



April 5, 2007

Sound Transit Board
Honorable John Ladenburg, Chair
Union Station
401 South Jackson Street
Seattle, WA 98104

Dear Chair Ladenburg and Board Members:

We are pleased to submit to you the Citizen Oversight Panel report on the Draft ST2 Plan. We believe the Plan is well-designed and will build upon and expand the regional transit system that is emerging under *Sound Move*.

Our report is based on the ten “lessons learned” we identified in April 2005 in our *Sound Move Year 8* report. Sound Transit has paid attention to these lessons of the past.

- Project scoping has been more detailed in ST2 and community review more thorough, giving all parties a greater understanding of project parameters.
- Cost estimates, contingencies and risk assessments have received much more technical analysis and give a higher confidence level than in the past.
- Subarea equity has been retained in principle and refined to adapt to the extension of the system into outlying urban centers where many riders cross subarea boundaries every day.
- Prudent financial policies continue to be a cornerstone of Sound Transit planning while proposed changes give the agency needed flexibility to manage uncertainty.
- No assumptions have been made in ST2 about funding by third parties, as Sound Transit learned that it can best deliver its projects and services when it relies on its own predictable fund sources.

Despite the due diligence, careful analysis and open process, no plan that projects 20 years into the future can be without risk and uncertainty. The ST2 financial plan depends on assumptions about cost estimates, revenues, inflation rates and the bond market that work only if they stay within a rather narrow range. Unexpected shocks to the regional or national economy could make the plan infeasible as proposed.

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Mr. John Ladenburg

April 5, 2007

Page 2

Because of the substantial uncertainty in the plan assumptions, we urge the Board to avoid piling on too many additional projects and to leave an ample financial cushion to deal with those future shocks. The additional revenue recently added to the plan in the form of federal grants should not be a temptation to reach beyond what is prudent. Any projects added at this late stage of planning must clearly benefit the regional system, not just one area.

COP also has concerns about pressures in the region that could have significant negative impacts on Sound Transit's ability to deliver the plan as proposed. We face continuing strong growth in the region and what is currently an overheated construction market. Coordination and sequencing with WSDOT and RTID projects will be essential to the region and to Sound Transit.

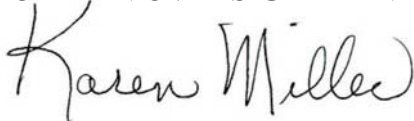
Another area COP is particularly concerned about is the issue of operating costs. The costs to operate Central Link are not yet known as negotiations with King County Metro are still underway. We believe the ST2 forecast of 5% annual growth in costs is too optimistic and could result in cutbacks to service and capital projects if growth is more rapid.

Overall, we believe the process of developing the Draft ST2 Plan has been more thorough than *Sound Move*. Strong oversight and discipline by the Board as well as regional thinking have contributed to a plan that is focused on moving people along major corridors. Public input has been sought and received by a wide variety of methods. Additional oversight and review by the Expert Review Panel and this Citizen Oversight Panel have ensured that assumptions are vetted and debated openly and are reasonable and defensible.

Sound Transit is now a strong, experienced, mature agency. We are confident in the management and leadership that are in place. The Panel looks forward to building on *Sound Move* and extending the regional system to all parts of the urbanized central Puget Sound.

Sincerely,

CITIZEN OVERSIGHT PANEL

A handwritten signature in black ink that reads "Karen Miller". The signature is written in a cursive, flowing style.

