



## Summary Minutes

### Finance and Audit Committee Meeting March 14, 2024

#### Call to order

The meeting was called to order at 10:32 a.m. by Committee Vice Chair Bruce Dammeier.

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                                  |
|--------------------------------|---------------------------------------------|
| (A) Nancy Backus, Auburn Mayor | (P) Bruce Dammeier, Pierce County Executive |

| Board Members                              |                                                    |
|--------------------------------------------|----------------------------------------------------|
| (A) Dow Constantine, King County Executive | (P) Kristina Walker, Tacoma Councilmember          |
| (P) Christine Frizzell, Lynnwood Mayor     | (P) Girmay Zahilay, King County Council Vice Chair |
| (P) Ed Prince, Renton Council President    |                                                    |

Josephine Gamboa, Board Relations Specialist, announced a quorum of the Committee were present at roll call.

#### Report of the Chair

##### Welcoming new committee member

Vice Chair Dammeier welcomed Girmay Zahilay to the Finance and Audit Committee.

##### 2024 Committee Work Plan

The committee members received the draft 2024 committee work plan in their meeting packets.

#### CEO Report –

Interim CEO Sparrman provided the CEO report.

##### New BondLink site

Interim CEO Sparrman announced the launch of Sound Transit's new investor website, created in collaboration with BondLink and was now available at SoundTransitBonds.com. This was an industry standard website for the investor community and broader municipal market and showcased a wealth of agency and financial information, including agency projects and credit strength.

##### Update on Agency Policy 604 regarding CEO signature authority delegation

Interim CEO Sparrman announced revised expectations to staff on agency policy 604, which pertained to CEO signature thresholds for procurement and contracts to continue improving business efficiencies. Last summer, stricter thresholds for delegated signature authority were introduced which directed more contracts to the CEO for approval. Interim CEO Sparrman would continue engagement and learn more about the agency's business practices and ways in which staff were empowered to make decisions. He

noted these thresholds were a pain point for staff to effectively complete their work. Those limitations were now removed and restored delegated authority to the levels that were established in 2019. This would allow staff to complete their work and avoid potential self-imposed delays on agency contracting more quickly. Interim CEO Sparrman also communicated his expectations to staff on successful implementation of this policy.

Committee Vice Chair Dammeier shared support for restoring the delegated authority to the levels established in 2019.

### Federal Funding

On March 8, 2024, Congress approved legislation that included the final payment of the Lynnwood Link Full Funding Grant Agreement (FFGA) 3 years ahead of schedule. The President signed this appropriations bill into law on Saturday, March 9, 2024. Coupled with last year's early pay-off of the Federal Way FFGA, this would result in more than \$40 million in finance cost savings to the financial plan. This was a significant win for the agency. Interim CEO Sparrman thanked Senator Patty Murray, Chair of the Senate Appropriations Committee, for delivering this funding after the House proposed devastating cuts to the Capital Investment Grant Program.

The agency was also able to secure four Congressionally Directed Spending requests in the final legislation totaling \$7 million. Senator Murray secured \$3 million for project development funding for West Seattle Link Extension and an additional \$3 million in funding for project development for the Ballard Link Extension. Congressman Smith secured \$500,000 in funding for early construction activities at the South Renton Transit Center. Congresswoman DelBene secured \$500,000 to advance the design of the Everett Link Extension's Ash Way Station.

On March 11, 2024, the President released his Fiscal Year 2025 budget process and the agency would continue to work closely with its delegation to advance the agency's priorities again for this year.

Interim CEO Sparrman noted Sound Transit would be awarded approximately \$70 million from the Neighborhood Access and Equity Federal Grant Program. This was a new program at USDOT and the funds would go towards building STRIDE BRT stations at Tukwila and South Renton.

## **Public comment**

Committee Vice Chair Dammeier announced that public comment would be accepted via email to [meetingcomments@soundtransit.org](mailto:meetingcomments@soundtransit.org) and would also be accepted virtually and in person.

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

## **Business Items**

### Item for Final Committee Action

#### December 15, 2023 Finance and Audit Committee meeting minutes

**It was moved by Board member Prince, seconded by Board member Walker, and carried by unanimous voice vote of the committee members present that the minutes of the December 15, 2023 Finance and Audit Committee meeting be approved as presented.**

## **Chief Financial Officer Report**

John Henry, 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.

