



Summary Minutes

Finance and Audit Committee Meeting March 16, 2023

Call to order

The meeting was called to order at 11:02 a.m. by Committee Chair Nancy Backus.

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	
(P) Dow Constantine, King County Executive	(P) Joe McDermott, King County Councilmember
(P) Christine Frizzell, Lynnwood Mayor	(A) Ed Prince, Renton Councilmember
	(P) Kristina Walker, Tacoma Councilmember

Josephine Gamboa, Board Relations Specialist, announced a quorum of the Committee were present at roll call.

Report of the Chair

Committee Work Plan

Chair Backus welcomed the committee to its first meeting of the year and noted the 2023 committee work plan was included in their meeting packet.

CEO Report –

Deputy CEO Kimberly Farley provided the CEO report.

Welcome CFO John Henry

Deputy CEO Farley welcomed the agency's new Chief Financial Officer, John Henry. Mr. Henry had more than 20 years of experience in finance, accounting, and treasury services, with focus in general ledger accounting, investment and banking functions management, and credit analysis. Deputy CEO Farley also thanked Deputy CEO Mary Cummings for her dual leadership as Acting CFO during the past 14 months.

Upcoming Loan Approval at March 2023 Board Meeting

The agency was planning to present an action to approve execution of new federal loans to the Board later this month. Deputy CEO Farley reminded the committee that Sound Transit had been working with the Build America Bureau to obtain new loans totaling \$327 million. The projects for the proposed loans were the Hilltop Tacoma Link Extension, the NE 130th Street Infill Station, and the Sounder Station and Access improvements at Auburn, Puyallup and Sumner. The timing of construction was a key requirement for the loans and these projects were either in construction or soon would be. The structure

of federal loans would provide invaluable flexibility to Sound Transit's ability to improve affordability. The loans were anticipated to close in April 2023.

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 or virtual comments received.

The following people provided in-person comments:

Joe Kunzler

Business Items

Item for Final Committee Action

December 15, 2022 Finance and Audit Committee meeting minutes

It was moved by Boardmember McDermott, seconded by Boardmember Frizzell, and carried by unanimous voice vote of the committee members present that the minutes of the December 15, 2022 Finance and Audit Committee meeting be approved as presented.

For Recommendation to the Board

Motion No. M2023-27: (1) Authorizing the chief executive officer to negotiate and execute a Standby Letter of Credit Side Letter, and (2) delegating to the chief executive officer authority to implement the Standby Letter of Credit Side Letter, including pledging up to \$4,000,000 as additional collateral, and executing amendments to agreements and other documents necessary to cure Sound Transit's technical default under the Lease-to-Service Transaction for Commuter Rail Cars and Locomotives caused by American International Group, Inc.'s credit rating slip and the bankruptcy of AIG Financial Products Corp.

Jeff Clark, Deputy Executive Director of Financial Operations, provided the presentation.

It was moved by Boardmember McDermott and seconded by Boardmember Walker.

Chair Backus called for a roll call vote.

Ayes

Dow Constantine
Christine Frizzell
Joe McDermott
Kristina Walker
Nancy Backus

Nays

It was carried by unanimous vote of the five committee members present that Motion No. M2023-27 be forwarded to the Board with a do-pass recommendation.

Chief Financial Officer Report

John Henry, Chief Financial Officer, Ryan Fisher, Deputy Executive Director of Financial Planning, Analysis and Budget, and Jeff Clark, Deputy Executive Director of Financial Operations, provided the presentation.

2022 Year End (YE) performance main takeaways were revenues and other financing sources of \$3.5 billion were one percent above budget mainly driven by higher than budgeted federal grant contributions, retail sales and use taxes, and passenger fare revenues. Project budgets came in at 74 percent of plan, or \$623.1 million, lower than the annual budget. The variance to plan was largely attributed to system expansion projects which came in \$550.1 million lower than the annual budget. Many projects in construction had been adversely affected by the concrete drivers' strike, which ended in April 2022. The recovery from the months of delayed concrete deliveries had impacted some project schedules and the timing of spending as expenses would shift out beyond 2022. Transit modes performed under budget driven primarily due to lower spending on purchased transportation partner services, resource limitations, timing of spending on expense and operating projects, and insurance. Debt Service performed \$24 million, or 15 percent, under budget mainly due to savings from 2021 refinancing activities. Other expenses performed \$30 million, or 41 percent, under budget mainly due to unused agency contingency for 2021 partner reconciliations and lower sales and use tax offset fee driven by lower construction costs.

