

## Sound Transit Community Oversight Panel Hybrid Meeting Summary

**November 8, 2023**

**COP Members Present:** James Peyton, Paul Thompson, Tom Norcott, Tina Pierce, Scott Lampe, Lucas Simons, Joe Scorcio, Diana Cambroner Venegas, Carston Curd, Gabriel Clark

**COP Members Absent:** Charlotte Murry, Lorenzo Frazier, Donia Zaheri

**Others Present:** Adam Montee, Katie Flores, Chris Hoffman

### **2024 Proposed Budget and Financial Plan**

- Ryan Fisher – Deputy Executive Director of Financial Planning, Analysis, and Budget
- Jenny Stephens - Director of Financial Planning, Analysis, and Budget
- John Henry – Chief Financial Officer

Staff began by talking about what they plan to cover tonight, which included the proposed 2024 Budget and Transit Improvement Plan (Tip), service growth, budget timeline and next steps and updated fall 2023 Financial Plan projections. Staff reviewed the coverage periods for the Long-Range Financial Plan (2017-2046, The TIP (through 2029), and the Budget (2024). A member asked about how far ahead the projections go. Staff responded that select inputs do forecast out to 2080, but the complete plan only currently goes through 2046. The executive summary shows the revenue forecasts for 2023 and 2024. Revenues are projected to grow by about 8% in 2024 over 2023 budget. This is due to increased tax revenues, fares, investment income, and TIFIA loan proceeds over 2023 budget. Staff talked about trends over the last few years. Tax revenues are the majority of the revenue budget, with consistent growth over the last few years. Fares have also increased due to new extensions coming online. Grants have wended down as more projects in construction are preparing to come online. A member asked about farebox recovery and staff provided 2022 farebox recovery rates for each mode. A member asked where tax revenues go and staff replied they go into a general pool.

Staff then talked about expected growth in expenses and that these are associated with new service coming online, salaries and wages, and health care costs. There has been a challenge attracting and retaining talent, with higher salaries and wages expected to help bridge that gap. Expenditures were presented by various types and included forecasts and budget and looking at changes between 2023 and 2024. Overall, the 2023 forecast is expected to be 3.6% below the planned budget. A 2.2% decrease in expenditures is expected in 2024 compared to the 2023 budget. Decreases are partially offset by modal operating costs driven by new service openings as well as increase in quality of services for janitorial, security, and vertical conveyance. Non-operating expenses are flat. Expenditures are balanced with revenues and any gap is addressed through cash balances as well as debt. Staff clarified that Sound Transit makes contributions to partner agencies to help with operations and maintenance of the First Hill streetcar, which is coming to an end this year.

Staff then presented operating expenses by mode, the costs to operate each mode. 54% of the budget goes to Link. Link is experiencing higher vehicle maintenance costs as those vehicles age. ST Express represents 27% of the operating expense. Sounder represents 16% of the operating expenses. Fleet growth contributes to a lot of these expenses. Tacoma Link represents 3% of the budget, and the largest part of that is for salaries. A staff member asked about insurance for heavy rail. Staff replied that the Sounder equipment is heavier and travels at higher speeds so that contribute to the high premium costs. A member

asked what is purchased transportation. Staff replied that they are costs for staff to operate and maintain the vehicles. Sound Transit purchases these services for Link, Regional Express, and Sounder from partners like King County Metro, Pierce Transit, Community Transit, and Amtrak. Tacoma Link is operated by Sound Transit staff.

Staff then reported that Link makes up the most of expenses by mode for system expansion, at about 77% of the budget. Stride is the second largest piece of the expenditures at 15%. Sounder is responsible for about 5% of the budget. Non-system expansion projects have a total 2024 annual budget of \$307 million. This includes administrative projects, systemwide projects, and state-of-good-repair and enhancement projects for the various operating modes. A member asked where procurement of the asset management system fits within expenditures. Staff said they are embedded in systemwide non-expansion projects. Staff reviewed the TIP by mode, which is the total authorized project allocation for active projects. The majority of costs are for Link projects, while the majority of systemwide projects are administrative. Staff clarified this is for all costs for all active projects from 2007 through 2029.

