

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

**Subcommittee members in attendance:** Fred Butler (Chair), Mary-Alyce Burleigh, Dave Enslow, Joe Marine, and Paul Wiesner (COP Chair)

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Chair Butler called the meeting to order at 11:38 a.m.

**1. Introduction**

Chief Financial Officer Brian McCartan reviewed the agenda. He noted that contracts reports are included in Boardmember packets.

**2. 2009 Financial and Federal Audit Plan**

Tom Evert, Carl Erickson and Tara Crawford of KPMG reviewed the audit plan for the year. Testing improvements have taken place over the last few years. Link light rail will be one area of focus for this year's audit including asset depreciation to ensure they follow generally accepted accounting principles. Kelly Priestly, Controller, noted that Sound Transit is also looking at peer agencies and FTA recommendations to determine the useful life of Link light rail assets. This year's audit will also look at ORCA reports and test the service structure. The audit will also focus on bond issuances that happened recently including the Buy America bonds and excess land as a result of the Link light rail project. Construction claim liability will be reviewed as well as the self-insurance liability. The audit will also review how investments are valued.

Chair Butler asked about the state auditor's risk assessment and how it coordinates with the risk assessment KPMG is working on. KPMG will receive the state auditor's risk assessment once it is completed and will compare it with the KPMG assessment. Mr. McCartan noted that the state will use the risk assessment to inform their compliance and audit function for Sound Transit. Sound Transit will also plan to use an internal risk assessment to guide internal audit and compliance work.

KPMG will also conduct an audit based on federal funds that Sound Transit receives. The testing will include looking at cash management, cost allowability, and equipment purchases. In 2009, additional requirements apply to stimulus funding received by Sound Transit. Specific procedures will also be followed to look at balance sheet and income statement accounts and how they were allocated between subareas.

Planning work, meetings with management and some preliminary testing have already taken place, next steps will begin in March and a report will be completed in time for the June ARC meeting.

**3. 3rd Quarter Asset/Liability Report**

Assistant Treasurer Jim Block presented the 3<sup>rd</sup> Quarter Asset/Liability Management report. There has been no change in the spotlight indicators. Interest rates are still low and yields are below averages for prior years. The Federal fund rate continues to float between zero and 25 basis points. The yield on total cash and investment holdings decreased by 80 basis points in the third quarter due to funds held in the state investment pool. On September 29<sup>th</sup> Sound Transit received bond proceeds of \$366 million which were sent to the State Investment Pool, King County Investment Pool and open market securities. Interest earnings for the year remain below budget. The agency cash position remains sufficiently liquid to ensure that funding requirements can be met. All portfolios are in compliance with their policy limits. Sound Transit has been receiving recovery payments from the King County Investment Pool, so far these payments have totaled \$8,700. Sound Transit also continues to review the King County Investment Pool holding reports with investment advisors. The spread between taxable and tax-exempt debt is still tight, tax-exempt debt is currently yielding higher. The borrowing rate for long term debt is at 3.5%.

Mr. McCartan gave an update of the status of the lease-leaseback transaction with First Hawaiian Bank and AIG. Sound Transit submitted a term sheet that included Sound Transit putting collateral on deposit to repair

the transaction. The term sheet lowers Sound Transit's exposure by \$7 million. The term sheet has been accepted by First Hawaiian, so a full agreement will be drafted for Board approval in 2010.

#### **4. 3rd Quarter Financial Report**

Budget Manager Pete Rogness presented the Third Quarter Financial Report. Sound Transit's total net assets increased by \$380 million, capital assets increased by \$329 million. Long term debt increased as a result of the bond sale. Assets were increased in the third quarter by just under \$200 million. Sound Transit now has five dollars to cover every dollar of liability.

Capital spending in the third quarter was at 69% of the year to date budget, a reduction since the end of the second quarter. The Sounder program expenditures are at 43% of the year to date budget, administrative costs were over budget by \$475,000 and construction was under budget by \$45.5 million. The construction variance is due to the Seattle-Tacoma Track and Signal project being \$15 million under budget due to savings, and the ST2 Track and signal project is underspent by \$20 million due to a schedule delay for negotiations with BNSF. The M Street to Lakewood Track and Signal program also started behind schedule by three months and continues to cause a budget variance. The Link program is at 90% of the budget. University Link is at 93%, the Initial Segment is at 96% and Airport Link is at 88%. East Link is at 34% of its year to date budget because the budget anticipated a faster review process. The Regional Express program is at 70% of the year to date budget, down from the second quarter. The underspending is due to schedule delays with the Rainier Avenue project, and the Renton HOV Access project, not project cost savings. The construction budget for Regional Express is over by \$500,000 because some construction anticipated for 2008 took place in early 2009. Other Capital is at 34% of its year to date budget, down from 55% in the second quarter. The variance is due to a research and technology fund project not taking place and delays in installing automatic passenger counters on Sounder vehicles. The acquisition of buses for ST2 took place more slowly than anticipated.

Income statements show revenues are at 99% of the year to date budget and expenses are at 90% of the year to date budget. Tax revenues are \$25 million dollars under the budget, investment income is \$2.3 million under budget and fare box revenue is \$1.2 million under budget. Federal Grants were \$15 million higher than expected. State and local contributions were also higher because of a land bank transaction. Lisa Wolterink, Grants Manager, responded to questions about federal grants received in 2009. The draw down rate has been influenced by the stimulus program. \$44 million in new starts funding for University Link has been accelerated to take place in 2009. Grants requested for 2010 include a \$95 million request for a Transportation Investments Generating Economic Recovery (TIGER) grant for the Airport S 200<sup>th</sup> project to allow the project to open in 2013. \$28 million was also requested for improvements to Sounder including Tukwila Station, vehicle procurement, and D to M Street improvements. Sound Transit will also participate with WSDOT in pursuing grants for High-Speed Rail funding and other smaller grants.

Transit Operations costs are at 93% of the budget. Passenger fares are at 90% of the budget and ridership was at 93% of forecast. Fares and ridership were lower in the third quarter than the second quarter. A summary table showing farebox recovery information has been added to the report based on a request from the Audit and Reporting Subcommittee. Sounder ridership was 5% below 2008 and 20% below the forecast; fares were 16% below budget, expenses were at 89% of the budget. ST Express ridership was 3% above 2008 but 4% below forecast; fares were 6% above budget, expenses were at 98% of the budget. Tacoma Link ridership is 3% lower than 2008, and 5% ahead of the forecast; expenses were at 98% of the year to date budget. Central Link ridership was 9% below forecast, fares were 13% below budget; expenses were at 75% of the year to date budget. Staff expenses are at 89% of the year to date budget, all departments are within their year to date budget amounts. The report includes information on filled and vacant positions by department.

Tax revenues on an accrual basis were presented; revenue through November is 10% below forecast for the year. 2010 anticipates 5% higher tax revenues than 2009.

#### **5. Next Meeting – March 18, 2010**

Chair Butler adjourned the meeting at 1:00 p.m.