Tax revenues came in \$17.3 million below plan mainly due to lower Motor Vehicle Excise Taxes than expected by \$45.2 million offset by higher sales taxes of \$26 million; staff was updating forecasts for 2023 through 2046 and would have more details in the Annual Program Review in May 2023. Grants came in slightly higher than expected by \$76.2 million, or 15 percent, above budget due to the accelerated draw-down for Lynnwood Link and Federal Way Link Light Rail extensions. Passenger fare revenues were \$8.7 million, or 24 percent, above budget with ridership continuing its recovery from pandemic lows.

Mr. Fisher reviewed the 2022 Operating Expense Budget Performance. The Modes category came in under full year 2022 budget for Link, ST Express and Sounder, primarily driven by resourcing constraints both with partners and within the agency. \$23.1 million under for Purchase transportation services was driven by \$10.8 million from Regional Express due to operator/driver shortages (of which \$10.6 million was attributed to Pierce Transit), \$9 million for Link from vacancies and resource limitations, and \$2.7 million for lower Sounder South line wages, fewer vehicles maintained, and prior year-end accrual reversal. \$12.2 million under on operating projects and maintenance activities delayed into 2023 consisted of \$9.7 million expense projects. Expense project delays included Sounder Vehicle Overhaul from delay in new car procurement delivery, and testing and commissioning in order to perform the overhaul. There was an estimated \$2.5 million delay of maintenance activities into 2023, which included maintenance for existing and new facilities. \$8.2 million related to higher-than-expected vacancy rates across the agency, which averaged 14 percent over 2022. \$6.6 million Insurance premiums consisted of \$3.2 million anticipated Sounder budget anticipated in insurance premium but actualized at flat rate in 2022 and \$3.0 million for tunnel insurance as the Downtown Seattle Transit Tunnel (DSTT) transfer was delayed.

Mr. Fisher reviewed the 2022 System Expansion Projects which came in \$550 million under full year 2022 budget. For Link, the Federal Way Link Extension was \$123.9 million below budget due to lower expenditures in construction and reforecasting of work in roadway, storm drains and other construction work. The Lynnwood Link Extension was \$95.8 million below budget due to lower expenditures in construction from the concrete strike in 2022. The Downtown Redmond Link Extension was \$61.5 million, or 20 percent, below budget due to the concrete strike that impacted construction work. Light Rail Vehicle Fleet Expansion was \$38.9 million below budget due to delayed milestone payments for acceptance of vehicles due to longer than expected resolution of issues. The retrofit task for Series 1 vehicles had begun but was experiencing some challenges.

For Stride, SR 522 BRT was \$47.6 million below budget due to lower expenditures in construction from delayed construction on UW Bothell and delayed parcel acquisitions into 2023. I-405 BRT was \$41.7 million below budget due to lower expenditures in construction from delayed construction on Brickyard

and North 85th Street. The BRT Bus Maintenance Base was \$10.7 million below budget due to lower expenditures in general engineering contract process and final design.

For Sounder, the Sounder South Capacity Expansion project was \$6.7 million below budget due to deferred alternative analysis and right of way activities. Sounder Fleet Expansion was \$6.2 million below budget due to car shipment delays related to issues encountered during the manufacturing process. The last five of the 11 cars would ship in 2023. The Auburn Station Improvements project was \$4.8 million below budget due to a delayed start in the procurement of the design-build contract and delays in parcel acquisition into 2023. For Regional Express, Pacific Ave SR 7 Bus Corridor project was \$6.0 million below budget due to delayed reimbursement of third-party jurisdiction transit work. Rapid Ride C and D was \$5.9 million, or 52 percent below budget due to delays in invoice submission.

