SOUNDTRANSIT

# Summary Minutes

**Finance and Audit Committee Meeting**
**October 20, 2022**

## Call to order

The meeting was called to order at 12:35 p.m. by Committee Chair Nancy Backus.

The meeting was available in person and streamed on
https://soundtransit.webex.com/soundtransit/j.php?MTID=m886562b518e15dfeef74abefc9bd8bcd

## 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<br>(P) Christine Frizzell, Lynnwood Mayor | (A) Joe McDermott, King County Councilmember<br>(P) Ed Prince, Renton Councilmember<br>(A) Kristina Walker, Tacoma Councilmember |

Josephine Gamboa, Board Relations Specialist, announced that three members of the Committee were present at roll call. The meeting was called to order with the expectation of a quorum. Chair Backus noted the agenda included one action item and it would be held until the end of the meeting when a quorum was present.

## Report of the Chair

In-person meetings

At the September 2022 Board meeting, the Board rules were updated allowing the Board and Committee Chairs to identify certain meetings as in-person. Under this designation, virtual participation would be limited to no more than 50% of the respective membership. Chair Backus noted the December Committee meeting would not be a mandatory in-person meeting due to the holidays and that she would update the committee on the identified in-person meetings for 2023.

## CEO Report – None

## Public comment

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

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

The following presentations took place:

## Chief Financial Officer Report

Mary Cummings, Deputy Chief Executive Officer and acting 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.

Mr. Fisher reviewed the August year to date 2022 Financial Performance Report. Overall, revenues were at 95 percent or below budget by $123 million mainly due to lower-than-expected federal grants drawdowns and non-cash FMV adjustments to investment income. Staff anticipate drawing these down by the end of 2022 with potential to surpass the 2022 year-end budget for revenues. The expenditures were at 81 percent or $359 million below budget due to mostly to timing of expenses on the projects and underspending across many areas from staffing. Staff expect this trend to continue into year-end. Debt service was due to the last refinancing coming in lower than budgeted actuals and other expenses due to lower than budgeted Department of Licensing fees which were adjusted in early 2022 and unneeded agency contingency.

Year to date tax revenues of $1.4 billion were $2 million above year to date budget mainly due to higher sales taxes of $29 million due to continuing economic recovery, partially offset by lower Motor Vehicle Excise Tax (MVET) tax of $28 million due to the decrease in vehicle registration in 2022. Year to date Rental Car Tax was up 35 percent over budget and 34 percent over prior year for the period, while Property Tax was at budget. Staff expect the year end forecast to fall slightly under budget at 1 percent or in line with budget due to steadily decreasing year over year growth rates in sales tax and MVET.

August year to date ridership of 20.5 million was 53 percent, or 7.1 million boardings, over year-to-date budget. Overall, this had driven fare revenues to be $6 million, or 26 percent, above budget. Staff expect that to follow a similar trend and close above budget for year end. Overall, as a system, ridership was above 2021 August year to date numbers by 125 percent, driven mainly by steadily improving ridership numbers for Link as well as other modes.

Overall operating expenses were $31.5M or 11% below budget due mostly to staffing vacancies both internally and with external partners and contracted services. Insurance also came in lower than expected due to a softening of the insurance market and the timing of the DSTT turnover. There were also lower fees and ORCA costs than budgeted. Staff expects to finish the year at a similar underspend (11%) which would amount to roughly $49M below budget.

System Expansion projects were at 82 percent, or $254.7 million, below budget year to date, mainly driven by the three major Link projects: Federal Way, Lynnwood, Downtown Redmond and delays from the concrete strike in early 2022. Also contributing was the extension of the Light Rail Vehicle (LRV) fleet from lower rates of vehicles accepted versus planned. STRIDE was $36 million below budget, primarily due to I-405 and SR 522 projects and delayed constructed starts along with lower than planned progress in GEC and Final Design activities. Tacoma Link was $17 million below budget, primarily due to contractor understaffing which had in turn delayed construction production. Sounder was at $15 million below budget, primarily due to delay issues in the manufacturing process for Sounder fleet expansion and later than expected planning activities for South Capacity expansion. Year-end forecast for all system expansion projects was expected to be at $203.8 million below budget with timing of the major project spending not expected to complete by the end of 2022 and some amounts would carry into 2023.