For the overall 2023 Year end (YE) performance, highlights included revenues and other financing sources of \$4.1 billion were 54 percent above budget mainly driven by the drawdown of the East Link TIFIA loan which was not budgeted. This was then utilized in the agency's asset and liability management plan and resulted in higher investment income than originally projected. Project budgets came in 20 percent, or \$458 million, under annual budget primarily driven by Link and Stride system expansion projects. Transit modes performed under budget at 6 percent or \$28 million. Debt Service finished at 2 percent, or \$3.9 million, lower than budget with lower interest expense due to the August 2023 redemption of variable rate bonds. Other expenses came in at 22 percent, or \$13.9 million, under budget mainly due to unused agency contingency for 2022 partner reconciliations.

Tax revenues came in at less than .01 percent, or \$1.3 million, below plan mainly due to sales and MVET taxes coming in very slightly below budget. Mr. Fisher noted that sales tax collections had slowed down in terms of year over year growth and the agency forecast was currently being updated and the team would have more information in the Board Annual Program review later this spring 2024. Passenger fare revenues were 1 percent, or \$52,000, below budget driven by slightly lower than expected Link ridership and boardings with fare media. Investment income was higher primarily due to higher market interest rates and a higher-than-expected cash balance from the East Link TIFIA drawdown. Grants came in much higher than originally planned by 94 percent, or \$259 million, above budget due to accelerated drawdowns including new section 165 grants for Lynnwood and Federal Way Light Rail extensions. These results excluded a \$930 million non-cash contribution related to the transfer of the Downtown Seattle Transit Tunnel (DSTT) to Sound Transit in April 2023.

The overall 2023 Operating expense budget came in 6 percent, or \$28 million, lower than the full year 2023 budget. For Sounder, the \$15 million underspend was due to the vehicle maintenance under budget with fewer vehicles than expected to maintain, lower fuel rates than originally budgeted, and lower on-call services support with spending only on prioritized, necessary activities. For Tacoma Link, the \$4.5 million of underspend was due to the delayed opening of the Hilltop link extension budgeted for Q1, which ultimately opened in Q3. For Regional Express, the \$4 million of underspend was mainly due to an accounting treatment of fare vending costs moving to a project along with savings for on-call services support. For Link, the \$4 million underspend was due to on-call services coming in under budget with spending only on prioritized, necessary support, this was offset by Purchased Transportation coming in slightly over budget due to the recent King County Metro cost of living adjustment.

For 2023 system expansion projects, actuals were \$392 million, or 19 percent, under full year 2023 budget. Link contributed to the majority of the underspend variance to budget, followed by Stride and Sounder. Link was \$262 million, or 16 percent, below budget with Tacoma Dome Link Extension and Operations and Maintenance Facility (OMF) South contributing the bulk of this with delays in design and preliminary engineering (PE) with the new scope for additional alignment. Lynnwood Link Extension was under budget with civil work expected to complete early this year. Stride ended \$61 million, or 30 percent, below budget, with delays in final design and property acquisition for SR-522 and slower construction progress on I-405. Sounder was \$39 million, or 50 percent, below budget with delays in property acquisitions and notice to proceed for the Kent and Auburn construction projects. Others finished at \$12 million, or 31 percent, below budget with the Innovation and Technology program work on the Digital Assistant occurring later than planned and ORCA Next Generation marketing of the launch of mobile payments carrying into 2024. Tacoma Link (T-Link) was \$10 million, or 34 percent, below budget. Mr. Fisher noted that even though Hilltop Tacoma Link Extension (HTLE) was now in revenue service, there were some outstanding items that would be brought to the System Expansion Committee and Board's attention later in 2024 in relation to the budget. Regional Express ended at \$8 million, or 22 percent, below budget with challenges for third parties on project delivery, including permit issuance and traffic mitigation.

Overall, service delivery projects were \$66 million under full year 2023 budget. Individually, each category contributed a comparable amount to the total under spend to budget. These projects used to be called “non-system expansion projects” and would now be referenced as service delivery projects. They still consisted of Enhancements, State-of-good-repair (SOGR), and administrative projects. For Enhancements, the largest contributors to the underspend were the Digital Passenger Information Management System, with the agency working with the vendor to meet performance milestones and was expected to carry into 2024. Administrative projects had higher than budgeted staff vacancies contributing to the underspend for the administrative program which supported capital projects along with individual projects in the information technology (IT) Program moved to this year due to staffing and business readiness. Resource availability also contributed to the underspend for SOGR projects with the IT Network redesign project as the biggest driver.

Board member Frizzell asked why SOGR was underbudget. CFO Henry replied that the budget versus actuals and what was seen was the agency aggressively budgeting for what it would like to accomplish along with many factors. Interim CEO Sparrman asked staff to execute what was accomplishable then accelerate goals throughout the next 6-12 months. Interim CEO Sparrman added the SOGR program was a core program and required more focus to stay on budget.

