



Summary Minutes

Finance and Audit Committee Meeting July 15, 2021

Call to order

The meeting was called to order at 11:30 a.m. by Committee Chair Nancy Backus virtually on WebEx.

The meeting was streamed on

<https://soundtransit.webex.com/soundtransit/onstage/g.php?MTID=e2476f402119c7c510520622408c2a13a>.

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) Julie Meredith, WSDOT Secretary alternate
(P) Joe McDermott, King County Councilmember	(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.

Board members Baker, Keel, Roberts, and Roscoe attended as non-voting members.

Report of the Chair

Welcome to Boardmembers – Chair Backus welcomed members who weren't part of the Finance and Audit Committee that may have joined to participate in discussion regarding realignment.

CEO Report

CEO Peter Rogoff gave the CEO Report.

Federal Update – The Senate returned to session during this week following a two-week recess and had resumed efforts on the bipartisan infrastructure package. The deal was a \$1.2 trillion infrastructure package for eight years and roughly half of what the Biden Administration proposed. The agreement called for \$579 billion in new spending with \$312 billion dedicated to Transportation funding, including \$49 billion for public transit.

The Transportation, Housing and Urban Development appropriations subcommittee marked up their bill to \$105.7 billion in funding to the Department of Transportation, which was a \$19 billion increase. It would distribute \$15.5 billion to the FTA and \$2.74 billion for Capital Investment Grants specifically, which is a \$459 million increase from Fiscal Year (FY) 2021. These levels of funding would sufficiently support full funding of \$100 million for both the Federal Way Link Extension and the Lynnwood Link Extension. The full House Appropriations Committee would mark the FY 2022 Transportation, Housing and Urban Development appropriation bill on July 16, 2021.

Senators Murray and Cantwell announced that FTA obligated to the agency the Capital Investment Grant program awards from the American Rescue Plan. The Federal Way Link Extension Project would receive \$158 million in funding while the Lynnwood Link Extension project would receive \$94 million.

Tacoma Link Public Hearing – A public hearing took place the morning of July 15, 2021 to receive comment on the proposed Tacoma Link fare options. A Board decision is anticipated for fall 2021.

Public comment

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

The following people provided written comment:

Martin Nix

There were no verbal comments submitted.

Business Items

March 18, 2021, Finance and Audit Committee meeting minutes

It was moved by Boardmember McDermott, seconded by Boardmember Somers, and carried by unanimous voice vote of the committee members present that the minutes of the March 18, 2021, Finance and Audit Committee meeting be approved as presented.

Chief Financial Officer Report

Chief Financial Officer, Tracy Butler, gave the report. Updates to the Financial Plan affordability gap were reviewed. The economic update saw a near term recovery with long term uncertainty. The US real GDP increased by 6.4 percent in 2021 Q1, up from 4.3 percent in 2020 Q4. Washington unemployment rates in May were at 5.1 percent. Long-term tax revenue forecast was highly uncertain given the consumer confidence remaining below pre-pandemic levels and federal stimulus packages ending. There was inflation pressure and uncertainty from Federal Reserve on interest rate movements.

Tax forecast increased by \$2.1 billion and CPI forecast added \$0.4 billion to capital and operating costs since April 2021. The cost of Construction Index and Right of Way index available in the fall would likely add to construction cost forecasts. \$6.5 billion was the current affordability gap projected through 2041 and the program was unaffordable without realignment.

Ms. Butler reviewed a number of major financial plan updates since the beginning of the COVID pandemic. Updates included a \$600 million increase for tax revenue compared to pre-pandemic data. There was a \$133 million decrease in fares and a \$3.7 billion increase in grant revenue, including \$0.9 billion from COVID relief and a \$2.8 billion increase in grant assumptions. An \$11.9 billion increase in project cost estimates, \$429 million cost increase in consumer price index, and a \$1 billion increase in Operating and State of Good Repair. Updates to the Cost of Construction Index, Right of Way Index and Assessed Valuation would be available in October 2021.

Chair Keel noted how encouraging it was that the revenue picture had improved and resulted in the affordability gap being reduced to \$6.5 billion. The realignment resolution that he introduced in June 2021 provided a framework that responded accordingly to the presented changes. The \$1.4 billion improvement in the financial outlook meant that the Board could improve upon the estimated completion dates for projects. As an example, he shared that staff communicated the improvement of the delivery date of Tier 2 light rail projects and supporting system projects by a full year. That means ST3 light rail program would be finished, including infill stations, one year earlier than with the \$7.9 billion affordability

gap. Chair Keel was interested in hearing from Boardmembers about whether they would allocate the additional resources to improving Tier 2 schedules or if there were other priorities.

Chair Backus shared Chair Keel's encouragement in delivering projects earlier than scheduled given the commitments by the Board.

Boardmember Roscoe was encouraged by the figures but reflected on the project cost estimates of the \$11.9 billion increase. She stated how important it would be to move forward with the realignment schedule and remain affordable in a way that would tier the projects with flexibility in the case additional revenue was identified.

Boardmember Constantine noted the fluctuating revenues and costs and asked what schedule adjustments would the latest revenue projections allow, given the overall reduction of \$1.4 billion. He also asked what elements of the ST3 program become more expensive due to delays and if the agency was making an attempt to quantify the lost value that would be received from the project due to a later delivery date.

CEO Rogoff briefed an initial estimate of the \$1.4 billion reduction on the affordability gap would allow Tier 2 projects in the proposal to be sped up by at least one year. The Board would have flexibility to allocate funds in different ways. He also answered that projects become more expensive the longer you wait. When calculating the delays, added costs are in factor when visualizing the duration of delay. He also answered that historically, lost value had not been measured to the region and taxpayers for the lost access to the service.