Karen Miller
Chair

Cc: Sound Transit Board
Joni Earl

Sound Transit 2

Review and Observations by the Citizen Oversight Panel

Table of Contents

Introduction	1
Ten Years of Monitoring <i>Sound Move</i>	1
Ten Lessons Learned	1
The ST2 Development Process and Plan	3
Plan Development Process	3
The Draft ST2 Plan: Focus on Extending Light Rail.....	4
What Has Changed Since Sound Move?	5
The Regional Environment.....	5
Corridor-Based Equity.....	6
Project Scoping and Cost Estimating.....	7
Risk Assessment and Contingency Levels	8
Third-Party Agreements and Funding Assumptions.....	8
Financial Policy Changes.....	9
Mature Experienced Agency.....	10
What Has Stayed the Same?	10
Openness and Transparency	10
Equity Principle	11
Financial Policies.....	11
External Oversight	11
Concerns and Challenges.....	12
Caution Against Over-Promising.....	12
Financial Plan Assumptions.....	13
Operating Costs.....	13
Construction Market	14
Project Coordination and Sequencing with WSDOT & RTID.....	14
Attachment A: List of Draft ST2 Plan Projects	
Attachment B: Citizen Oversight Panel	

*The Sound Transit Citizen Oversight Panel
is a 15-member volunteer body appointed by the Sound
Transit Board to oversee and monitor the implementation
of **Sound Move**.*

*Previous Citizen Oversight Panel reports are available
upon request and on the Sound Transit website at
www.soundtransit.org.*

*Panel members welcome comments and input to their work
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Sound Transit 2

Review and Observations by the Citizen Oversight Panel

Introduction

The Sound Transit Citizen Oversight Panel (COP) is a 15-member volunteer body appointed by the Sound Transit Board to oversee and monitor the implementation of *Sound Move*, the voter approved regional transit plan. The Citizen Oversight Panel met for the first time in early 1997 and has prepared regular twice-yearly progress reports since then. In April 2005, the Panel also published *Sound Move Year 8*, a cumulative review of the first eight years of progress in delivering the projects and services in the plan. We identified a number of key lessons in that report and have since monitored with interest how those lessons were applied in the planning for ST2, the next phase of regional high capacity transit improvements.

A draft ST2 plan was adopted by the Sound Transit Board in January 2007 and is currently under public review. This report is our assessment of the ST2 plan, based on now ten years of close monitoring and observation of Sound Transit. It is our intent in this report to provide information and insight to the public and comments to the Board of Directors on this next phase of planning for a regional transit system.

In its *Sound Move Year 8* report¹ COP compared many of the statements and assumptions that had been made in the original plan with program reality and found that, on balance, Sound Transit had met the goals and adhered to the principles and commitments set forth in *Sound Move*. Along the way, however, some assumptions proved to have been optimistic, in particular those related to schedule and budget. The program as a whole is projected to take 13 years rather than the original intended ten years. *Sound Move* project cost estimates were found to have been based on insufficient scoping and in many cases were a poor basis for program commitments. Along the way, third-party costs and mitigation grew, land costs increased precipitously, designs were refined, and unanticipated conditions arose. Weak budget controls in the early years also affected the program.

Drawing on the findings of the first eight years, COP developed a set of ten “lessons learned” for future plans and programs. They are restated here:

Lesson 1: Openness and honesty with the public are paramount. Sound Transit learned the hard way that not being open about problems can cause loss of credibility and loss of support for even the most popular program. If a situation will not withstand public scrutiny, it will eventually undermine any program or organization. The public today demands integrity and full disclosure if it is to offer its support.

¹ The report can be found at: <http://www.soundtransit.org/documents/pdf/working/cc/COPSoundMoveYear8.pdf>

Lesson 2: Strong oversight by policy makers and citizens is essential to public confidence. *The Sound Transit Board grew in stature and effectiveness over time as it gathered experience and confidence in its own role. The Board learned to ask hard questions, to think critically, and to play its regional role with both toughness and diplomacy. The role of citizens on the Citizen Oversight Panel was sometimes instrumental in raising issues to the Board's attention that might otherwise not have been heard.*

Lesson 3: Strong management and mature agency skills are not created overnight. *It took five years from start-up to the time Sound Transit had its policies, its systems and its management practices fully in place. The Puget Sound region should be careful to preserve and nurture this knowledge base and not to assume that every new program needs a new agency to manage it.*

