

**SOUND TRANSIT  
AUDIT AND REPORTING SUBCOMMITTEE  
September 17, 2009 Meeting Summary**

**Subcommittee members in attendance:** Fred Butler (Chair), Mary-Alyce Burleigh, Joe Marine, Claudia Thomas, and J.D. Wessling (COP Vice Chair)

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Chair Butler called the meeting to order at 11:35 a.m.

**1. Introduction**

Chief Financial Officer Brian McCartan reviewed today's agenda with the committee.

**2. Audit Update**

Kelly Priestly, Controller gave an update on the audit activity currently taking place at Sound Transit. Sound Transit has submitted operating and financial information to the National Transit Database (NTD) and the 2008 KPMG audit opinion will be finalized once the NTD completes its review. The letter of recommendations from the KPMG audit has been finalized and will be mailed out to the Board shortly. There are two areas noted for process improvements, collection of passenger data and data collection related to the third party actuary report. Action plans are in place to remedy those two areas and work will take place this year and will be completed in 2010. The final billing from KPMG is lower than anticipated because of efficiencies gained by strong coordination and good interaction with the auditors.

She noted that audit readiness work for the ORCA program is taking place. Sound Transit is the regional program administrator and is the fiscal agent for the ORCA program. ORCA is not anticipated to be a material revenue stream in 2009, but in 2010 a SAS 70 audit report will be needed. Work is also taking place to kick off the 2009 external audit that will cover capitalization of Link light rail assets, establishment of depreciation and start of operations for Link, debt issue and University Link construction.

David Hammond, External Reporting & Compliance Manager, provided an update on the compliance audit activity that is taking place. The audit was delayed because they want the ST risk assessment to come out at the same time as the State risk assessment. The audit is now scheduled to be released at the end of the year. Another risk assessment audit has already been done; the agency plans to use the results from each risk assessment as a basis for future audits. State auditors are also doing an accountability audit for 2008, the entrance conference will be held next week.

**3. 2<sup>nd</sup> Quarter Asset/Liability Management Report**

Jim Block, Assistant Treasurer, presented the 2<sup>nd</sup> Quarter Asset/Liability Management report. The second quarter 2009 showed increased stability over 2008. There were no changes to the spotlight indicators in the Asset/Liability Management report, and interest rates are still at historic lows. The federal open market kept rates floating between 0 and 25 basis points. The average yield on investments have decreased by 39 basis points between the 1<sup>st</sup> and 2<sup>nd</sup> quarter down to 1.84% total return compared to 2.23% at the end of the first quarter. Decreases are primarily due to low yields from the state investment pool. Cash and investments decreased by \$4 million dollars in the second quarter. Interest earnings are \$400,000 below budget through the first half of the year. The agency's cash position is sufficiently liquid, all funding requirements can be met, and all portfolios are in compliance with policy limits. The King County investment pool has one remaining impaired investment to sell, Sound Transit continues to review the list of holdings quarterly. A report from PFM who is monitoring the King County investment pool shows that the pool is of sound credit quality, is well diversified and has ample liquidity. Nearly all assets are rated at the highest quality and poses minimal risk to principal and the credit exposure is well diversified among sectors. Based on these reports, Sound Transit feels comfortable putting money back on deposit with King County, and some money has been moved there for short term purposes. Mr. Block also noted that the agency is working with an external investor to invest money from the bond sales.

#### 4. 2<sup>nd</sup> Quarter Financial Report

Pete Rogness, Finance and Budget Manager, presented the 2<sup>nd</sup> Quarter Financial Report. Mr. Rogness noted that the report has been refined and reformatted so that the report more accurately reflects financial aspects instead of being a performance report. Information on project progress is available through monthly light rail progress reports or quarterly agency progress reports. Monthly operations reports also include ridership and operations expenditures information. The financial report includes ST2 revenues, but the 2009 budget doesn't include the ST2 projects that the additional revenue is anticipated to fund. Mr. Rogness noted that this anomaly will not occur in the future.

Mr. Rogness reviewed the balance sheet for the agency; the agencies net worth has increased by \$288 million, capital assets have increased by \$362 million. There has been a decrease in long term debt due to paying off the first series of bonds with the recent bond issuance. The second quarter asset/liability ratio is 3.6 to 1, an improvement over last quarter. Mr. Rogness reviewed subarea borrowing for the second quarter, net assets in the North King and South King subareas were at a deficit, although currently the North King subarea is no longer in a deficit position. Subareas that are borrowing from another subareas pay interest to the subarea they are borrowing from. Ms. Priestly noted that outstanding legal claims or other liabilities are estimated and those estimates are included in the balance sheet and explained the internal process for estimating claims and liabilities.