Boardmember Constantine questioned if the budgeting included the potential cost increases that would occur if a project had to be delayed and in turn, become two projects. CEO Rogoff answered that there were budgeted penalties for segmenting into the cost estimate. The question at hand would be whether the agency and subarea could afford to proceed in that way.

Boardmember Constantine believed the Board would have the ability to reduce costs and the capacity to deliver the voter-approved projects without unnecessarily delaying the work for the people.

Ms. Butler continued with the Quarterly Financial performance report. She mentioned that the report given to the Committee covers Q1 but she would share additional data up to May 2021 year to date (YTD). YTD tax revenues were at 14 percent, or \$98 million over budget; if trends continued the agency would expect \$200 to \$250 million over budget by the end of 2021. January to March 2021 actual tax collection was up 13 percent, or \$56 million, over the same period in 2020. Sales tax was up 21 percent and MVET was down 5 percent.

May YTD ridership was at 25 percent under budget and fare revenue was at 60 percent of current year budget. System total ridership from 2019 to May 2021 declined with a total of 76 percent. Link, ST Express and Tacoma Link saw a decline varying in the mid 70 percentile. Sounder saw a decline of 88 percent. She shared that ridership levels did reach an uptick for Link services in February 2021 but it was significantly lower than pre-pandemic levels. May YTD ST fare revenue was at 60 percent of budget. Forecasted 2021 farebox recovery ratio was significantly below policy target due to lower ridership and fare compliance struggling to return following the fare-free period. May YTD Operating expense was at \$156 million, or \$1.7 million, over budget mainly due to timing. Year-end forecast was expected to reach 100 percent of the \$381 million budget.

A majority of the System Expansion projects budget were from the Link expansion at 87 percent, or \$95 million under YTD budget. There was delay in two right-of-way acquisitions, Midway Landfill credit, and acceptance rate of new light rail vehicles.

Ron Lewis, Executive Director of Design, Engineering and Construction Management, briefed that System Expansion projects were at 83 percent, or \$138 million, below YTD budget and included

Sounder being at 55 percent, or \$10 million under YTD budget, due to pending realignment decisions. Regional Express was at 13 percent, or \$2 million under YTD budget, with the Pacific Avenue SR 7 bus corridor through Pierce Transit stream. Stride was at 43 percent, or \$17 million under YTD budget, with realignment delays and right-of-way acquisitions.

Chair Backus asked when farebox recovery would be reviewed and handled. Ms. Butler mentioned farebox recovery is monitored on a continuous basis and the policy required the agency to adjust fares to meet the policy target. This would occur on an annual basis only if the projected farebox recovery was below target. Increased fares would not occur each time numbers would decrease within that time frame. Ms. Butler said this topic would be briefed further at a later meeting.

CEO Rogoff mentioned an increase in fare was in discussion prior to the pandemic and it was tentatively hopeful that the opening of the Northgate Link light rail would rectify that need and reach target. The pandemic not only led to a disruption in increased fare conversations but needing to go fare-free. He also noted the current transition period from previous fare enforcement to the fare ambassador pilot. These actions may be necessary to reengage with customers to communicate that fares were required. An update is required from staff to return to the Board in early 2022 on recommendations on how fare engagement would function on a permanent level using data gathered from the current fare ambassador pilot.

Boardmember McDermott commented that there hadn't been conversation within the agency about not requiring fares and not having means of fare enforcement, but how fares were enforced and be required was under consideration. Chair Backus agreed with Boardmember McDermott and also had not heard of any comments on desires to not have fare compliance.

Ms. Butler continued with the May YTD Non-System Expansion projects and reported project spending at \$13 million, 54 percent of YTD budget. State of good repair project spending was at 56 percent, or \$5.2 million below YTD budget, primarily due to delayed work under DSTT Capital Improvements, Vertical Conveyance program, and IT Technology Infrastructure. Administrative project spending was at 77 percent, or \$0.8 below YTD budget, primarily due to delay in agreement execution supporting the Union Station HVAC replacement project. And enhancement project spending was at 46 percent, or \$4.5 million below YTD budget, primarily due to delay from various projects.

Audit Update

2020 Financial Audit – Moss Adams

Laurie Tish, from Moss Adams, referred to the packet attached to the Committee's packets and provided a high level summary. Key highlights included an issuance of three audit reports with an unmodified clean opinion on the financial statements audit, no internal control or compliance findings in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters, and no internal control or compliance findings in the Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance (Single Audit). All three reports were dated and issued in late May 2021. Ms. Tish noted an item that differed compared to the previous year which was a new accounting pronouncement that management implemented this year, called Governmental Accounting Standards Board Number 87 (GASB 87). It pertained to lease accounting and this standard would treat leases as Capital assets. The right of use asset and deferred inflow of resources would be amortized or recognized ratably over the lease term. The management and auditor team worked to get these documents implemented and up to standard. Another highlight included the ORCA system, which was completed prior to the Sound Transit audit and issued in early April 2021. There were also two agreed upon procedures projects, one of which was required by FTA and completed and issued in late May 2021. The second agreed upon procedures related to the subarea equity, which were agreed to by the

Citizen’s Oversight Panel and by the Finance and Audit Committee, related to the schedule of sources and uses of funds by subarea, which was completed and reported with no exceptions on June 25, 2021.

Internal Audit Updates

Chair Backus noted the Committee had received the Internal Audit Updates presentation and reports in their packets.

Executive session

None.

Other business

None.

Next meeting

Thursday, October 21, 2021
11:00 a.m. to 12:30 p.m.
Virtually via WebEx

Adjourn

The meeting adjourned at 12:32 p.m.

ATTEST:

Nancy Backus
Finance and Audit Committee Chair

Kathryn Flores
Board Administrator

APPROVED on _____, JG.