Lesson 4: Flexibility to manage a capital program is essential. *Conditions change and unanticipated events, both good and bad, occur. Project scopes seldom look exactly the same after they are subjected to detailed engineering and community review. If one project ends up costing more, others need to cost less. If one project is stalled, another should be able to proceed.*

Lesson 5: Adequate levels of project scoping and design should take place before going to the ballot. *A certain level of preliminary engineering and community review needs to take place to understand the issues that a project will face. If such due diligence has not yet occurred, a ballot proposal should be open about that fact.*

Lesson 6: Partnering with communities and third parties requires a balance of excellent relationship skills and firm policies. *The contemporary environment for large public projects invariably requires the cooperation of numerous third parties such as local governments, permitting agencies and communities. Sound Transit learned over time that the very challenging task of managing third party relationships requires diplomacy, skill, creativity and patience. Building such relationships takes time, understanding of areas of mutual interest and mechanisms to forge agreement.*

Lesson 7: Subarea equity should be an equity principle not an obstacle to a regional transportation plan. *The spirit and intent of subarea equity have been met but at a cost. Mistrust among subareas has led to unnecessary delays in building the regional system, excessive administrative burdens for the agency and inefficient use of resources. As the system expands in the future, definitions of equity will be more and more problematic.*

Lesson 8: Conservative financial planning and debt financing policies have served Sound Transit well. *They provided an additional reserve of financial capacity that was needed to close the funding gap on some major projects.*

Lesson 9: Transit operating costs in the region are high and the Sound Transit Board should explore ways to bring them down. The operating model for ST Express bus service calls for Sound Transit to contract with public transit providers at a burdened hourly rate higher than direct operating costs, while also incurring an overhead rate for Sound Transit administration. When added to the nature of the service with its longer routes and to other regional policies, this has led to high hourly costs and low farebox recovery ratios.

Lesson 10: Building ridership on a high capacity transit system is a long-term undertaking that is closely related to land use policies and the growth of urban centers. Ridership forecasts have been borne out so far only on the most urban corridors. Some suburban bus routes are still providing service to few riders. Commuter rail must be viewed as a 21st century investment that will begin to fulfill its promise only as urban centers and smaller cities continue to grow.

Of these ten lessons, COP finds that during the ST2 development process Sound Transit has learned much and built improved practices based on the first seven lessons. Based on lessons 8 and 9, we believe there are still challenges and risks facing the agency, and on lesson 10, only time will tell how successfully our regional land use and transportation policies meet future reality. The financial policies and assumptions and the operating costs addressed in lessons 8 and 9 may not be entirely in Sound Transit's control, nevertheless they will require continuing strong management and due diligence going forward.

This report discusses what has changed from ***Sound Move*** to ST2, what has stayed the same, and what challenges and concerns the agency will continue to face.

The ST2 Development Process and Plan

Plan Development Process

In 1996, when the Sound Transit Board adopted ***Sound Move***, it also adopted a Long-Range Plan for addressing future growth and selected a high-capacity transit (HCT) system for the region. The system includes a mix of light rail, commuter rail, high-occupancy-vehicle expressway, and ST Express bus service. Ten years later, in July 2005, the Sound Transit Board approved an updated Long-Range Plan taking into consideration current demographic and traffic information and new forecasts. The underlying vision of a balance of modes remained the same. Also in 2005, Sound Transit staff began to work with communities and citizens throughout the region to identify potential projects for the ST2 plan and to define and analyze them. In December 2005, the Sound Transit Board received an initial briefing on approximately 80 candidate projects for Sound Transit 2. These projects were measured against four key factors: ridership, cost, system integration and risk.

Concurrently, staff began developing financial capacity estimates for ST2, based on various levels of the agency's remaining .5% sales tax authority granted by its enabling legislation. The financial plan was consistent with policies established in ***Sound Move*** and with guidelines

provided by the Federal Transit Administration. The major tax revenues and inflation forecasts were based on estimates by independent economists.