Board member Walker referenced the presentation noting the additional budget items that would be presented to the System Expansion Committee regarding T-link and asked if that was operational costs and whether it would also be seen at the Finance and Audit Committee. Mr. Fisher replied it was not related to operational costs and the item was referring to construction work and associated legal matters and would only go to the System Expansion Committee. Board member Walker asked if it was typical to have post-opening construction costs. Mr. Fisher replied it was standard in terms of account treatment and items could carry on over the next few years after completion that were related to the capitalization of that asset and were generally minimal costs.

Mr. Clark reported on the asset liability management program and highlighted a few takeaways from the quarterly report. The full report was included in the committee’s meeting packet. Mr. Clark noted that as of the end of Q4, the agency had \$5 billion in investments. He reviewed a pie chart that showed the unrestricted and the restricted investment balances. The unrestricted funds were available for any authorized use and the restricted funds provided for future anticipated agency expenditures such as capital replacement and emergencies. 2023 was an exceptional year for the agency’s investment returns with \$170 million in interest income. The success of the portfolio was aided by three main drivers: first, the current high investment balances, second, the high-rate environment and third, the portfolio actions that were previously discussed with the committee. The positive results were reflective of the active investment management process. The agency positioned the portfolio using the best available market estimates and input from its external advisors. Staff expected the balances to decrease as the agency executed the system expansion and for rates to moderate, the team would continue to search for opportunities to maximize returns within the investment policy guidelines.

The agency currently had \$3.5 billion of outstanding debt. The agency monitored the debt markets for risks and opportunities and would act appropriately as conditions warrant. The agency would have substantial borrowing needs in the future as the system expansion was executed. In preparation for this future debt issuance, the agency worked with a partner, BondLink, to create an industry standard website. The website served the need of the investor community and highlighted the agency’s projects, credit strength and financials. The site was available directly at [Soundtransitbonds.com](https://Soundtransitbonds.com) or through a link from the [soundtransit.org](https://soundtransit.org) investors page.

Committee Vice Chair Dammeier voiced interest towards the bonds website and added that the transparency and ease of access was important for those looking to buy Sound Transit bonds.

Mr. Fisher reviewed the current process for the annual budget approval cycle. The current process begins at the October Finance and Audit Committee with the budget and transit improvement plan (TIP) presentations along with an update to the agency's long-range financial plan. The same presentation is given to the full board later in October. In November, the team presents in more detail at each committee (Executive, Rider Experience and Operations, and System Expansion) with portions of the budget within that committee's purview. The team then returns to each committee in December with a request to forward that portion of the budget to the Finance and Audit Committee, who would then forward it on to the full Board for final approval. Additionally, there would be a public hearing and property tax level approval request sometime in November.

Mr. Fisher then reviewed the proposed process for this year's budget cycle. There would be no changes in October and the team would still kickoff the process at the October Finance and Audit Committee meeting with the budget and TIP presentations along with an update to the agency's long-range financial plan. The team would still present to each committee, in November, with portions of the budget within that committee's purview. The notable difference was to request that those committees forward their portion of the budget to a new Finance and Audit Committee meeting taking place in November which would then forward on the entire budget for approval to the full Board in November, rather than December. Another change would include holding the public hearing for property taxes and budget in October and request the Board's approval of property tax levy in October, rather than November.

The team had received feedback and most Board members appreciated the streamlined and more efficient proposal and opportunity to finalize the budget by the end of November. There was slight concern noted about this timeline overlapping with other local governments and agencies budget processes and the ability to get this all completed in a short timeframe. The team believed this could be mitigated with both the ability to bring forward details and answer questions in briefings but also make changes, which was an ongoing part of the budget management. If there were any changes needed to the budget, this could occur by the end of December, as in previous years. It would then be an amendment as opposed to a revision and would be a very similar mechanism as the revision process that the Board was accustomed to.

## **Audit Update**

### 2023 Annual Internal Audit Update

Patrick Johnson, Audit Director, provided the presentation. Mr. Johnson noted no actions were requested as a result of this presentation and the data classification was unrestricted. He reminded the committee that the Federal Transit Administration (FTA) completed their triennial review of the agency in early 2023 and raised eight total discrepancies. At the December 2023 committee meeting, six of the eight discrepancies had closed with the remaining two preparing to close by end of year. He announced all deficiencies had now been closed with no further actions required from the agency. Starting later this year, Mr. Johnson's team would continue tracking and monitoring closed deficiencies as part of the audit process.