Staff then talked about service growth. Platform hours growth have increased across modes since 2021 driven by service restoration after the pandemic and expanded service. A member asked about large growth in Link platform hours. Staff said East Link and Lynnwood add a lot of platform hours. Staff then talked about budget timeline and next steps. They presented to the finance and audit committee and Board last month to present proposed budgets and projects. In November they have held a public hearing and will meet again with the board for tax levy approval. A member asked about the tax levy increase and staff responded that they will ask for a 1% increase. During December they will present motion to recommend and approve the budget and the board would approve the budget for adoptions at the 12/15 board meeting. A member asked how they assess year over year how well the budgeting is working. Staff said they are typically on budget for revenues within a couple of percentage points as well as operating expenses. For projects this variance is more dependent upon timing and would be looked at more holistically for the lifetime of the project. They work with economists to updated forecasts based on their input. It can fluctuate on the expenses side based on when system expansion takes place. They also work with project teams to understand their construction schedules and costs. Current farebox recovery percentages are typically in the teens, which is below the current policy.

The long-range financial plan takes into account all the projects and when they will go into service as of the latest update in fall 2023. It also looks at revenues and where there might be funding gaps. The model shows a peak in spending in 2026 and will include other peaks when major construction kicks in on ST3. Inputs to the plan include revenue forecasts, planning assumptions, board adopted financial policies, independent inflation forecasts, and project cost estimates and schedules. The 2023 fall update key takeaways show that the plan is still affordable but debt capacity has declined. Inflation and Stride costs are higher than previous financial plan projections. Decreases in fare revenue projections are also a concern. Net Debt Service Coverage Ratio (DSCR) is supposed to be at least 1.5x. They are currently at 1.63x but their goal is to be at 2.00x. The net DSCR has decreased since 2021 and inflation is the overwhelming driver of that. A member asked how this compared to the last forecast. Staff said that the last forecast in spring 2023 was at 1.67x. A member asked if 1.5x is board policy and staff said that it is.

The other big debt constraint is debt capacity, or the ability to issue debt. They cannot go below 0%. Their current capacity is at 13.1% and their goal is to be at 20%. The source of revenues for each subarea were presented. Total uses were also shown by each subarea. A member asked about what is assumed for West Seattle and Ballard. Staff said that they will provide those numbers but that the total cost estimate is provided in the budget. Staff said that currently Ballard is projected to cost \$11.2 billion and West Seattle \$4 billion. Major changes since spring and fall updates are that tax revenues are positive due to high economic activity. On the expenditure side inflation is the primary challenge. Bond issuance fills the greater than \$500 million forecasted funding gap. Staff presented headwinds currently faced by Sound Transit, including the challenging labor market, increased project costs, scope changes in projects,

capacity needs, fare revenues and construction claims. Tailwinds include new carbon credit market sales revenues and increased grant assumptions. A member asked about the original cost assumptions for both of those projects. Staff replied that Ballard was originally projects to cost \$6.4 billion (2023\$) and West Seattle \$2.3 billion (2023\$).

## **Internal Audit Division Update**

- Patrick Johnson – Director, Audit Division

Staff began by providing the agenda for the presentation, which included talking about what the Audit Division is, the financial audit update, the status report, and the COP's audit topic. The Audit Division provides objective assurances that to add value across the agency, strengthen and improve operations and management through risk-based audits, and provides reasonable assurance that the agency is keeping its employees, contractors, and passengers safe. External practices, federal and state mandates, and the board resolution/audit charter all govern their work. The audit landscape includes numerous types of audits, including board directed audits, requested audits, internal safety audits, and Federal Transit Administration (FTA) oversight audits. The audit organization chart presented showed that the audit division reports to the deputy CEO. There are a number of types of audits staff perform that focus on non-financial related topics. They audit performance and compliance. The performance audits are completed on a quarterly basis. The compliance team does annual audits on safety and security performance, and are required. External audits are also performed to make sure there are no duplication of efforts.

Staff talked about changes in 2024. Financial audits are performed by an outside CPA audit firm. The FTA triennial review identified 8 deficiencies in the FTAs final report; 5 of those have been closed out. The three remaining deficiencies are expected to be closed out by the FTA's deadline. Staff asked about the ADA issue and staff said they would follow up with a specific response. Another member asked about the Tacoma project deficiency since that has been closed out. Staff indicated that it was due to lack of oversight by the contractor. Staff went on to report that in 2023 the Audit Division facilitated 4 performance audits, 7 compliance audits and 7 audits of capital projects. Performance audits included track maintenance scheduling, State of Good Repair (Northgate Link Extension), and Capital Projects Closeout Process Audit. Compliance audits included ST Express Internal safety audit, environmental management system internal audit, and Sounder Commuter Rail Internal Audit. Capital project audits included several light rail construction projects.

