# Summary Minutes

**Special Finance and Audit Committee Meeting**
**September 8, 2023**

## Call to order

The meeting was called to order at 1:02 p.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 | (P) Bruce Dammeier, Pierce County Executive |

| Board Members | |
|---|---|
| (P) Dow Constantine, King County Executive | (P) Joe McDermott, King County Councilmember |
| (P) Christine Frizzell, Lynnwood Mayor | (P) 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

Special Committee Meeting

Chair Backus explained that at the August 2023 Executive Committee meeting, the committee received a presentation regarding the potential updates to the Procurement, Agreements, and Delegated Authority Policy in response to the TAG recommendation. The Executive Committee asked for the presentation be given to this Committee for further discussion prior to making any potential action for the Board to update the policy and was the reason for holding this special Finance and Audit Committee meeting.

## CEO Report –

CEO Julie Timm provided the CEO report.

Response to TAG Recommendation

The agency's Technical Advisory Group (TAG) recommended that the agency revisit the type and level of decisions the Board makes to allow for clear roles and responsibilities between Board and staff leadership, as well as keeping the agency's business moving efficiently. One of the stated goals of the TAG recommendation was to provide the Board with more time to focus on the policy issues needed to support ST3 as the project stages advanced from planning into engineering and construction. CEO Timm provided background in that staff presented a set of conceptual options for greater delegation of authority from Board Committees to the CEO based on contract amounts. She reiterated that this was presented at and discussed during the August 2023 Executive Committee meeting. The Executive Committee, with the agreement of Finance and Audit Committee Chair Backus, forwarded this item to

the Finance and Audit Committee for further review, discussion, and possible recommendation back to the Executive Committee for action.

Upcoming Fall update to the Long-Range Financial Plan

The long-range financial plan was being updated with the latest assumptions in preparation for the October 2023 Finance and Audit Committee meeting. Early indications showed inflation still remained elevated relative to pre-pandemic levels. This would likely improve agency tax revenue forecasts, but would also put pressure on operating costs and project costs. Fare revenue projections were coming in below pre-pandemic levels and recent estimates due to continued rates of non-fare boardings above what was originally projected. Additionally, ST3 capital projects in planning increasingly were showing higher estimated costs to construct as methodologies were updated and refined to better predict and keep up with regional and national market conditions. In many cases, Sound Transit, along with WSDOT and other agencies in the region, were seeing as much as a 50 percent increase over earlier projected costs. CEO Timm and staff would continue to include more information to Committee and Board reports on impacts of increased costs to the finance plan with the understanding that updated or baselined costs for the majority of our ST3 projects, that were still in planning and design, were not available at this time. Staff would continue to find ways to optimize resources and seek new revenue opportunities.

CEO Timm announced the agency recently received its first payment of just over $350,000 for energy tax credits. The agency expected to see approximately $1.2 million in 2023 based on the first sale and another estimate would be provided in the next finance forecast.

## 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, virtual, or in-person comments received.

## Discuss potential updates to the Procurement, Agreements, and Delegate Authority Policy

Ted Lucas, Chief Procurement Officer, provided the presentation. The relevant portion of the agency's response, Motion No. M2023-36, instructed staff to take steps towards clarifying the roles and responsibilities of the Sound Transit Board and staff, in order to build trust, transparency, and efficiencies to deliver the program. Following the motion, staff reviewed the opportunity to update the Board's procurement, agreements, and delegated authority policy, including reviewing and updating current delegation of authority levels between the board and CEO and streamlining the nature and number of actions that currently come to the Board for approval.

Mr. Lucas reviewed the current committee contract approval subject matters with several examples for reach. The Rider Experience and Operations Committee approved purchases supporting the operation or maintenance of existing systems, assets, or business functions. The System Expansion Committee approved purchases supporting the expansion or growth of Sound Transit's service footprint, modes, or stations. The Executive Committee approved purchases supporting system wide programs such as innovation, sustainability, Transit Oriented Development (TOD), and surplus property among others. The Finance and Audit Committee had no delegated responsibilities for transaction approvals. Lastly, the Board had approval of transactions greater than $50 million upon Committee recommendation or exceptionally at any dollar value in place of committee action.