In January 2006, the Board narrowed the list of candidate projects to about 60. The projects were arranged into three major transportation corridors: north south and east, radiating along the I-5 and I-90 freeways and connecting the major urban centers determined to serve the largest number of potential transit riders. In addition to various project alternatives and their financial analysis, the plan development process as it progressed included detailed project scoping, cost estimating, reviews and risk assessments which are discussed in the section “What Changed Since *Sound Move?*”

In the spring of 2006, a number of external forces were playing out in the region. Most significantly, a parallel process by the Regional Transportation Investment District (RTID) was developing a package of road improvements for the three-county region. While Sound Transit had intended to go to the ballot with its plan in the fall of 2006, the State Legislature in Olympia that spring required that Sound Transit and the RTID be on a joint ballot together in 2007. This gave Sound Transit an additional year to develop its plan and an ongoing expectation of working together with a roads planning organization to coordinate and integrate collective planning.

The staff and Board proceeded to develop and refine three programmatic alternatives based on 0.3%, 0.4% and 0.5% sales tax increases. The alternatives were based on different levels of modal emphasis, with one focused on bus, a second on mixed bus and rail, and a third on maximized rail development. After evaluating the alternatives against a range of criteria and after an extensive public outreach process, the Board opted for the maximized rail alternative with the greatest ridership potential and a 0.5% tax increase as its proposed draft plan.

The Draft ST2 Plan

The Draft ST2 Plan adopted by the Sound Transit Board in January 2007 builds upon *Sound Move* to extend the current Central Link light rail spine, to increase access to Sounder commuter rail by building out stations and adding parking, and to enhance and maintain ST Express bus service by adding transit centers, parking capacity and service hours on regional bus routes.

Light rail projects include:

- Extension University of Washington to Lynnwood, 12.5 miles with seven stations
- Extension SeaTac to Port of Tacoma, 15.6 miles with six stations (and extension to downtown Tacoma if funding available)
- Extension Seattle to Overlake, 14.5 miles with up to eight stations (extension to downtown Redmond if funding available)
- Planning, preliminary engineering and right-of-way acquisition Lynnwood to Everett

Sounder projects include:

- Completion of stations and parking at Mukilteo and Edmonds
- Tukwila station
- Parking structures at Auburn, Sumner and Puyallup
- Track upgrade from Tacoma Dome to Reservation Junction

Regional Express and other projects:

- Bothell Transit Center and parking
- Renton parking garage
- Burien parking garage
- First Hill street car

The plan also includes funds for operation and enhancement of services on the light rail, commuter rail and bus programs as well as necessary maintenance base and fleet additions. (For a complete project list with cost estimates, see Attachment A.)

In early April 2007, as this report was being finalized, the Sound Transit staff provided new assumptions of federal grant revenues that would allow the extension of the Link south corridor all the way to Freighthouse Square in Tacoma. A number of Board members also announced their intent to offer additional projects to the draft plan. These were not yet fully known at the time of this writing.

Total daily ridership with the proposed investments is estimated to grow to 350,000 by the year 2030. Trains would run 20 hours per day, every few minutes during peak periods. Benefits of the package as proposed by Sound Transit are that it would respond to the 1.2 million population growth the region is forecasting, connect the major population and employment centers, support the regional strategy for managing growth and reducing sprawl, and take pressure off the road network.

What Has Changed Since *Sound Move*?

The Regional Environment

Since 1996 when *Sound Move* was adopted by the region's voters, many things in the regional environment have evolved. Population and employment grew rapidly during the first few years, but then experienced a significant slowdown between 2001 and 2003. Regional employment decreased almost 2%, personal incomes dropped and state and local governments experienced severe revenue declines for several years. Additionally, a number of citizen initiatives limited transportation funding and the agency's own missteps during the start-up years led to a climate of mistrust and uncertainty for Sound Transit.