Staff showed previously selected audits by this panel. Some have been postponed due to lack of qualified consulting firms. Staff then provided two options for the COP to recommend. Option one included two topics: 1) Service interruption and communications and 2) System expansion time charging accountability. Staff said that the second option was to suggest another topic.

A member asked about the different types of safety audits. Staff said they have to audit the four modes of transit. There are also safety audits to certify they are following all required procedures. A member asked about risk weighting of audit topics. Staff responded that they are required to have an agency-wide risk register. Risk one is reputational, and the other two are safety, and operational. A member asked what risk considerations there are for each topic. Staff said that for topic one the highest risk is reputational risk, with service interruptions that may then lead to safety risks because communications to our passengers during service disruptions is vital to ensuring people know where to go. Topic 2 is more business process oriented, with risks high on the financial side. A member asked about the plinth problem on East Link and where that responsibility falls for something like that. Staff responded that their staff are not construction auditors, and were not positioned to complete that review.

## **Audit Topics Discussion**

- Paul Thompson, COP Chair and COP members

Paul opened up the discussion for the panel to consider an audit topic. A member noted that these topics are items that Sound Transit wants them to look at. The member said that topic 2 is along the lines of are they spending money properly and said that topic 2 is their preference. They said that either topic would be appropriate. Another topic that comes up a lot is the issue of operator staffing, and how that will affect the budget. Another member said that is a worthwhile topic to consider but questioned if that was auditable since audits need to look at what's already been done – the performance of what the agency has done to overcome that and not the reasons why it is an issue. Another member said that he would support number two. A member said that no plan of action was presented about the topics that the agency plans to audit. Staff said they do have a plan for 2024 and that will be sent to the COP once it is ready. The next performance and audit committee meeting is on December 15 so the COP audit letter needs to be finalized at the December 13 COP meeting. A motion was made to recommend topic number two to the finance and audit committee. The motion was seconded. A member noted that the service interruption topic has more impacts, specifically on riders. If that gets improved, riders will benefit. Topic 2 seems to have less appeal in terms of impact. Another member said that the agency's reputation is important. Topic 2 has a financial impact, which is also important. Another member said that topic 2 is a lot easier to audit than topic one. Another member said they want to focus on performance, if topic one ends up being the recommendation. A member said the conveyance systems are a big issue and asked if that was something for consideration. A member responded that conveyance has been covered elsewhere in the COP's annual report. A member asked which topic will have the biggest benefit to have someone external to the agency look at it. Paul asked if the panel was ready to take a vote on the motion on the table to recommend topic 2, System expansion time charging accountability. Paul asked for all in favor. All but one member was in favor so topic 2 will be the recommended topic. Staff will send a copy of the triennial report to see if the ADA topic was covered. It discussed how to address the staffing issue and whether that should be saved for the year-end report.

## **Discussion**

Budget presentation Discussion - A member said they have not received data on farebox recovery and that it would be nice to have that data. It would be nice to have all the summary information on farebox recovery and other metrics. A member said he was struck by fare numbers and whether it's worth collecting fares when you consider how much is spent to enforce it. A member noted the forecasted cost for Ballard and the costs per rider and whether it's really worth it. A member said he appreciated the willingness of the presenters to engage and answer questions. A member asked if there was any avenue to provide advice and oversight on the financial plan and budget. The chair replied that the meetings and the annual letter are the regular avenues to provide that oversight. A member asked if there is another way to get involved that's more consistent than just the meetings. The chair said that a task force could be formed to dig more deeply into topics if there is interest among panel members.

## **Discussion, Adoption of Previous Meeting Summary, Member Reports**

The meeting summary for the October 11 meeting was approved. A member asked about the process to fill the vacant positions. Staff said they have a couple of applicants for the Pierce County position. No one has applied for the Snohomish County position. Staff asked members to encourage potential candidates they might know to apply.

## **Questions For Next Meeting's Presenters**

Paul previewed the topics for next month's meeting and asked if anyone had any questions they would like to ask next month's presenters. COP members identified the following questions:

- What are CEO Timm's goals or focus areas for 2024?
- How is the new public safety plan working, what metrics are they using, and how are the different contractors performing?

Paul said that additional questions can be emailed to the COP Administrator.

**Next Meeting:** Wednesday, December 13, 2023, 5:30 – 8:15 PM

- Discussion with CEO Timm
- Board Fares Update
- Discussion and approval of 2023 Performance Audit Recommendation Letter