Mr. Lucas reviewed the current decision making and reporting levels. Construction/architectural and engineering (A&E) contracts were $250,000 and below classified as CEO decision without Board awareness, $5 million and below classified as CEO decision with Board awareness, $50 million and below classified as Committee decision and above $50 million was Board decision. Materials,

Technology, and Services (MTS) contracts were $250,000 and below classified as CEO decision without Board awareness, $2 million and below classified as CEO decision with Board awareness, $50 million and below classified as Committee decision and above $50 million was Board decision. Sole source contracts were $25,000 and below classified as CEO decision without Board awareness, $250,000 and below classified as CEO decision with Board awareness, $50 million and below classified as Committee decision and above $50 was Board decision. Agreements were $5 million and below classified as CEO decision with Board awareness, $50 million and below classified as Committee decision and above $50 was Board decision. Emergency contract ratifications were $250,000 and below classified as CEO decision with Board awareness, $50 million and below classified as Committee decision and above $50 million was Board decision. Real Property transactions were $500,000 and below classified as CEO decision with Board awareness, $5 million and below classified as Committee decision and above $5 million was Board decision, and lastly, proprietary contracts were $250,000 and below classified as CEO decision without Board awareness, anything above was CEO decision with Board awareness.

Mr. Lucas reviewed the number of annual actions, by way of Motions and Resolutions, between 2014 to 2023. There was a dip in numbers from 2018 to 2019 because of the last policy update that went into effect January 2019. It showed it was successful in reducing the number of actions. He then reviewed the average number of annual actions between 2019 to 2023. There was an average of 16 policy, program, project decisions, 12 budget adoptions/amendments, 10 real property, 10 Board governance, 9 agreements retained by the Board, 7 Other actions, and 56 contracts and agreements above the CEO delegation. Mr. Lucas explained that those agreements went to the committee or board because of retained Board authority and that there was a section where if the agency agreement concerned the Regional Transit Plan or involved a non-routine governmental function then it required Committee or Board approval regardless of the dollar value. He further broke down the data by providing the average number of annual actions for contracts and agreements above CEO delegation between 2019 to 2023 by dollar amount for Committee and Board.

There were four options that provided a range of possible CEO delegation options. Option A provided the construction/A&E contracts, MTS contracts, and sole source contracts CEO decision without Board awareness up for $250,000 and below, $5 million and below would require Board awareness, $50 million and below would be Committee decision and anything beyond was Board decision. Agreements would provide $5 million and below CEO decision with Board awareness, $50 million and below would be Committee decision and anything beyond was Board decision.

Committee Vice Chair Dammeier asked if staff researched any potential improvements for when the Board has spent a longer amount of time discussing or approving actions that may have caused delays to any certain transactions or project schedules. Mr. Lucas replied that wasn't particularly investigated. Mr. Lucas and Katie Flores, Board Administrator, explained the current 3-4 week process of preparing an action to be presented to the Board, all of which dovetails with the end of the procurement process. CEO Timm added that this presentation was related to the total number of actions and presentations provided to the Board in terms of agenda content and duration. CEO Timm explained the time and cost of the policy has not been explored yet. Committee Vice Chair Dammeier voiced his concerns with lengthening the approval process for certain actions. CEO Timm added that addressing these issues would resolve issues related to the length of the meetings and possibly the amount of time to prepare for approval.

Option B provided the MTS contracts, and sole source contracts CEO decision without Board awareness for $250,000 and below, $5 million and below would require Board awareness, $50 million and below would be Committee decision and anything beyond was Board decision. The construction/A&E contracts would provide $250,000 and below for CEO decision without Board awareness, $10 million CEO decision with Board awareness, $50 million and below would be Committee decision anything beyond was Board decision. Agreements would provide $10 million and

below CEO decision with Board awareness, $50 million and below would be Committee decision and anything beyond was Board decision.

Option C provided construction/A&E contracts and MTS contracts CEO decision without Board awareness for $250,000 and below, $10 million and below would require Board awareness, $50 million and below would be Committee decision and anything beyond was Board decision. Sole source contracts would provide $250,000 and below for CEO decision without Board awareness, $5 million CEO decision with Board awareness, $50 million and below would be Committee decision and anything beyond was Board decision. Agreements would provide $10 million and below CEO decision with Board awareness, $50 million and below would be Committee decision and anything beyond was Board decision.