Overall Non-System Expansion projects was 39 percent, or $38 million, below budget mainly due to timing of project spending across the board. Enhancements was 35 percent, or $17.5 million, below budget mainly driven by Digital Passenger Information Management with delays in vendor delivery meeting milestones. Fare Paid Zones with construction activity expected to complete in 2023. State of Good Repair was 41 percent, or $17.5 million, below budget mainly from delays in procurement and supply chain for Sounder Vehicle Overall and IT Network Redesign with staffing availability for Link LRV Overhaul. Administrative was 46 percent, or $3 million, below budget primarily due to resource availability for IT Program and longer lead times than expected for HVAC rooftop equipment. Overall, it was expected to land at 29 percent, or $27 million, below budget; a slight increase year to date but still below full-year budget.

Mr. Clark reviewed the Asset and Liability Management Report. The Fed continued tightening to achieve policy goals. The agency's fixed income investments would lose value with interest rate increases. The agency sought to hold most investments to maturity to avoid realizing losses. Interest earnings on investments would increase. Staff would continue to monitor volatility and adjust the portfolio to minimize risk and maximize returns.

Boardmember Frizzell asked for clarification on one slide that listed tax revenues at 100 percent, or $2 million, above budget. Mr. Fisher replied that both were accurate and explained the agency was fractionally above 100 percent.

## Audit Update

2022 Financial and Single Audit Entrance Presentation – Moss Adams

Laurie Tish and Spencer Stevenson, with Moss Adams, provided the presentation. Ms. Tish reviewed 2022 Engagement Service Plan. The audit and project deliverables included a report of Independent Auditor's on the financial statements, report of Independent Auditors' on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards, report of Independent Auditors' on compliance with requirements applicable to each major program and on internal control over compliance in accordance with Uniform Grant Guidance, agreed-upon procedures reports associated with the Federal Transit Administration National Transit Database Report, and lastly agreed-upon procedures report for schedule of sources and uses of funds by subarea. Ms. Tish reviewed required communications to those charged with Governance and Moss Adams' responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards.

Mr. Stevenson reviewed the audit process which included internal controls, analytical procedures, and substantive procedures. He reviewed the definition of materiality, what the considerations of fraud may entail, noted areas of audit emphasis, and the audit timing. Lastly, Ms. Tish reviewed upcoming accounting pronouncements that would become effective in 2023 and 2024.

2021 Accountability Audit Entrance Presentation – State Auditor's Office

Joe Simmons, Daniel Thompson, and Eileen Du, with the State Auditor's Office (SAO), provided the presentation. Mr. Thompson reviewed roles and responsibilities and reviewed the accountability audit. The accountability audit was a mandate to review the use of public resources to ensure there was protection from misuse and misappropriation. The SAO completed their review of Moss Adam's audit with no issues. Ms. Du reviewed potential reporting of Cybersecurity issues to the SAO. She reviewed peer reviews of SAO and provided ways for the agency to gain additional support.

Internal Audit Update

Patrick Johnson, Audit Director, Erin O'Meara, Director of Data and Knowledge Management, and Ken Cummins, Director of Public Safety, provided the quarterly Audit Division update and noted the presentation data classification was unrestricted. The Performance Audit group was currently engaged in two audits, Data Classification and Retention Audit, and the Transit Police Contract Audit. Review of Airspace Leasing to Sound Transit (JLARC) and Vertical Conveyance Systems audits were being finalized. The Compliance Audit group was finalizing the audit reports from Safety and Asset Management System internal audits and progressing the annual internal safety audits of the Link and Tacoma Link light rail. Mr. Johnson noted that upon completion of those audits, the team would transition with the Sounder Commuter Rail internal safety audit to close out the year. There were four

Capital project Safety and Security Certification audits that were being finalized. Each of those audits were completed. One audit from Operations and Maintenance Facility East Safety and Security Audit was being finalized and two other audits were preparing to start.

Mr. Johnson reviewed the Data Classification and Retention Audit. Over the past five years, the volume of agency data that was created greatly increased. That data was a valuable asset to support decision-making for agency operational and business transactions. By ensuring agency data was classified and properly retained, Sound Transit helped ensure sensitive information was protected. The audit objective was to assess if the agency was classifying, protecting, storing, and retaining data properly and good internal controls were in place. The results of the audit yielded one finding that, while data classification standards had been developed, they hadn't been adhered to all areas of the agency. The audit found opportunities existed to strengthen, clarify, and enhance the control environment related to data management across the agency. Mr. Johnson noted the Audit team recognized there was current work in progress to enhance the agency's data standards and that the results help improve processes and better protect agency information.

