



Summary Minutes

Finance and Audit Committee Meeting October 10, 2024

Call to order

The meeting was called to order at 10:30 a.m. by Committee Chair Nancy Backus and was available for viewing in person and online.

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	(A) Bruce Dammeier, Pierce County Executive

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

Alejandro Monzon, Board Relations Specialist, announced a quorum of the Committee was present at roll call.

Report of the Chair

None.

CEO Report

Interim CEO Goran Sparrman provided the report. He introduced Brian McCarten, noting that he would be serving in a consultant capacity to assist the agency as efforts to onboard a new CFO are underway.

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, in-person, or virtual comments received.

Business Items

Item for Final Committee Action

July 11, 2024, Finance and Audit Committee meeting minutes

It was moved by Board member Constantine, seconded by Board member Walker, and carried by unanimous voice vote of the committee members present that the minutes of the July 11, 2024, Finance and Audit Committee meeting be approved as presented.

CFO Report

Committee Chair Backus noted that due to time constraints, no CFO's report would be given at the meeting, but that all materials pertaining to the report were included in Committee members' meeting materials packets.

Audit Report

2024 Financial and Single Audit Entrance Presentation – Crowe LLC

Brad Schelle of Crowe LLC provided the report. He provided an overview of the deliverables, timeline, and features of the upcoming 2024 financial and single audit. Mr. Schelle noted that the deliverables can be broken into three categories: Financial Statement Audits, a Federal Compliance Audit, and Agreed-Upon Procedures Reports.

Mr. Schelle also provided information on the approach taken by the firm, noting that their work will take a risk-based approach, taking a holistic look at the agency's financial statements and determining what risks, if any, present themselves. This includes looking at internal financial controls, the implementation of new GASB standards, federal grant and loan compliance, as well as traditional risk assessments.

Mr. Schelle provided an overview of the audit timeline, which will begin in November of 2024, with the goal of issuing a final report in late June of 2025, with a presentation to the Finance and Audit Committee occurring sometime in the Summer of 2025. Mr. Schelle then solicited the Committee's feedback regarding certain planning aspects of the audit. He then provided examples of common fraud risks, such as misappropriation of assets, undisclosed related party relationships, or a loss of sensitive information due to data breaches. He further noted that new GASB standards will not have an impact on the 2024 audit, as GASB 103 is still under consideration.

Board member Walker asked for clarification on the requirements for GASB implementation. Mr. Schelle responded that all GASB standards have an implementation date once introduced, but that the new GASB standards wouldn't apply until the 2025 audit.

2024 Q3 Internal Audit Update

Patrick Johnson, Audit Director, provided the report. He noted that most compliance audits being conducted in 2024 were safety related, with three audits being concluded with no findings. He also noted the other four audits are near completion, with their reports being finalized for presentation at the next Finance and Audit Committee meeting.

Mr. Johnson shared progress on Capital Project certification audits, noting that four were complete and that the remaining two would be completed in Q4 of 2024. He noted that multiple administrative findings were found in the audits for Lynnwood Link, and that the Capital Delivery and Safety teams were already working to remedy the issues by the end of the year.

Mr. Johnson also provided updates on the 2024 performance audit, noting that both the Capital Project Time Coding Performance Audit and a follow-up to the 2022 Vender Management Performance Audit are near completion and are planned to be presented at the November 2024 Finance and Audit Committee meeting.

Proposed 2025 Budget Overview and Transit Improvement Plan

Ryan Fisher, Executive Director of Finance, began the presentation and introduced Jenny Stephens and Stephanie Ball, Director for Financial Planning, Analysis, and Budget. Mr. Fisher noted that the Budget process is kicking off with this presentation on the Proposed 2025 Budget and Transit Improvement Plan (TIP). In November, the Committees will review and forward their portions of the budget for potential adoption by the Board at the November meeting. Mr. Fisher also briefly explained the relationship

between the 2025 Budget, the TIP, and the Long-Range Financial Plan. He also noted the responsibility and budget sections under the purview of each Committee.

Mr. Fisher reported that there is a small growth in capital spending with a shift from Link projects to Stride BRT as ST2 projects enter service, which will require an increase in operating expenses to account for that revenue service. This year, the budget process focused on zero-based budgeting to reduce lower priority spending. Additionally, the agency is planning to draw down a large portion of remaining TIFIA loans in order to take advantage of interest rates on investments. The agency would expect a \$300 million budget deficit in 2025 without the drawdown.