Lastly, Option D provided construction/A&E contracts CEO decision without Board awareness for $250,000 and below, $20 million and below would require Board awareness, $50 million and below would be Committee decision and anything beyond was Board decision. MTS contracts provided CEO decision without Board awareness for $250,000 and below, $10 million and below would require Board awareness, $50 million and below would be Committee decision and anything beyond was Board decision. Sole source contracts would provide $250,000 and below for CEO decision without Board awareness, $5 million CEO decision with Board awareness, $50 million and below would be Committee decision and anything beyond was Board decision. Agreements would provide $20 million and below CEO decision with Board awareness, $50 million and below would be Committee decision and anything beyond was Board decision.

Mr. Lucas shared the representative reduction in number of Committee actions annually. Option A, with $5 million construction/A&E and $5 million MTS contracts, the Rider Experience and Operations (REO) Committee would see an 18 percent reduction and the System Expansion Committee (SEC) would see no change, seeing a total of 6 less actions. Option B, with $10 million construction/A&E and $5 million MTS contracts, REO would see an 18 percent reduction and SEC would see a 9 percent reduction, totaling 11 actions. Option C, with $10 million construction/A&E and $10 million MTS contracts, REO would see a 35 percent reduction and SEC would see a 9 percent reduction, totaling 17 actions. Lastly, Option D, with $20 million construction/A&E and $10 million MTS contracts, REO would see a 35 percent reduction and SEC would see an 18 percent reduction, totaling 23 actions. For all options, the full Board would see no changes in approval numbers.

Mr. Lucas reviewed the total actions from 2019 to 2023 by contract type and provided a breakdown on what the contracts would consist of. For MTS, there were 29 actions between $2 million and $5 million. These typically included full spectrum of the types of goods and services procured by MTS including facilities maintenance, consulting services, safety and security, information technology hardware/software, etc. There were 24 actions between $5 million and $10 million which typically included Typically includes full spectrum of the types of goods and services procured by MTS including facilities maintenance, consulting services, safety & security, Information technology hardware/software, etc.

For A&E and construction contracts, there were 10 actions between $5 million and $10 million which typically included conceptual engineering and environmental review services, facility renovations, on-call engineering consultant services, design build project management services, construction. There were 27 actions between $10 million and $20 million typically included Job Order contracting construction contracts, design engineering and consulting services, design build project management services, preliminary engineering services, alternatives development services.

Data showed that increasing the CEO's delegation to at least $10 million for contracts and agreements was one possible option to achieve the Board's goals of streamlining the number of actions. No

consideration was given at this time to changing the $50 million authority between the Board and committees.

Boardmember Frizzell referenced slide 7 in the presentation and asked about the percentage of motions passed. Ms. Flores replied the motions reflected in the presentation were motions approved by the Board or Committees. On average the majority of motions brought were approved and there were only a few that were delayed, not considered, or voted down.

Other updates for Board consideration included increasing CEO reporting requirement to Board committees from $25,000 to $250,000/Federal threshold for sole source contracts, increase the threshold for Board ratification of contracts from $250,000/Federal threshold to $5 million for emergencies, increase delegation to the CEO from $500,000 to $5 million for betterments, establish a minimum of $1 million to the requirement for Board approval of contracts exceeding 20 percent over the cost estimate for construction contracts, increasing CEO authority from $500,000 to $1 million for real property agreements, increasing delegation to the CEO from $500,000 to $2 million for preliminary project planning.

CEO Timm reiterated the preparation time for staff to present an item to the Board. She referenced Committee Vice Chair Dammeier's earlier comment and noted there could be added benefits of increasing the delegation to the CEO. The intent of this presentation was to save Boardmember capacity to look at policy issues moving forward. A few other options for possible Board consideration included shifting authority for some contract types between committees to reduce the total work-load on any single committee, increasing frequency of committee and Board meetings to spread out work-load and provide time for policy considerations and staff reports, and reviewing representative prior actions for contracts and agreements to investigate possible options for delegation of authority for actions with no or limited policy or financial implications.

Boardmember Walker asked whether the goal for today's meeting was to make a selection to forward to the Board or discussion only. Chair Backus explained the committee could make a decision to provide a recommendation to the Executive Committee or request more time to discuss prior to decision.

Boardmember Walker asked for more clarification on what the topic of discussion was based on CEO Timm's prior comments regarding the usage of Committee and Board meeting time versus steps to move the agency towards quicker project decision points. CEO Timm replied this meeting was focused reducing Board member's workload. Streamlining process and decision making would be addressed at another time.

