



Summary Minutes

Finance and Audit Committee Meeting March 18, 2021

Call to order

The meeting was called to order at 11:06 a.m. by Committee Chair Nancy Backus virtually on WebEx.

Due to the Governor's Order, public viewing of the meeting was only available via WebEx. The meeting was streamed on

<https://soundtransit.webex.com/soundtransit/onstage/g.php?MTID=e2ff06b4eeeaf6c18e99688e6702b3fdc>.

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) Dylan Counts, WDOT Secretary alternate |
| | (P) Ed Prince, Renton Councilmember |
| | (P) Dave Somers, Snohomish County Executive |

Adam Montee, Board Administration Program Manager, announced that a quorum of the Committee was present at roll call.

Report of the Chair

Chair Backus noted the Committee would review the 2021 Finance and Audit Committee work plan.

CEO Report

CEO Peter Rogoff gave the CEO Report.

Federal Update – Over the previous week, President Biden signed a \$1.9 trillion American Rescue Plan, a third COVID-19 relief package. This bill could be beneficial for public transit in the region and for Sound Transit. The American Rescue Plan provides \$30 billion for public transit nationwide and is distributed by formula. The Seattle Urbanized Area would receive approximately \$800 million of the formula funds which would be allocated at the Puget Sound Regional Council (PSRC). Mr. Rogoff shared an estimation based on the earned share distribution model used in the past, which would estimate Sound Transit to receive approximately 32% of the regional funding, or \$260 million. Mr. Rogoff contacted several Board members who serve at the PSRC to review distribution formula discussions that will be used for the second COVID-19 relief package that passed in December 2020. The PSRC policy boards would take action on this method in spring. The American Rescue Plan included \$1.25 billion that would be set aside for projects with existing Full Funding Grant Agreements who received federal payments during the last two fiscal years, which included Lynnwood Link and Federal Way Link.

Mr. Rogoff noted Sound Transit could expect to receive about \$200 million with the supported change in the distribution to reward projects with low federal shares.

State Update – Mr. Rogoff announced an important milestone in this year’s state legislative session, the cutoff bills to have passed out of their chamber of origin. He stated that several bills of interest to Sound Transit made it through the cutoff, which included carbon pricing that could help fund any potential transportation revenue package, legislation provided additional flexibility for Sound Transit’s fare enforcement program, and the reauthorization of alternative public works contracting procedures. Legislations that did not make it through the cutoff deadline included the bill that would have allowed the City of Seattle to use the monorail authority in a way that could benefit Sound Transit’s program.

Washington State Department of Transportation (WSDOT), cities on the Eastside, and King County are working to mitigate harm that the bill could have on I-405 projects and Bus Rapid Transit program. An amendment was strongly supported by the coalition that would believe to improve the bill. Work was also taking place with Legislators to emphasize one of the Board’s request of Olympia to eliminate a proviso that was inserted into last year’s transportation budget related to our reimbursement to the Department of Licensing (DOL) for the costs of collecting Sound Transit’s MVET (motor vehicle excise tax). The proviso had set a minimum reimbursement of \$7.8 million, which over the course of time is estimated to cost more than \$180 million – a cost that was not included in the agency’s Finance Plan or affordability gap. It also did not represent the actual costs of DOL’s collection, which under the agency’s contract with DOL, Sound Transit was paying approximately \$200,000 annually. The transportation budgets would expect to be released the following week. Lastly, CEO Rogoff shared his appreciations to the Board members for their outreach to legislators asking for help to address the agency’s affordability gap.

State Revenue Forecast – A forecast was released on March 17, 2021 that comprised of risks related to the COVID-19 pandemic. The State’s forecast included a one to four year span of projected revenues whereas Sound Transit’s showcased a 20 to 30 years span. The agency’s economists would continue to gather data from the region and state so that an updated cost view and plan could be provided during the April Board meeting.

Transit Driver Appreciation Day – March 18, 2021 was Transit Driver Appreciation Day. Mr. Rogoff recognized the important service being conducted by transit drivers across the region, including the Tacoma Link operators that were hired directly with Sound Transit to serve passengers to prepare for the Hilltop area expansion.

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 public comment submissions.

The following people provided verbal public comment:

Patrick Yelen – Mr. Yelen was unable to provide verbal comment due to technical difficulties.

Business Items

December 17, 2020, Finance and Audit Committee meeting minutes

It was moved by Boardmember Prince, seconded by Boardmember McDermott, and carried by unanimous voice vote of the committee members present that the minutes of the December 17, 2020, Finance and Audit Committee special meeting be approved as presented.