Compared to the 2024 budget, the agency is forecasting a 4.3% increase in tax revenue, a 9.9% increase in fares, a 20.3% decrease from grants, a 5.7% decrease from investments, a 16.6% increase in miscellaneous revenue, and a 1,523% increase in TIFIA drawdowns. The total forecast sources for the 2025 budget totals \$4.4 billion.

Compared to the 2024 budget, the agency is forecasting a 2% increase in expansion spending, a 29% increase in modal operations spending, a 63% increase in service delivery projects, a 60% increase in debt service spending, a 0.3% increase in administrative support, and a 10% increase in contingency/other spending. The total forecast spending for the 2025 budget totals \$3.2 billion.

Ms. Ball noted system expansion projects represent \$1.7 billion in spending for 2025, or 55% of total agency uses. This is an increase of 2% over the 2024 forecast. Link expansion projects account for 32% of total agency expenditures; projects in planning, including Ballard Link Extension, Operations and Maintenance Facility South, and West Seattle Link, are increasing their budgets while other Link projects under construction are decreasing as they near or enter revenue service. Stride RT represents 18% of total expenditures, and Sounder is budgeted at \$103 million, with the largest 2025 project expenditure allocated to the Sumner, Kent, and Auburn Parking and Access Improvement projects. The remaining expansion funds are for Regional Express, Tacoma Link, and other projects. Other projects are not associated with a single mode, such as innovation and technology spending, ST Art, and the transit system access program.

Comparing year-to-year spending from 2022 to the proposed 2025 budget on system expansion, Ms. Ball noted that key takeaways include the decrease in Link spending and the increase in Stride spending. Additionally, Sounder and other projects show increase over the past few years, with Tacoma Link decreases aligning with the recent opening of the Hilltop Tacoma Link Extension. The Sounder 2025 proposed budget is 15% higher than the 2024 forecast, driven by the recent baselining of the South Tacoma Station and Lakewood Station Access Improvement projects.

Ms. Stephens compared the trends in revenue hours for each of the four modes over the same 2022-2025 period. Link service has increase substantially and is expected to continue to increase again in 2025. Regional Express has been relatively stable over the time period with a slight increase in the 2025 budget as the agency explores potential restoration of some routes operated in Pierce County. Sounder is also increasing slightly in 2025 as two daily trips are added to the Sounder N Line. Tacoma Link is expected to have the same revenue hours as 2024. Modal operating expenses constitute 24% of expenditures in the 2024 proposed budget.

Service Delivery projects make up 6% of the 2025 proposed budget and cover 131 active projects. Projects include budgets for programmatic work for engineering and standards, the South Warehouse Facility, work in the Downtown Seattle Transit Tunnel, the SeaTac Airport second elevator, and the Sounder vehicle overhaul.

Administrative support makes up 4% of the 2025 proposed budget and costs are mainly allocated to capital projects. The \$141 million in proposed expenditures includes a 0.3% increase from the 2024 forecast.

Board member Frizzell asked for clarification on Sounder utilization. Ms. Stephens replied that staff would be able to look into that topic and provide further information at the November REO Committee meeting. Committee Chair Backus requested that any information in response to Board member Frizzell's request also be made available to all members of the Finance and Audit Committee.

Board member Walker asked for clarification on why Tacoma Link has funds allocated in the system expansion portion of the budget. Ms. Ball replied that this is due to closeout work, noting that most projects remain open for a few years following the start of revenue service to allow completion of final items. Board member Walker then asked for clarification on whether the real-time tracking of Tacoma Link vehicles is also included in the same category. Mr. Fisher provided additional detail on how the budget is allocated between operations and system expansion and stated that he would explore and provide additional information on that item specifically.

Board member Constantine asked whether it was correct that continued drawdowns of TIFIA loans, while significantly higher this budget cycle, are a routine and typical means of maintaining funds for the agency. Mr. Fisher replied that Board member Constantine was correct. Board member Constantine further asked for additional information on how funds were being invested in the State of Good Repair (SOGR) program, further requesting examples of how that money was being spent. Ms. Stephens replied that for Link, the top projects in the SOGR portfolio were continued work on the Downtown Seattle Transit Tunnel, including emergency egress work, as well as progress on the Westlake Customer Service Booth project. She also noted the Kinkisharyo LRV upgrades, which would include new on-board communications, LRV control systems, and the installment of automatic passenger counters on all Kinkisharyo LRVs.