Ms. O'Meara briefed the agency's management response on the Data Classification and Retention Audit. The Strategic Business Office served to effectively align all of the agency's policies, strategies, and processes. Management agreed with the auditors finding regarding data classification standards not being adhered across the agency. As part of work previously done by Information Security, there was a data classification standard which defined the various levels of data and set the minimum standard for protecting agency data. The compliance to this standard was required by all agency staff and management recognized that, as the auditor identified, must be adhered in order to develop robust data program at the agency. Management was currently developing the strategic vision for the agency-wide data classification program with IT to develop a structured, consistent, agency-wide data strategy to ensure the agency was providing governance, controls, and management around data-driven activities. Corrective action was anticipated to be completed by Q4 2023.

Mr. Johnson reviewed the Transit Police Contract Audit. To help ensure passengers were safe on Sound Transit systems, the agency had contractual agreements with the King County Sheriff's Office for law enforcement services, forming what was known as the Sound Transit Police. Sound Transit, as the agreement owner, was the accountable authority for overseeing the contractors and ensured that deliverables such as patrols and enforcements would take place on its modal systems; with minimum required number of hours and patrols to occur.

The audit objective was to assess transit police availability during peak revenue periods for Link and Sounder service based on the services King County was contracted to do. Additionally, the audit team wanted to determine if the current law enforcement function was effective and efficient enough to scale its operations as the agency and systems grow in the future. To achieve this, there were specific contractual deliverables Sound Transit required the King County Sheriff's Office to meet, such as minimum hours of service, specific number of stations and patrols to be completed, as well as ensuring information between the agencies was shared in areas such as coordination and training. For auditors to see how this would be accomplished, they first evaluated the requirements outlined in current contractual agreements between Sound Transit and the King County Sheriff's Office. Next, they interviewed public safety staff from both agencies and reviewed process, procedure, and contractual reporting. Lastly, over a 30-day period, auditors observed daily operations from the passengers' perspective, performing over 30 hours of field observation on both Link and Sounder service; during morning, afternoon, and late-night service.

Mr. Johnson reviewed the findings. Throughout the field observations, law enforcement was largely absent and was only observed on two occasions on patrol during our time in the field. If the average passenger needed help or something had occurred on the system, law enforcement would be unable to immediately help. The results found that performance expectations in patrol hours, and enforcement of pedestrian safety were below the minimum contractual requirements and that those areas were impacted because of consistently lower ridership, new legislation and regulations impacting law enforcement policies, changes to fare enforcement, and low staffing, among others. All of those impacts withstanding, agency resources responsible for contractual oversight of our transit security contractors were strained; strongly hindering the achievement of the agency's overall objective to ensure a safe rider experience. It was concluded that without policy changes, strengthened oversight of contractual obligations, and clearer two-way information sharing between the agencies, the transit law enforcement function may not be effective and efficient enough to scale up as the footprint of the agency grows.

Mr. Cummins briefed the agency's management response on the Transit Police Contract audit. Mr. Cummins noted passenger safety was at the core of what Public Safety does every day, and they appreciated the work auditors captured along with the continuous improvement opportunities for future contractual oversight of agency partners at the King County Sheriff's Office.

Management partially agreed with the auditors finding regarding the contract deliverables not being met. The partial disagreement does not change what the auditor found, merely that the 2018 agreement only required the King County Sheriff's Office to provide dedicated law enforcement services to Sound Transit, nothing more was asked for. There were no other deliverables, no Key Performance Indicators, and no measurable requirements asked of them; so they fulfilled the agreement. Management did agree with the auditor that what was asked for in the 2022 Memorandum of Understanding was not met. That memorandum was based on full staffing of deputies and was aspirational to prepare the agency as it expands service. The inability to meet staffing levels in Seattle was the same problem effecting law enforcement staffing nationwide. With individuals not being interested in law enforcement, retirements/ resignations outpacing recruitments, and the COVID-19 vaccine mandate, the King County Sheriff's Office were down a significant number of deputies across all their precincts and contract cities, including Sound Transit. With the recent naming of a new Chief of Police for the transit police force for the Sheriff's office, staff anticipated a swift transition plan and issuance of a new agreement shortly thereafter to ensure services levels meet the agency's needs. Staff anticipated this corrective action would be completed by the Q3 2023 for the new Memorandum of Understanding to be issued to the Sheriff's office, and staffing to meet the expansion need by late 2025.