2022 Non-System Expansion Projects, project expenses was \$73.1 million, or 33 percent, under budget. For Enhancements, Digital Passenger Information Management System (PIMS) contributed \$13.1 million to the underspend due to the vendor missing established milestones, resulting in delayed expenses into 2023. Data Management Program project spending was \$2.8 million lower than the 2022 budget due to procurement efforts that began later than planned, shifting the planned schedule out of 2022 and into later years. Fare Paid Zone project spending was \$1.7 million lower than the 2022 budget due to late procurement of the final design. Construction for stations in the DSTT was postponed until Q1 2023 because track access permits were cancelled due to staff shortages by King County Rail. Central Link Fiber Upgrade project spending was \$1.6 million lower than the 2022 budget due to resourcing constraints. Survey and preliminary engineering work was currently underway and would carry over into 2023. HVAC Corrections project spending was \$1.2 million lower than the 2022 budget due to electrical and mechanical supply chain issues and acquiring equipment for installation, and the project was pushed out into 2023.

State of Good Repair was \$23.7 million, or 52 percent, under budget. The Sounder Vehicle Overhaul Program project spending was \$5.0 million lower than the 2022 budget due to delay of new car procurement delivery; and testing and commissioning to perform car overhaul out of 2022 into outer years. The IT Network Redesign Phase 2 project spending was \$3.2 million lower than the 2022 budget due to supply chain issues, which resulted in pushing hardware orders out of 2022. The Link LRV Overhaul project spending was \$2.0 million lower than the 2022 budget due to less spare parts spending from delayed resumption of LRV overhaul work out of 2022.

The Administrative budget was \$19.6 million, or 15 percent, below plan. Agency Administrative Operating Project spending was \$14.4 million lower than the 2022 budget due to higher than expected agency vacancy rates for open positions. Information Technology Program project spending was \$2.9 million lower than the 2022 budget due to resourcing constraints and the projects expected to continue into 2023. Administrative Facilities project spending was \$2.1 million lower than the 2022 budget due to longer lead-times for special-order HVAC rooftop equipment and a requirement for a secondary engineering report for crane placement on 4th Avenue South. The project was delayed out of 2022 into later years.

Boardmember McDermott asked about the Regional Express Service Rapid Ride C and D and whether it was services King County Metro provided or if it was a different partnership. Mr. Fisher replied it was a partnership with another agency. Boardmember McDermott asked what role Sound Transit played with Rapid Rides C and D. Deputy CEO Farley replied the agency was a funding partner.

Boardmember Frizzell acknowledged the many projects being under budget and asked whether it meant that all expenses were being rolled into 2023 or if it was a flag to look into budgets more closely. Mr. Fisher replied that unanticipated shortages were the cause on the Operational side and would be considered actualized savings for the agency. The projects affected by the supply chain issues and concrete driver strike would have their expenses shifted into 2023 and beyond. Staff would be looking

into the Long Range Financial Plan during the Annual Program Review in May. Boardmember Frizzell asked how much of the under budget had created timetable delays. Mr. Fisher noted the quantitative risk assessments which listed project dates and timelines. Deputy CEO Farley added that the delays in projects were communicated at the System Expansion Committee and Board meetings, and that the presentation provided a visual representation of the monetary breakdown of the delays.

Mr. Clark provided the key asset and liability management highlights. The investment portfolio had weathered market volatility well and there was continuation in monitoring geopolitical and economic pressures and adjusting the portfolio as needed.

Audit Update

Internal Audit Updates

Patrick Johnson, Audit Director, Ted Lucas, Chief Procurement Officer, and John Carini, Deputy Director of Vertical Conveyance, provided the presentation. Mr. Johnson noted no actions were requested as a result of this presentation and the data classification was Unrestricted.

Mr. Johnson reviewed the 2022 Compliance audit plan. These were primarily internal safety audits which were required to be completed annually by Federal and WSDOT Rail safety requirements. The audit results from the Tacoma Link Internal Safety Audit identified no findings. The audit results from the Link Light Rail Internal Safety Audit identified one finding and noted that Sound Transit did not perform an annual review of King County Metro's Agency Safety Plan as stated in the Sound Transit Safety Plan. The Safety Department was currently addressing that finding and would update their process to correct this issue. At the time of the Sounder Internal Safety Audit, there were no findings on the operations and maintenance oversight of Sounder service. Mr. Johnson raised a finding upon his own audit staff for not completing the audit within established timeframes. By way of management response, this finding had been addressed and procedures had been updated accordingly.