Board member Constantine asked for a progress update on where the agency was in the process of updating and overhauling its vertical conveyances. DCEO Moises Gutierrez noted that he and DCEO Russ Arnold are involved in ongoing work to evaluate the vertical conveyances program, and that he and DCEO Arnold could provide an update at a later date.

Board member Frizzell noted that she has seen many instances of vertical conveyance outages recently, and asked if there was any available information on how the agency is doing compared to other transportation agencies nationally. CEO Sparrman replied, highlighting that the agency has made significant progress in the reliability of its vertical conveyances, and also noted that he would like for staff to provide a more in-depth presentation in the future on the SOGR program as a whole in the future.

Mr. Fisher reviewed the update to the 2025 TIP. Last year, the Board approved a \$25.5 billion dollar TIP and approved additions throughout this year with budget amendments for the South Tacoma Station and Lakewood Station Sounder projects and the Passenger Information Management System project. Approval of the updated 2025 TIP as proposed would include a net addition of \$247 million.

In this year's budget development, staffing vacancies were removed from the staffing plan which resulted in savings. The agency continues efforts to identify opportunities to improve spending through Project MOST. Mr. Fisher highlighted the upcoming period of extensive service openings create more operating budget risks now and in the future, and the shift from ST2 to ST3 projects may strain future capital budgets. Mr. Fisher briefly touched on the remaining budget process steps in November.

Long Range Financial Plan Update

Ryan Fisher, Finance Executive Director, and Brian McCarten, Financial Strategic Services Consultant, provided the report. Mr. Fisher highlighted that debt capacity and coverage projections have decreased compared to the Fall 2023 version of the plan. He noted that while the agency is facing affordability challenges, actions are underway to manage costs and address constrained financing.

Mr. Fisher provided detail as to the sources of these additional constraints, noting that projected tax revenues are down significantly compared to last year, and that increase operating and project expenditures are contributing factors.

Mr. Fisher highlighted that the Net Debt Service Coverage Ratio, which Board policy has set at 1.5x, is currently projected to reach a minimum of 1.56x in 2049. He further noted that the agency's debt capacity has been reduced to 10.1% in this updated forecast.

Mr. McCarten provided additional context to the forecasted figures, and highlighted the way staff would be engaging the Board over the next few years. He noted that as projects in the ST3 portfolio move from preliminary planning into design and construction, staff would need to engage the Board on a more regular basis to ensure the balance of the long-range financial plan. Mr. McCarten also noted that the agency is in a strong position nationally, due to having a diverse revenue pool, the highest credit rating of any transit agency nationally, a strong local economy, and a solid partnership with federal partners in assisting in the delivery of projects. He also noted that the Board has navigated this process four times in the past and shared his confidence in the Board's ability to move through this process over the next two-three years. Mr. McCarten also noted that the first step of this process will include the in-development programmatic work plan, which will be presented at the November System Expansion Committee meeting.

Board member Constantine asked what the preliminary steps in this process would look like, and how information would be conveyed to the Board. Mr. McCarten responded that staff would look to the Board to receive instruction on how they would like to have information curated and on what schedule. He noted that while the capital delivery team was working on the work plan, the finance team was working to on board new resources which should start producing reportable results starting in the first quarter of 2025. He also highlighted that while some funding strategies may be project specific, the finance team would still be presenting information in a holistic sense, and noted how certain funding decisions for one project would impact other projects in the ST3 portfolio.

Capital Delivery DCEO Terri Mestas added that the work plan would include different opportunities ranging from the portfolio level all the way down to the project level, with the goal of tracking these opportunities over time to see how the agency is saving funds over the long-term. CEO Sparrman also noted that the goal is to provide the Board with the needed information to make informed policy choices on how the agency addresses these challenges going forward.

Executive session – None

Other business – None

Next meeting

Thursday, November 21, 2024

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

Ruth Fisher Boardroom and Virtually via an online meeting platform.

Adjourn

The meeting adjourned at 11:52 a.m.

ATTEST:

Nancy Backus
Finance and Audit Committee Chair

Kathryn Flores
Board Administrator

APPROVED on _____ HRR.