

SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes
September 15, 2016

CALL TO ORDER

The meeting was called to order at 11:08 a.m. by Committee Chair Rob Johnson, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

ROLL CALL

Chair

(P) Rob Johnson, Seattle Councilmember

Vice Chair

(A) Dave Enslow, Sumner Mayor

Committee Members

(P) Nancy Backus, Auburn Mayor

(A) Dave Somers, Snohomish County Executive

(P) Joe McDermott, King County Councilmember

(A) Philip Lovell, Citizen Oversight Panel Chair

(P) Mary Moss, Lakewood Councilmember

Ms. Linda Markey, Board Coordinator, announced that there was not a quorum of the Committee present at roll call. Committee Chair Johnson noted that a quorum was expected, so the committee would hear reports first and move to Business Items after an additional member arrives to establish a quorum.

REPORT OF THE CHAIR

None.

EXTERNAL AUDIT RESULTS

2015 Green Bond Annual Report

Brian McCartan, Director of Finance and Information Technology, provided a summary of the audit. In 2015 the agency issued the largest municipal green bond ever issued, motivated by agency leadership's intention to become a best-in-practice bond issuer in the Green Bonds industry. Sound Transit management has asserted that the bond issuance qualifies under the international Green Bonds standards, and KPMG has verified this assertion as an independent auditor.

Kelly Priestley, Director of Accounting, adds that the KPMG report on Sound Transit's Green Bonds issuance is one of the first reports of its kind and shows the agency as a leader in the industry.

2015 State Auditor's Office Accountability Audit Entrance

In an annual process, the State Auditor's Office (SAO) will be reviewing compliance with government relations activities, adherence to state law, and highlighted audit areas for this year--which include self-insurance, payroll, contract compliance, and housing rental revenue. The findings from this audit will be reported out in the first quarter of 2017.

2015 Audited Schedule of Sources and Uses of Funds by Subarea

Ms. Priestley provided the subarea report. The subarea equity principle was established by RCW 81.112, and is also embedded within the Sound Move and ST2 voter approved plans. The principle establishes monitoring of how revenue collected from the entire service area is then divided and allocated to each subarea. The monitoring of this financial policy is completed by the Board and by the Citizen Oversight Panel (COP) which was established in Sound Move and renewed in each voter approved plan.

Equity reports are created on an annual and a 15 year basis. This year there were 15 procedures performed, and no exceptions were noted. The tolerance for variance is \$100,000 for a single transaction, or \$250,000

for a combined variance. Subarea equity continues to be maintained, in both the single year report and the 15 year horizon report.

There are changes in the year over year capital budgets amount, which reflects a new policy that retains a smaller amount of funds in reserves, but that incorporates sufficient funds for state of good repair in planning and asset maintenance. Committee Chair Johnson inquired how the policy changes were codified, and Mr. McCartan clarified that the Board adopted an asset management policy which established the overall principles for maintaining a strong asset management program including funding for the program.

Proposed 2016 Subarea Procedures

Procedures were established in 2009, and minimal changes to the policy are being proposed. The procedure changes will help the agency adapt to changes with Department of Licensing policy and meet lawful requirements. The COP was briefed earlier this month on the proposed procedures.

2015 Fare Revenue Report

Sunnie Sterling, Revenue Analysis Manager, provided the report. The fare policy was adopted by the Board in 2010, and stipulated that fare revenues should meet a certain minimum percentage of operating expenditures for the transportation modes. For ST Express, the farebox recovery is set at 20%, for Sounder the farebox recovery is set at 23%, and the farebox recovery for Link is set at 40%. Sounder and ST Express have been meeting their minimums, and Link is expected to meet its goals by 2018.

Boardings have continued to increase, in 2015 boarding numbers reached 34 million annually, a 5 percent increase from 2014. Over 40 percent of Sound Transit's revenues come from business ORCA Passport programs, which are based on an annual fixed rate price. These rates are typically established by the ridership numbers from the prior year. Overall, the ORCA product line accounts for 79% of ridership revenue.

Committee Chair Rob Johnson, commented on the amount of time needed for a parent or a high school youth to sign up for a Youth ORCA card and questioned the reasons behind the decrease in youth boarding. Mr. Johnson also asked how Sound Transit could be involved in making it easier for youth to get on and use transit, whether through simplification of Youth ORCA application, fare structures or traditional marketing. He proposed to focus more on that subject in future meetings and spend more time thinking through some policy solutions to solve the problem.

(Boardmember Backus arrived at this time).

Committee Chair Johnson noted that a quorum of the Committee was now present.

BUSINESS ITEMS

Minutes from the June 16, 2016 Audit and Reporting Committee meeting minutes

It was moved by Boardmember McDermott, seconded by Boardmember Moss, and carried by unanimous vote that the minutes of the June 16, 2016 Audit and Reporting Committee Meeting Minutes be approved as presented.

FINANCIAL REPORTING

Second Quarter Financial Report

Brian McCartan, Executive Director of Finance and IT provided the report. The agency is at about 88% spending level in the capital program for the second quarter, and there are no projects to highlight as being over budget. Every revenue category is ahead of budget, the agency is currently \$135 million ahead of budget in total. Sounder ridership is up about 12%, and both Sounder and Link are in the low 90's percentile

of spending as compared to their budgets. Cost per boarding and Farebox recovery are moving positively for both rail programs.

Second Quarter Asset Liability Management Report

Jack Baldwin, Assistant Treasurer, provided the report. Agency total restricted and unrestricted cash at the end of the second quarter was 1.3 billion dollars. Year-to-date interest earnings are 8.8 million dollars over budget, due primarily to fair market value changes. All investment compliance guidelines are being met. At the end of the second quarter, total outstanding debt was \$1.9 billion dollars, and the long-term market borrowing rate remains low with a fixed tax-exempt rate of 2.8 percent.

Second Quarter Contract Reports

Brian McCartan, Executive Director of Finance and IT provided the report. Resolution No. R78-2 established the agency's procurement policy and required that staff provide quarterly reports to the committee. This report includes a summary of contracts that did not require Board approval, in the second quarter there were two contracts, both related to Informational Technology systems.

INTERNAL AUDIT UPDATE

Internal Audits in Progress

Ms. Applegate provided a list of the audits in progress, including Records Management, Diversity Program Reporting, Facilities Service Contracting Monitoring, Construction Change Order Practices, and Agency-wide Information Technology Risk Assessment.

Discussion of Potential Topics for the 2017 Internal Audit

Ms. Applegate provided a list of potential topics for the Internal Audit Work Plan, and for the 2017 Performance Audit. The potential topics for the 2017 Performance Audit are Construction Contingency Budgets, Real Property Acquisitions, Construction Scheduling, Construction to Operations Transition, Project Cost Controls, and Asset Management System. The topics will be presented in more detail at the next Audit and Reporting Committee meeting.

EXECUTIVE SESSION

None.

NEXT MEETING


December 15, 2016
11:00 a.m. to 12:30 p.m.
Ruth Fisher Boardroom

ADJOURN

The meeting adjourned at 12:13 p.m.

ATTEST:


Kathryn Flores
Board Administrator


Rob Johnson
Audit and Reporting Committee Chair

APPROVED on 12/15/16.