Compliance audits were primarily safety audits that are required to be completed annually by federal and state safety oversight requirements. The Safety Management Systems internal audit yielded no findings. For both the Link and Tacoma Link Internal Safety audits, the findings were similar in that the safety committee charters for Link and Tacoma Link were missing goals aimed at continuous improvement and reducing risks. These goals should have already been included in the charters according to the agency safety plan. The team also discovered that the agency did not put in place procedures to review the effectiveness of the actions taken to reduce risks. The agency's auditors compared this finding with work done by LA Metro and noticed a difference in Sound Transit documents compared to the more detailed documentation by LA Metro. For the third discovery in both audits, Mr. Johnson noted that although safety training was happening, a detailed safety training plan for all staff

types across the agency was currently being worked on. Like the earlier finding, the training plan was supposed to be completed according to the agency safety plan but was in progress at the time of the audit. Lastly, the independent audit of the safety program that Mr. Johnson managed found that it met federal and state rules but uncovered six issues. These discoveries involved quality in how reports were written, audit planning needed improving, and there were issues with timing when monitoring audit observations. The team was currently working to address these findings.

Safety and Security Certification audits were completed at specific points in the capital expansion project's lifecycle and was completed by a consultant firm on behalf of the Audit division. The final audit for 2023 was for the East Link Starter Line Construction Conformance Safety and Security Certification audit and was completed with no findings.

Performance audits were audits completed based on risk. Two of three were completed, with one postponed. The two completed were Evaluating State of Good Repair – Northgate Link and Evaluating Operational Technology and Transit System outages. The postponed audit was for Capital Project Closeout Process. In the Evaluating State of Good Repair Performance Audit, two issues were found. One issue highlighted that while facility assets like stations and platforms had undergone asset inventories and condition assessments, the same was not done for linear assets such as traction power substations, signaling systems, and train tracks. This audit focused primarily on the Northgate Link extension, which opened in 2019. Staff acknowledged that inspections and assessments weren't finished because the contractor left the project early. The team started an internal inventory project and were adding more resources to make sure the project completes with the project kicking off this year. The other finding noted that Sound Transit had not updated its Transit Asset Management Plan (TAM). In 2019, Sound Transit decided to discontinue the TAM Plan, a document required by FTA. Instead, the Strategic Asset Management Plan (SAMP), a document required for ISO 55001 certification. However, that SAMP did not meet FTA requirements for a TAM. Staff was currently generating an FTA compliant TAM, with an expected completion date of Q2 of this year. For the Evaluating Operational Technology and Transit System Outages audit, there was one significant finding regarding the agency having no defined acceptable range of system disruption time and frequency for operational technology networks such as monitoring Fire Life safety, security cameras, access control and train positions. The audit found that from January to August 2023, Sound Transit encountered 12 major system incidents, resulting in a total of 90 hours of system outages, averaging 1.5 incidents per month. These incidents led to the shutdown of critical functions, impacting revenue service and essential operational support functions. Management agreed with the audit report finding and was currently working to remediate the issue.

Board member Walker acknowledged the number of findings presented in Mr. Johnson's presentation and recognized the plans to address them all. She asked if staff would return to the committee once all findings were resolved. Mr. Johnson replied he would return at the next quarterly Finance and Audit Committee meeting to provide status updates.

Board member Walker noted the single postponed topic and asked if it would then be added to the next audit cycle. Mr. Johnson confirmed that would be next steps. Board member Walker asked if that was standard practice. Mr. Johnson confirmed.

Committee Vice Chair Dammeier noted the presented results were from internal audits and appreciated staff looking deeply into the findings and resolving them before the potential of reaching external auditors.

## **Discuss and finalize 2024 Finance and Audit Committee Work Plan**

Committee Vice Chair Dammeier apprised the committee of its 2024 work plan which included major focus areas including transactional matters to oversee the agency's financial plan, statements, internal and external audits and internal controls, and other topics of special interests to the members. He noted

the work plan included the two additional meetings that were passed at the February 2024 Board meeting which updated committee appointments and meeting schedules. These additional meetings were added to address any special topics of interest at the request of the committee members.

There was no additional feedback from the committee members.

Board member Frizzell voiced support towards the work plan and appreciated the additional meetings to provide opportunities to expand on topics as needed.

**Executive session – None**

**Other business – None**

**Next meeting**

Thursday, May 9, 2024

10:30 a.m. to 12:00 p.m.

Ruth Fisher Boardroom and Virtually via WebEx

**Adjourn**

The meeting adjourned at 11:20 a.m.

  
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Nancy Backus  
Finance and Audit Committee Chair

ATTEST:  
  
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Kathryn Flores  
Board Administrator

APPROVED on May 9, 2024, JG.