Mr. Johnson provided an update on the progress of the JLARC study of Sound Transit. JLARC has been working on their study of Sound Transit's Land & Airspace Leases and Land Bank Agreement process as part of their 2021 workplan. Over the past year, they had conducted numerous staff interviews with Real Property, state relations, and finance teams; reviewed process and procedures, and gathered evidence and collected data, all to gain an understanding on the land bank agreement process. Currently, JLARC staff were in the process of developing their draft final report, which would be sent to Sound Transit staff later this month for review, comments, and feedback. Staff anticipated that they would be complete with this phase of their study by the end of October 2022 and would likely present to state legislature in November 2022.

Mr. Johnson presented input for the 2023 Performance Audit Topic and initially sought input from the committee. However, because a quorum was not present at this meeting, there would be no further discussion taking place until the following committee meeting. Mr. Johnson presented a list of the previous consultant-led performance audit topics this committee had approved since 2017 to provide an idea of what has been asked for previously. Mr. Johnson provided two possible audit topics. One was customer facing, and one was transparency and accountability oriented.

Temporary Service Changes Collaboration was customer facing and a pain point for our riders. Service outages were a frequent and expected occurrence in the transit industry. Passengers expect Sound Transit to clearly communicate and work closely with partners to move passengers when service was interrupted and return things back to normal once that outage ended. This was a constant challenge for agency leaders as the agency grew and expanded.

The other possible topic was system expansion time charging accountability. This topic would be to evaluate the agency's controls to ensure employees were charging their time on system expansion contracts correctly, and ensured processes to monitor such entries were working as intended.

## Review of Proposed 2023 Budget and Financial Plan Projections

Ryan Fisher, Deputy Executive Director of Financial Planning, Analysis and Budget, provided the presentation. The long-range financial plan projections extended out through 2046, while the Transit Improvement Plan goes through 2028 and the Proposed Budget for the subsequent year, in this case 2023.

The key takeaways noted the Financial Plan, which was on the affordable schedule, was affordable under the agency's current debt constraints. However, the target schedule remains unaffordable. Inflation had risen again quite a bit with the latest Consumer Price Index, Cost of Construction Index, and Right-of-Way Index. Tax revenues were up but did not completely offset the impact of inflation across all of the plan. Cost escalation and inflation had added nearly $3.5 billion across both the capital and operating programs. The increases in expenses outpacing revenues had created an additional need for projected debt to be issued. As the amount of projected debt had risen, the agency would need to monitor both its debt limit but also its debt coverage more closely moving forward.

Mr. Fisher reviewed a graphic that showed major changes that impacted the long-range financial plan projections. Tax revenue, grants and other revenues, and debt proceeds were additional revenues or sources available in the plan. Fare revenues, Capital Expansion and State of Good Repair, Operations, and Debt and Reserves were projected additional uses or expenditures. The image depicted the fact that projected revenue increases did not offset projected expenditure increases and there was a need to issue additional debt. The biggest changes the agency had seen since Spring 2022 were the impacts of inflation on tax revenues, capital and operating programs, and the impact on projected debt.

Overall, tax revenues had recovered from the early stages of the pandemic, but there was a slowdown in year over year growth of collections through August of 2022. There was still a high amount of uncertainty in the future direction of the economy and how that would end up impacting near term growth particularly in sales tax. Growth in the taxable sales in the Puget Sound region had still been strong, driven by high inflation, low unemployment rates, and income gains. MVET growth had dipped in 2022 but was expected to stabilize in future years. Property tax, in the Fall, update each year from 2022-2026; the amount of Assessed Value (AV) growth attributed to new construction was lower than in the spring. Since more AV growth was attributed to existing property value increases which were subject to a lower tax levy, so the overall amount of property tax would decline.