Since 2004, however, the regional economy has rebounded, funding for transit and roads was restored and increased, a new regional planning entity, the Regional Transportation Investment District, was created, and Sound Transit proceeded to demonstrate steady progress in delivering the services and projects *Sound Move* had authorized. In 2006 the Legislature required that Sound Transit and the RTID integrate and coordinate their transportation plans and appear on the November 2007 ballot together. At the same time, the Legislature authorized a high-level regional commission to study the governance of transportation in the region. In January 2007 the Regional Transportation Commission recommended a merger of the planning, prioritizing and funding of regional roads and transit functions. Almost at the same time, the Sound Transit

Board and the RTID each adopted draft plans for the November 2007 ballot and began a public outreach effort to seek feedback on the plans.

Today in 2007 the region is experiencing prosperous times and continuing growth has led to overheated real estate values and construction markets. Between 2005 and 2006, engineers estimated that the cost of major capital projects jumped 10%. By last fall, public opinion of Sound Transit was 65% favorable and polling indicated 71% support for a balanced roads and transit investment package.

Thus, despite ups and downs in the economic and political context since *Sound Move*, a great deal of progress has been made in delivering improved services and achieving political agreement on funding measures, and the region is poised today to support a next round of major transportation investments.

Corridor-Based Equity

One of the hallmarks of *Sound Move* was the concept of subarea equity. This principle stated that the three counties of the Central Puget Sound Regional Transit Authority be divided into five subareas and that revenues generated in each subarea be equitably distributed back to projects and services in each subarea. This concept was unique in the country and arose as a political compromise after an earlier failed regional measure (before *Sound Move*) had been perceived by some voters as bestowing too much benefit to Seattle and not enough to other parts of the region.

The subarea concept incorporated a fundamental trade-off between the regional and local that represented a challenge for a regional agency. Nevertheless, Sound Transit worked hard to develop a comprehensive set of policies and procedures and an accounting and auditing system to track subarea revenues and allocations. This Citizen Oversight Panel was intended from its beginning to be representative of all five subareas and had as one of its charter objectives the monitoring of subarea equity.

Over the years, COP increasingly developed concerns that subarea equity was counter-productive to true regionalism. In its *Sound Move Year 8* report, one of the findings stated,

While perhaps a political necessity in 1996, it has been an impediment to the efficient development of the regional system. For some regional facilities that benefit more than one subarea, determining equitable costs and benefits will be more challenging in the future and may not be sustainable over time as the region's systems are expanded.²

During the early stages of the ST2 plan development process, COP urged the Board to revisit the subarea equity policy and to ensure that comprehensive system integration was not lost to a myriad of individual projects benefiting individual subareas. The Board responded with a thoughtful public discussion of the issue and concluded that the equity principle was still

² Citizen Oversight Panel, *Sound Move Year 8: Review of Progress Toward Achieving a Regional High Capacity Transportation System*, April 7, 2005, page 12

important yet its definition need not be too narrowly construed. Subarea “benefit” became the operative concept in the ST2 plan and corridor equity the outcome of the reconsideration.

Corridor-based equity recognizes that, in their daily travel patterns across the region, many riders cross subarea boundaries and that transportation benefit occurs along corridors not just within jurisdictional boundaries. For example, transportation planners who measure travel origins and destinations have shown that 25% of Pierce County commuters travel to King County for work and 60% of south Snohomish County commuters do so. Thus, the use of subarea funds to build-out a system located in another subarea but along the same travel corridor is fully in keeping with a “benefit” approach to equity.

COP members agreed that this approach to equity in the region adhered to the fundamental fairness principle established in *Sound Move*, allowed extensions of the light rail spine to outlying urban centers with cost sharing by adjacent subareas, and was sustainable as the system spread increasingly outward over time.

Project Scoping and Cost Estimating

COP made a number of findings relating to the implementation of the *Sound Move* capital program with the expectation that earlier mistakes would serve as “lessons learned” for future phases of the program. Findings addressed the very preliminary nature of many cost estimates, the limited amount of detail in project scopes and the lack of early communication with local communities about their expectations of projects.