The 2022 Safety and Security Certification audit plan audits were completed at specific points in the Capital Expansion project's lifecycle and were completed by a consulting firm on behalf of the Audit division. The consulting firm completed three audits in 2022. One was to close out the safety and security certification work at the Operations and Maintenance Facility East, another to cover security certification elements from East Link, Federal Way, and Lynnwood Link Extensions, and lastly, the vehicle procurement of Sounder Commuter rail trains being built at the factory in Canada. The results of each yielded no findings.

For the 2022 Performance audit plan, staff would review the results of the Vertical Conveyance Systems. The Revenue Vehicle Preventive Maintenance Process, Agency Agreements, and completed Q1 2023 audits would be reviewed at the Committee's next meeting in July 2023.

The Vertical Conveyance Systems performance audit was an audit of some administrative aspects of vertical conveyance management, specifically the procurement and record keeping around performance management. The team reviewed 14 of 38 project procurements, all within the Architecture and Engineering category, and over 2,200 work orders related to vertical conveyance between 2019 and May 2022. The team found that improvement efforts were continuous and ongoing to remediate and improve reliability of current assets as teams were planning ahead and developing future remediation and repair plans to improve the vertical conveyance systems. The team also found that the Vertical Conveyance Team, with the support of the agency's Operations Business Intelligence staff, had prioritized comprehensive reporting capabilities, such as system dashboards and availability notification updates, through the agency's text alert system or on Sound Transit's website to alert and advise passengers of up-to-date system availability. Lastly, the team found that the vertical conveyance program was quite comprehensive in that staff reviewed their maintenance control programs,

maintenance callback schedules, and conveyance availability reports; all to gain an understanding of system performance.

The audit team also identified several key improvement areas for management's consideration. The recommendations included expanding certain aspects of the policies and procedures that currently only applied to Architecture and Engineering procurements; and that an improvement could be to make these aspects applicable for all types of procurements. One example would be requiring all employees involved in all types of contract awards to complete conflict of interest documentation, and that vendor past performance evaluations be required on all types of procurements. Mr. Johnson noted the Procurement division recently implemented a responsible contractor evaluation policy, which included guidelines for evaluating contractor past performance. This was not in place prior to commencing this audit and had since been put in place as of June 2022.

The team also found that improvements could be made to the timeliness and thoroughness of documentation. It was found that work orders and condition inspections were delayed in being entered into the agency's asset management system. Management indicated that the detailed history of preventive maintenance was stored in individual Maintenance Control Programs since documentation of such work was done by agency contractors as part of their contracts. However, for accurate data and consistent reporting, the data needs to be entered into the asset management system and some preventive maintenance work orders were late being entered. Management stated that they were currently hiring two additional staff members to enter data electronically into local work order systems, which would result in more accurate data reports.

As required by the Audit Division's charter, two end-of-year items would be provided to the Finance and Audit Committee. One was the division's formal annual report, and the other was the division's affirmation and declaration of independence for performing work. Mr. Johnson provided highlights from the 2022 Audit Division Annual Report. The division began a pilot project in 2022 by incorporating a Diversity, Equity, and Inclusion (DEI) review into all performance audits, which resulted in expanding this work into compliance safety audits this coming year. It produced and published 18 final audit reports from the three audit groups over the year, with follow-up and review of 40 previous and current audit findings and observations. Those audit finding follow-ups resulted in the closure of 12 previous and current audit projects.

Chair Backus asked for more information on the DEI work being completed in these audits. Mr. Johnson informed the Committee that the audit team was currently researching best practice from the internal audit industry and deciding what equity lens to utilize.

Discuss and finalize 2023 Finance and Audit Committee Work Plan

Chair Backus apprised the committee of its 2023 work plan which included major focus areas including transactional matters to oversee the agency's financial plan, statements, internal and external audits and internal controls, and other topics of special interests to the members. There was no additional feedback from the committee members.

Executive session – None

Other business – None

Next meeting

Thursday, July 20, 2023
12:30 to 2:00 p.m.
Virtually via WebEx

Adjourn

The meeting adjourned at 11:46 a.m.

Nancy Backus
Finance and Audit Committee Chair

APPROVED on _____ JG.

ATTEST:

Adam Montee, on behalf of
Kathryn Flores
Board Administrator