Overall fare revenue projections had decreased through 2046. The decrease was a combination of: introduction of free youth fares, lower ORCA life fare assumptions, assumed delay of Link fare increase to 2025, and BRT and ST Express lower average fare per boarding. The increase in long-term ridership projections did not offset the impact of the lower average fare per boarding assumptions. The current rate of non-fare boardings in near term was still around 40 percent. Tacoma Link fare implementation was assumed in these figures at $2 adult level.

Grants increased by approximately $30 million due to competitive grants and the new Consolidated Rail Infrastructure and Safety Improvements (CRISI) grant which will help fund DuPont Extension. In Spring 2022, the financial plan increased the FTA Full Funding Grant Agreement (FFGA) grants assumption from $6.2 billion to $9 billion due to the Infrastructure Investment and Jobs Act (IIJA), which was passed November 2021. Additionally, there was a potential for increase in the agency formula fund assumptions due to the IIJA. However, the methodology to distribute Federal Transit Administration (FTA) formula funding was being discussed at PSRC. If the existing Earned Share methodology was continued, FTA formula funding will increase. Staff was waiting to increase the funding until the methodology was finalized but could be in the low hundreds of millions. Additionally, Lynnwood Link and Federal Way Link FFGA appropriations were accelerated, which helped decrease debt service and increase capacity. Lastly, other revenues increased by $30 million due to increased assumptions for ORCA local cost reimbursement.

The capital program projected to increase mainly due to inflation, which amounted to a $1.6 billion, or 3 percent, increase through 2046. The only other impact was a result of regular adjustments of cash flow needs over time, which had a small benefit the overall projections. A project change was made but didn't have any impact on affordability. West Seattle Ballard Link Extension was split into two projects but no change in the overall cost estimate.

Overall operating costs were projected to increase $2.8 billion through 2046. The consumer price index alone increased the long-term projections by $0.9 billion across the entirety of the operating plan. Projected staffing costs had increased through 2046 by $0.9 billion, roughly half of which was driven by medical benefits near term cost increases and the other portion by the impact of inflation on long-term labor market conditions. Increases in long-term cost projections for modal services, parts, and purchased transportation were roughly $0.7 billion. The latest assumptions for the fare ambassador program that was conveyed in August increased long-term operating costs by $0.2 billion. Other/Administrative costs increased by roughly $0.1 billion.

Majority of costs were funded by debt, as opposed to new revenues was a result of cost growth outpacing revenue growth. There was an additional $4 billion in new debt projected to be issued, a 14 percent increase. This increase in new debt was possible because of the projected increase in assessed valuation. Mr. Fisher mentioned as a reminder, Sound Transit was subject to a state debt capacity requirement, which was that the agency could only issue debt of up to 1.5 percent of assessed value in the district. Due to the very hot real estate market in the region, the assessed value forecast is higher than previously projected.

Debt service and reserves were projected to increase $2.4 billion through 2046. The main driver was the increase in projected bond proceeds which added an additional $2.6 billion to projected debt service. Offsetting the increased debt service, the agency lowered its reserve requirement assumption which helped offset the increase in principal and interest by $0.2 billion. The agency was also working with the Build America Bureau to secure additional Federal Loans, anticipated in the end of Q1 2023. The increase in debt service had dramatically lowered debt coverage ratio since ST3.

Sound transit was subject to three different types of debt constraints. First, there was a state law that the agency could only issue up to 1.5 percent of assessed value in the ST district. This was what was referred to as debt capacity- the amount of debt that could be issued, like a credit limit. Second, the agency was subject to an agency voter-approved financial policy, known as net debt coverage. This measures the ability of the agency to pay the debt back after the agency pays for its operating costs. Lastly, Sound Transit was subject to bond covenants, which were ratios related to revenue and debt service required by the bondholders for the debt it issued. As debt capacity limit increases, and projected debt increases, this puts more pressure on coverage ratios, or the measurements of the agency's ability to pay that debt back. Net Debt Service Coverage was slightly more restrictive than most covenants due to the need to cover operating costs before paying back debt.