Committee Vice Chair Dammeier asked if there were also streamlining discussions related to financial authority levels within the staff levels. CEO Timm replied that work was underway and lead by Brooke Belman, Deputy CEO, Chief Expansion Delivery Officer. CEO Timm explained the varying levels of authority within staff levels, such as on-field engineers and executive directors and noted investigations were taking place on how to improve or increase authority and process levels.

Committee Vice Chair Dammeier asked if there was staff recommendation for this discussion. CEO Timm recommended that, if the Board were to move forward, to choose one of the lower levels and provide a requirement for increased report out to summarize actions for transparency purposes.

Boardmember Frizzell echoed Committee Vice Chair Dammeier's questions and noted the importance of transparency. She shared that she did not support the recommendation to increase meeting frequencies but would accept longer meetings if necessary. She shared support in testing out Option C and noted the ease of having equal approval levels across the various contracts and agreements levels.

Option C would retain Board committees' delegation of up to $50 million for contracts, agreements, and real property agreements, while increasing the CEO's authority up to $10 million for the approval of competitively procured contracts for construction, architectural & engineering services, materials,

technology, and other services as well as agreements with other government agencies, rail entities, and non-profit organizations, that the Board had not otherwise retained authority over. The CEO's authority for sole-source contracts would be increased to $5,000,000.

CEO Timm requested the Committee to also consider other updates (referenced in slide 16) including increasing the threshold for Board ratification of emergency contracts from $250,000 to $5,000,000, establishing a minimum floor of $1,000,000 to the requirement for Board approval of construction contracts that exceed the cost estimate by 20 percent, and increasing the delegation for betterments from $500,000 to $5,000,000, for real property agreements from $500,000 to $1,000,000, and for preliminary project planning contracts from $500,000 to $2,000,000.

Boardmember Walker and Chair Backus supported Option C and the updates refenced in slide 16.

Chair Backus noted the potential difficulties with approving contracts if any responsibilities were shifted to this committee and asked for feedback on adding two meetings per year.

Boardmember Frizzell and Walker were content with the addition of two meetings. Boardmember Walker was unclear with what types of actions would be distributed to this committee that was already served through other committees.

Chair Backus explained the initial discussion related to potentially shifting responsibilities to this committee would likely be avoided with the increase of meeting frequency.

Committee Vice Chair Dammeier supported Option C with the requirement that staff report on the outcome of the update and to look at updates in conjunction with the streamlining efforts. He voiced interest in researching revised delegation within other committees rather than adding contractual approval to this committee.

Boardmember Constantine supported Option C and noted the efficiencies of pre-scheduling additional meeting times and cancelling if necessary.

Boardmember McDermott supported Option C and updates referenced in slide 16 with the addition of reports of contracts being approved by the CEO in order for the Board members to remain knowledgeable of contracts being approved.

Boardmember Frizzell acknowledged the large increase, from $500,000 to $5 million, in approval authority related to betterments and asked if CEO Timm would require more input from the Board. CEO Timm recollected very few betterments within that amount. She recalled a past action that was required to go to the Board because it was within a certain dollar value but had no impact to the agency cost or schedule.

Committee Vice Chair Dammeier supported other updates listed in slide 16 with exception of betterments and noted that should be considered in a broader discussion provided the definition of betterments.

Boardmember Prince supported Option C and other updates listed in slide 16.

Chair Backus asked staff to prepare a Board action to update the policy based on Committee discussion for the October 2023 Executive Committee meeting. She explained the Executive Committee would have the opportunity to refine the recommendation prior to forwarding to the full Board.

Mr. Lucas noted a suggestion made by Boardmember Balducci for staff to share this presentation and options with the agency Independent Consultant, Dave Peters and asked Chair Backus for direction. Chair Backus agreed and directed for staff to share with Mr. Peters and include any comments or

recommendations he may have at the October 2023 Executive meeting. CEO Timm added the presentation would also be shared with the TAG.

## Executive session – None

## Other business – None

## Next meeting

Thursday, October 19, 2023
3:00 p.m. to 4:30 p.m.
Ruth Fisher Boardroom and Virtually via WebEx

## Adjourn

The meeting adjourned at 2:03 p.m.

Nancy Backus
Finance and Audit Committee Chair

ATTEST:
Kathryn Flores
Board Administrator

APPROVED on October 19, 2023, JG.