*Sound Move’s 1995 capital cost estimates were very conceptual and in many cases proved to be a poor basis for program commitments. ...Many of the estimates were based on minimal assumptions about project configuration and, as work with local communities began, it became evident that bare-bones projects were unacceptable to citizens and their governments.*³

*Sound Transit had to learn to manage “scope creep.” In the early days, the agency sometimes allowed scopes to get out of hand with amenities and betterments added onto projects.*⁴

In the current ST2 process, staff have been very mindful of these earlier lessons. Cost estimating is now informed by ten years of experience with similar projects and by more rigorous and detailed estimating of cost components such as agency administration, design, right-of-way, permitting and mitigation, and construction. Additionally, detailed assumptions about project scopes and what is included and excluded in project estimates have been developed, published and subjected to repeated reviews by internal and external parties over many months.

Relations between Sound Transit staff and local jurisdictions have evolved over time so that both sides understand each other’s interests in clearly defining project scopes so that projects can be implemented without conflict or misunderstanding. Additionally, the Sound Transit Board

³ *Sound Move Year 8*, page 27

⁴ *Sound Move Year 8*, page 28

several years ago adopted a formal policy regarding added amenities or “betterments” so that agency staff would be able to manage projects without fearing undue pressure to keep adding to project scopes and budgets.

Additional review of the project scoping and estimating methods was carried out by the Expert Review Panel, an independent group of technical professionals appointed to oversee the ST2 plan development. Hoping to establish a firm foundation of project agreements, the Panel urged Sound Transit to obtain written commitments on project scopes from local jurisdictions and third parties. While term sheets outlining project elements were reached in some instances, detailed written agreements were generally not obtained. Some ST2 projects are many years from even their design stage and firm commitments were impossible absent specific details of alignments, sites and future conditions. Nevertheless, COP believes that the ST2 scoping and estimating process has been thorough, careful and subject to repeated technical and community reviews. To the extent that written assumptions, attention to detail, and communication with affected parties can prevent later disagreements, Sound Transit has tried hard to avoid past mistakes.

Risk Assessment and Contingency Levels

With the new draft plan, Sound Transit has made significant strides in assessing risks thoroughly and incorporating contingencies based on experience and detailed analysis of areas of risk. The risk assessment was conducted on the proposed light rail extensions in the north, east and south corridors which together total 94% of the ST2 program. The north corridor comprises 8.5 miles and 7 stations, the east corridor 18 miles and 8 stations and the south corridor 17 miles and 6 stations. The analysis looked at major cost components: guideway and track elements, stations and terminals, support facilities, site work, systems, right-of-way and professional services. Cost estimates were comprised of base costs and two kinds of risk contingency, allocated contingency (based on specific hazards that can be directly attributed to a line item) and unallocated contingency (based on programmatic hazards). Hazards were assessed for each corridor and each component, analyzing the probability of their occurrence and the severity of their potential impact to determine level of risk and the adequacy of the contingencies.

In January 2007 staff presented the results of the risk assessment to the Board. The assessment found that there was 86% confidence that there was adequate contingency to cover the maximum assessed risk exposure for the overall light rail program. The confidence level was not equally great for all three corridors, with the east corridor having higher levels of risk contingency than the north and south corridors. Nevertheless COP members believe that the thoroughness of the estimating process and the contingency levels were far improved over those of *Sound Move*.

Third Party Agreements and Funding Assumptions

One of the major difficulties Sound Transit encountered early on was its optimistic assumptions about third parties’ willingness and ability to make contributions to projects. The planners of *Sound Move* had believed that local jurisdictions, the Washington State Department of Transportation, the Burlington Northern Sante Fe Railroad, the University of Washington and other third parties would be able to make in-kind contributions of services, right-of-way, permits, and mitigation as well as hard cash funding contributions.