Mr. Fisher reviewed a chart that showcased the debt capacity, annual projected debt outstanding from Spring 2022 Affordable plan versus Fall 2022 Affordable plans and the Fall 2022 Target Schedule. He then reviews a chart showing the historical trend of debt capacity measurement. Fall 2020 had an unaffordable plan which led to a new affordable plan schedule in August 2021. Since then, the agency had increased some risk with reduction of available debt capacity. There was concern that increased in AV trend may not continue past the summer with interest rates increasing and inflations still running high. He then reviews a chart showing the impact of the latest long range financial plan projects on the agency’s projected debt coverage ration for each of the last three plans and the current plan. Net Debt Service Coverage Ratio Policy Minimum was 1.5 times in any given year, meaning Sound Transit had 1.5 times the amount of revenues needed to pay for debt service after factoring in operating costs each year. Mr. Fisher noted this chart was worth monitoring as macroeconomic conditions change and regional markets change as there had been increased risk over time to this constraint. At a high level, increased debt issuance and increased operating costs would result in lower net debt coverage ratios. Since August 2021, the trend had been downward driven by increases in projected bond issuances, inflation impacts and lower fare revenue forecasts; staff expect fare revenue projections to stabilize and provide less of a headwind in the future projections with recent recoveries in ridership. However, debt coverage still remained an area to monitor with the recent inflation trends and whether future projections for inflation can come back down to more normal levels by the Federal standards.

The annual inflation rate in the US eased for a second straight month to 8.3 percent in August 2022, from 8.5 percent, in July 2022 but above market forecast of 8.1 percent. Additionally, the labor market continued to provide a headwind with inflation impacting the labor market cost assumptions as well as staffing vacancy rates. The agency vacancy rate had been between 13-15 percent each month of 2022. For the interest rate trend, Federal funds rate from 0.5 percent to over 3 percent in last 6 months. For GDP trend, Real gross domestic product decreased at an annual rate of 0.6 percent in the second quarter of 2022, following a decrease of 1.6 percent in the first quarter. For Fare revenue trend, fare revenues now comprised 4 percent of overall projected revenues through 2046, down from 7 percent in the projections in 2017 right after ST3 was passed. Debt capacity won’t necessarily solve for these trends as issuing more debt would not increase tax revenues, lower inflation, or improve fare revenues.

The second Annual Program Review was anticipated for Spring 2023. This would provide updated financial plan projections including latest inflation indices and tax revenue forecasts. As part of the review, project-level affordability gaps would be reviewed and updated.

Lastly, Mr. Fisher presented on the 2023 Proposed Budget. He provided a reminder of the budgets within Committee purview. Other expenditures under Finance and Audit Committee included debt service, tax collection and fees, contributions to partner agencies, leases, and operating contingency. The 2023 budget priorities consisted of initiatives focused on cost consciousness, multi-year targets for staffing and non-system expansion projects, affordability review to ensure majority of 2023 and beyond position adds are directly tied to system and service expansion, nearly 3/4 of additional full-time employee (FTE) growth was tied to activation and service and diversity, equity, inclusion, and culture headcount. There were also additional FTEs for regulatory and compliance and technology functions, and streamlined, prioritized non-system expansion project reviews to focus on high-priority projects.

Sales tax had an increase of 3 percent over 2022 full-year forecast. Year to date (YTD) collections for 2022 through June had trended down on a year over year increase over 2021. The growth anticipated into 2023 had slowed due to the recent high levels of inflation but was still up on a year over year basis. MVET was up from a recently revised down forecast for 2022 as supply chains had impacted the vehicle market; MVET collections were projected to decline 6 percent to 2022 budget. Rental car tax projections were up slightly with an uptick in travel. Property tax budget was based upon preliminary AV data and a 1 percent levy increase for 2023. Federal grants were projected to be lower mainly due to ARP funding in 2022 not in 2023 and Lynnwood Link extension funding accelerated into 2022.

Fare projections had increased due to a higher level of anticipated ridership. Investment income was projected to increase with higher interest rates projected in 2023 offset by no Federal Build America Bonds subsidy budgeted for 2023 due to uncertainty in the legislature regarding future funding. No TIFIA draws were assumed in 2023; staff expect to utilize existing cash from recent draws in 2022 that would be carried forward into 2023 as timing of project spending had shifted from original 2022 budget. The agency managed its cash in alignment with its Asset and Liability Management Policy. 2022 Investment income contained negative FMV adjustments that were not a part of the budgeting process. ORCA reimbursement was projected to be higher with a full year of reimbursement in 2023 and higher investment income offset by no Federal Build America Bonds subsidy budgeted for 2023 due to uncertainty in the legislature regarding future funding.

