer Report

Chief Financial Officer Tracy Butler gave the report. She reviewed the 2019 year-end financial performance and the spring financial plan update before discussing the economic and financial impacts of COVID-19 on the agency and the region.

COVID-19 caused significant financial market volatility, with economists across the country predicting a recession. In regards to Sound Transit, near-term impacts could include supply chain disruption, which could negatively affect the schedule and cost of projects underway. In the intermediate-term, a recession would lead to lower revenues, reducing the agency's financial capacity and jeopardizing the affordability of the voter-approved program. Staff anticipated that 81 percent of the programs funding sources would be threatened by a potential recession. 66 percent of that being tax revenue and 15 percent being debt capacity. A recession the scale of the 2002 dot com recession would extinguish the agency's debt capacity, and anything beyond that would have a greater effect. In addition to reduced tax

revenues, smaller investment returns due to lowered interest rates and reduced farebox revenue from fewer riders would likely impact the agency. Ridership was already down by 69 percent through mid-March 2020, and forecasted farebox recovery was below the agency's policy targets. Ms. Butler emphasized that the economic situation was still very fluid and uncertain, but more than 90 percent of the agency's funding sources could be negatively affected, potentially putting program affordability in jeopardy.

Finally, Ms. Butler reviewed the 2020 Audit schedule.

Reports to the Committee

Briefing on I-976

Desmond Brown, General Counsel, Tracy Butler, Chief Financial Officer, and Ron Lewis, Executive Director of Design, Engineering, and Construction Management provided the briefing. They informed the committee that the initiative did not repeal Sound Transit's Motor Vehicle Excise Tax until its bonds were repaid and were no longer outstanding. Sound Transit had an obligation to pay for all committed capital, operating, debt service, state of good repair, and other expenses, and it did not have the sufficient funds to defease its bonds before or after funding those expenses. The Board would be informed when, and if, the agency had sufficient funds to defease its bonds.

Briefing on Sound Transit's Insurance Risk Management Program

Michael Anastasi, Deputy Director of Risk and Insurance, provided the report. He outlined the agency's insurance program, the factors contributing to the agency's insurance premium, and potential insurance cost containment strategies. Sound Transit's insurance program consisted of an agency operations insurance program and a rail operations insurance program. The premium was driven by factors such as market trends, the agency's expanded exposure as it grows, and claims experience. Increasing self-insurance, mitigating risk, and exploring alternative risk financing options were all strategies considered for containment of the agency's insurance costs.

Audit Update

2019 Financial Audit Entrance

Laurie Tish, Partner and Moss Adams, provided the presentation. Ms. Tish detailed the list of deliverables the committee could expect from their audit, including federally mandated reports. Moss Adams's responsibility in their audits were to express its opinion on whether the financial statements were fairly presented, to perform the audit in accordance with standards issued by governing bodies and federal agencies, to consider internal controls over financial reporting and compliance, and to communicate findings relevant to the committee's responsibilities. New to the 2019 audit was implementation of fiduciary activities, which would add a fiduciary set of financial statements. Areas of emphasis for the audit would be internal controls over financial reporting and administration of federal awards, statements of financial position, statements of activities, fiduciary fund statements, a federal grant audit, and financial statements and disclosures. The final audit was expected to be complete by May 22, 2020 with a report to the Finance and Audit Committee at its July meeting.

2019 Performance Audit Final Report

Gana Byambaa, Acting Internal Audit Director, introduced Colleen Rozillis, Senior Manager, and Tammy Lohr, Manager, from Moss Adams, who provided the presentation. Ms. Rozillis reminded the Committee that it had previously requested a performance audit on the agency's workforce performance management and reviewed the audit's objectives and the methodology used to conduct the audit. Ms.

Lohr detailed the results of the audit, informing the committee about the findings and recommendations for the four performance management sections reviewed: employee expectations; performance appraisals; rewards, recognition, and accountability; and employee development.

Internal Audit Update and Audits Completed

Gana Byambaa, Acting Internal Audit Director, and Travis Carbon, Senior Internal Auditor, provided the report. Mr. Carbon reviewed the completed Budget Process Review during Project Development internal audit. He informed the committee that the audit had no findings. Ms. Byambaa provided an overview of the 2020 internal audit schedule, and updated the Committee on the status and schedule of the 2019 Performance Audit performed by the State Auditor’s Office. A final report was expected to be completed and issued by May 14, 2020. A public hearing would be required within 30 days of the publishing date, which staff were tentatively scheduling.

In response to Boardmember questions, Ms. Byambaa assured the Committee that if some key positions were hired, the internal audit workload would be manageable and remain on schedule.

Executive session

None.

Other business

None.

Next meeting

Thursday, July 16, 2020
11:00 a.m. to 12:30 p.m.
Ruth Fisher Boardroom

Adjourn

The meeting adjourned at 1:04 p.m.

Nancy Backus
Finance and Audit Committee Chair

ATTEST:

Kathryn Flores
Board Administrator

APPROVED on _____ . AM.