Realignment Financial Update

Chief Financial Officer Tracy Butler gave the report. The financial plan was unaffordable without realignment, with total expenditures projected to exceed available funds by \$11.5 billion through 2041. Since the last revenue forecast, the COVID-19 vaccine was expected to be widely available by mid-2021, additional stimulus funding was anticipated in 2021, and 2020 tax revenues performed at six percent under budget. While the state revenue forecast recently released was less dire than in the past, it posed challenges for Sound Transit, as it focused on short-term revenues, and not the long-term impacts which affect the agency's finance plan. Staff was working with economists to determine what the forecast meant for Sound Transit.

She outlined the status of the TIFIA loans as interest rates increased. The potential benefits decreased from \$500 million to \$1 billion to \$100 to \$200 million. Refinancing existing loans would lower the affordability gap by approximately \$60 million with the addition of the Downtown Redmond Extension lowering the gap by approximately \$100 million. Rates are subject to change by June or July of 2021.

Realignment actions were imperative to ensure high credit ratings. Ms. Butler noted that Sound Transit was one of the highest rated agencies in the country. That rating allowed for low borrowing interest rates over the Sound Move, ST2 and ST3 projects. The agency's flexibility to realign and past realignment actions in 2010 was key to the credit rating strength. Failing to do so again would likely reduce the agency's credit rating.

If Sound Transit's credit rating was lowered, it could lead to higher borrowing costs in the range of \$1 to \$3 billion. The agency could also face liquidity challenges and have difficulties in accessing needed funds. These negative changes would result in a wider affordability gap and lead to more and longer tax collection from the tax payers.

Chair Backus noted the agency's high credit rating was due to the hard decisions and financial responsibility of past boards, and it was something to keep in mind moving forward.

Chief Financial Officer Report

Chief Financial Officer Tracy Butler gave the report. 2020 revenues totaled \$2.6 billion, which was 104 percent of the agency's budget, largely due to the CARES Act funding. Without the CARES Act funding, total revenue was \$72 million, or three percent below budget. Tax revenues were \$115 million, or six percent below budget.

Operating costs totaled \$332 million, or 93 percent of the \$359 million annual budget. COVID-19 led to reduced services which in turn led to the purchased transportation falling \$15 million, or eight percent below budget. Sounder services were \$3 million, or 43 percent below budget due to lower spare parts usage and lower price for fuel. This is not necessarily always the case, as maintenance contracts require certain funding, but in this case, it did fall. Overhead costs were only \$6 million, or 16 percent below budget. This was due to the hiring reductions and other various cost reduction measures.

The System Expansion Projects totaled \$2 billion, or 90 percent to budget. Link light rail led the costs of this category, at 95 percent of its budget. This was primarily driven by East Link and the Light Rail Vehicle fleet expansion project. Sounder totaled 64 percent of its budget due to station access and improvements projects on hold for pending realignment decisions. Regional Express totaled 49 percent of its budget due to third party agreement performance and realignment pause. Lastly, Stride bus rapid transit totaled 45 percent of its budget due to project refinement and COVID delays, contractor performance, and delays in right of way acquisitions.

Non-system Expansion Projects totaled \$79 million, or 71 percent of annual budget. State of Good Repair was at 89 percent of budget, driven primarily by the Downtown Seattle Transit Tunnel capital improvements. Further assessments were needed prior to construction activities. Administrative projects

were at 77 percent of budget due to Union Station HVAC replacement. Enhancements were at 41 percent of budget. The Digital Passenger Information System was reduced due to cash flow restrictions and COVID-19 delays.

Ms. Butler reviewed the Asset and Liabilities management report. The agency was pursuing a TIFIA loan on the Downtown Redmond link Extension and refinancing on five existing loans, with a heavy focus on shifting towards a liquidity strategy in response to market uncertainty and future Board realignment decisions.

Audit Update

2020 Year-end and Audit Division Quarterly Update

Patrick Johnson, Audit Director, provided the report. Mr. Johnson reviewed the audits facilitated by the finance department in 2020. They were still in development as of the meeting, and reports would likely be provided in Quarter Two.

Quarter One 2021 Audits were underway. Mr. Johnson reviewed the remaining audits planned for the year and reminded the Committee that the number of audits were reduced to ensure that they were completed by the end of the year. He advised that the annual performance audit, which the Committee had moved from 2020 into 2021 would begin in Quarter Two and a consultant was being acquired. He would report on the results of the Audit in Quarter Four.

Discussion of 2021 Finance & Audit Committee Work Plan

Chair Backus explained that Committee members received a copy of the Finance and Audit Committee work plan earlier in the week. The plan included a review of the committee's major focus areas and a calendar showing projected actions organized by quarter.

Executive session

None.

Other business

None.

Next meeting

Thursday, July 15, 2021
11:00 a.m. to 12:30 p.m.
Virtually via WebEx

Adjourn

The meeting adjourned at 11:46 a.m.

ATTEST:

Nancy Backus
Finance and Audit Committee Chair

Kathryn Flores
Board Administrator

APPROVED on _____, JG.