Overall, the proposed expenditures for 2023 were up 2 percent over the 2022 Budget. The proposed 2023 budget for Other of $205 million was 11 percent, or $25 million, under 2022 Budget. This was mostly due to debt service, due to savings from 2021 refinancing activities as well as a $6.8 million reduction year over year to $14.2 million in the contingency budget as 2022 had a net benefit to the agency from its reconciliation of the 2021 purchased transportation costs. Additional budget items in Other included $24.3 million for tax collection and fees and $16.7 million for leases.

The proposed 2023 project budget is flat to 2022 budget at $2.3B, which is less than 0.5% change from 2022.

System expansion projects reduced by $55 million, largely due to a reduction of $216.6 million as Lynnwood Link and Downtown Redmond Link extensions moved from their peak year of construction cost, with increases driven mainly by 3 projects. Non-System Expansion projects increased by $66 million, with $27 million of new Non-System Expansion projects from new projects, and $48 million increase changed to existing projects off set by $(9) million going to transit modes. Enhancement projects increased by $18 million from 2022 budget with $12 million for the new Portfolio Services Office Programmatic Work to support all agency-wide projects with engineering and station standards efforts. State of good repair increased by $31 million from 2022 budget. $6.5 million came from Downtown Seattle Transit Tunnel (DSTT) capital improvement activities, $4.2 million for IT Tech infrastructure to upgrade servers at the data centers, and $3 million for the vertical conveyance program to proceed with assessment and design of replacement elevators at Auburn, Kent and Everett stations. Administrative projects were increasing $26 million from 2022 budget with $21.3 million increase mainly due to the impact of inflation, staffing, $3.1 million in IT program to continue to address agency's needs for IT systems, and $1.7 million for office decommissioning. Lastly, charges to transit modes was a reduction to the projects for non-capitalizable expenses in various projects that were in support of the transit modes. Examples include Sounder Vehicle Overhaul, Link Overhaul, DSTT program planning.

Overall, the proposed 2023 transit operating budget increased by 15 percent, or $67 million, growth over the full-year 2022 Budget. Activation and service restoration comprised 6 percent, or $24.3 million of the increase driven by service restoration, new FTE in activation and service restoration, increase in Link service levels, Hilltop Tacoma Link Extension. Cost escalation was driving 5 percent, or $21.1 million, of the increase driven by overall cost escalation in Services, Link Purchased Transportation 5 percent cost increase, and Sounder fuel cost increase from $3.20 to $4.20 per gallon. State of good repair and other maintenance was contributing 3 percent, or $14.8 million, and was driven by increase in expense/operating projects, and spare parts and facilities maintenance. Insurance and other was driving 1 percent, or $2.7 million, of the increase mainly from Northgate valuation and Link and Sounder vehicle increases. Diverse, Equity, Inclusion and Culture comprised 1 percent, or $4.8 million, for additional headcount for fare ambassadors and funding for engagement and outreach work. Link increased $40 million, mainly due to Purchased Transportation, security, spare parts, and insurance. Sounder increased $14 million due to filling of vacancies expected in 2023, additional dollars for vehicles and facilities maintenance, and fuel costs. Regional Express increased $7 million mainly due to Purchased transportation with an increase partners rates and higher fuel costs. Tacoma Link increase of $6 million was to account for revenue service of Hilltop Tacoma Link Extension in 2023.

The October 2022 Board meeting would receive an overview of Long-Range Financial Plan projects and budget. In November 2022, each committee would receive a budget overview of budgets within their purview. In December 2022, each committee would forward a budget recommendation to the Finance and Audit Committee to recommend to the Board for adoption.

## Executive session – None

## Other business

Ms. Gamboa announced a quorum was expected at the beginning of the meeting, but ultimately did not have one present. Therefore, the action to approve minutes would be postponed to the following meeting. Additionally, all materials and reports from this meeting would be included in the following Committee meeting for review.

## Next meeting

Thursday, December 15, 2022
12:30 to 2:00 p.m.
Virtually via WebEx

## Adjourn

The meeting adjourned at 1:58 p.m.

ATTEST:

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| _______________________________ | _______________________________ |
| Nancy Backus<br>Finance and Audit Committee Chair | Kathryn Flores<br>Board Administrator |

APPROVED on _____________. JG.