Sound Transit's capital program was reviewed; overall, the capital program is at 72% of the budget. Commuter rail capital is at 35% of the year-to-date budget, down from 61% in the first quarter. Administrative costs for commuter rail are \$213,000 over expectations for the second quarter, due to a fixed number of staff charging their time to a smaller group of projects. Three projects experienced under-spending: the Seattle to Tacoma Track and Signal project is \$11.7 million under budget due to project savings, the Seattle to Tacoma ST2 program was amended in 2009 to include \$20 million for an initial payment on an anticipated agreement with BNSF that will not be finalized this year, and the M Street to Lakewood project has a \$8 to \$10 million dollar variance due to changes in the construction schedule.

Light Rail capital is at 95% of the budget; expenditures for early construction work for University Link, and Initial Segment work were higher than planned. Airport Link is under budget by \$1.1 million due to project savings.

Regional Express is at 80% of the year to date budget due to construction taking place in 2009 that was planned for 2008; there is no negative impact to the lifetime budget. Right-of-way is under budget by \$2.8 million; an anticipated contribution to the Rainier Avenue project has been delayed, and the Renton HOV/N 8<sup>th</sup> project has been delayed until the State widens I-405. Other Capital is at 55% of the year-to-date budget.

Mr. Rogness reviewed the 2<sup>nd</sup> quarter income statement; revenue is at 116% of the budget, and expenses are at 87% of the budget. Tax revenues are ahead of budget, but if the updated revenue forecast from February 2009 is used, the agency is trending below the forecast. Investment income is \$1.8 million under budget, and farebox revenue is \$1.9 million under forecasts. State and local contributions are higher than the budget by \$8 million.

Transit operations are at 97% of the budget, passenger fares are at 126% of the budget, and ridership was at 96% of forecast. Sounder ridership is 4% below forecast, fares were 59% above budget and expenses were 96% of budget. Chair Butler asked about security costs; David Huffaker, Program Manager, responded that emphasis patrols will continue to be used when necessary to maintain system security. ST Express ridership is 6% ahead of estimates; fares are 16% above budget and expenses are at budget. Mr. Huffaker also noted that the operations department feels comfortable with the 2009 and 2010 fuel cost estimates for ST Express. Tacoma Link ridership is 10% above forecasts, expenses are at 88% of the budget. Staff operations are all within year to date budgets, and Other Expenditures are at 54% of the budget.

Mr. Huffaker presented a chart showing farebox recovery. Farebox recovery went down in the 1<sup>st</sup> quarter of 2009 due to decreased ridership. The ST Express goal is 23-32%, the 2009 target was 18.4% and the year to date fare box recovery is 20.5%. The 2009 target for Sounder was 22%, and year to date recovery is

23.2%, although both numbers are below the fare box recovery goal set by Sound Move. The Central Link goal is 40%; fare box recovery numbers will be available in the future. Boardmember Butler asked that the farebox information be provided electronically and be included in future reports. Mr. McCartan noted that the Board can discuss farebox recovery when reviewing fares on all modes later this year. Boardmember Thomas asked what affect the ORCA program has had on farebox recovery; Ms. Priestly responded that Sound Transit's share of fares has trended slightly higher than under the old allocation process.

Mr. Rogness reviewed disbursements; the second quarter showed a gradual decline. Mr. Rogness also noted that the 2008 revenue forecasts include revenues received as a result of ST2, but don't accurately reflect the current economic situation. Revenue numbers through June 2009 show revenues at 10.4% below forecasts from February 2009.

The quarterly contracts reports were also reviewed. Boardmember Butler asked about contracts for advertising that have had significant changes due to change orders. Mr. McCartan noted that steps are in place internally that require justification for change orders that significantly increase the original contract amount. Tim Healy, Marketing Manager, explained that the contracts are for media outlets where Sound Transit places advertisements. The agency works with media buyers to create an advertising plan that incorporates multiple advertisers and determines the amounts spent with each advertiser. The contract amounts are based on estimates from prior years, but increases may be necessary based on the advertising plan developed. Mr. Healy also clarified that all advertising expenditures are within the annual advertising budget. Boardmember Butler asked that controls be put in place for contracts where options exist. Boardmember Butler also asked about legal contracts that are over five years old. Desmond Brown, Legal Council, noted that every five years legal contracts are procured based on a roll of qualified firms. Based on a specific legal case, a project budget will be developed and a change order will be done with the legal firm who will be providing assistance. Mr. Brown also noted that he will be mailing a report to the Board that lists the work each firm performed in the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2009.

## **5. Next Meeting – December 17, 2009**

Chair Butler adjourned the meeting at 12:46 p.m.