On the contrary, even third parties that very much wanted the projects Sound Transit was bringing to their communities were unwilling to make such contributions and in fact wanted betterments and extra payments for their participation. Additionally, a series of citizen initiatives between 1999 and 2001 significantly curtailed city, county and state transportation funds making some previously promised funding contributions no longer possible. In many instances, Sound Transit had to spend years negotiating and refining the scope of projects to accommodate the third party requests and funding shortfalls.

That lesson was well learned by Sound Transit and the Draft ST2 Plan includes no third party funding assumptions. In two instances where other partners are expected to pay for portions of a project (parking garages at Mukilteo and Burien) Sound Transit's share is a fixed amount. Also, as described earlier in this report, Sound Transit has made strong efforts to clearly define project assumptions and communicate them to local jurisdictions. COP believes that these precautions will allow projects to move forward more smoothly in ST2 than in *Sound Move*.

Financial Policy Changes

The Board is currently considering a number of financial policy changes intended to give the agency greater flexibility to manage uncertainties and future changes in the economic and fiscal environment. In its earlier review, the Citizen Oversight Panel found that during the course of implementing *Sound Move* much changed along the way and having flexibility to adjust was critical.

Some projects envisioned in Sound Move proved infeasible for reasons such as that they depended on other projects that are unfunded going first or that partner agencies were unable to fulfill their funding obligations. New projects emerged that met needs that had not been anticipated at the time of planning almost 15 years earlier. Revenues and expenditures flowed at rates different than those assumed in the plan. Unexpected political events intervened. Unanticipated policy choices were made along the way...⁵

While fundamental commitments to subarea equity, prudent use of debt financing, and accountability and citizen oversight remain unchanged, a number of other proposed financial policy changes will streamline accounting and financial reporting as well as allow flexibility in allocating revenues and expenses to the system expansion⁶:

- The agency net debt service coverage ratio would be increased from 1.3 to 1.5 and the previous 5% bond reserve would be removed.
- The 10% limit on subarea contributions to systemwide costs would be removed.
- The Board would have authority to allocate federal grants to subareas based on benefits and funding needs to complete the system.
- The debt service coverage ratio at the subarea level would be removed and debt financing would be allocated to subareas based on share of total agency bonding requirements.

⁵ *Sound Move Year 8*, page 28

⁶ *Staff Proposed Policy Changes to Sound Transit Financial Policies*, Preliminary Draft March 11, 2007

- If revenues exceed a subarea's expenditures by more than 5%, the Board would be allowed to use the funds in the best interest of the system, within the subarea.

COP supports the proposed changes and believes they will be useful in future years as unanticipated events occur, subarea boundaries blur and subarea "benefits" become established as the appropriate equity definition.

Mature Experienced Agency

In early 1997 when Sound Transit's original 23 employees began creating the policies, procedures and systems that would eventually deliver billions of dollars of capital projects and transit services, there was no agency yet. The few employees were primarily planners loaned from other agencies and had little experience in managing large transportation projects. They were enthusiastic, visionary and optimistic about their task but also naïve, undisciplined and without the systems to manage complex projects.

Over the years COP has repeatedly stated its observations of the growing maturity, skills and leadership present in Sound Transit. Today the agency is exceedingly well-positioned to hit the ground running with extensions to the system into all parts of the region. The agency has been tested by the fires of cost overruns, schedule delays and bad publicity and has emerged stronger and far better equipped to steward the public's money and deliver the system it promised. We believe Sound Transit has the management capacity and policy framework in place to deliver the next phase of the regional transit system. Indeed, many of the key policy commitments of *Sound Move* have been borne out as sound and will continue in place in ST2.

What Has Stayed the Same?

Sound Transit sets high standards for itself in the basic principles that are its organizational foundation: openness, fairness, prudence and accountability. No other government entity that we are aware of has as consistently and comprehensively attempted to be transparent about its inner workings and as committed to making equitable and prudent use of the public's money. Even though there were serious lapses along the way in openness and accountability, the organizational intent and commitment was there from the beginning.

Openness and Transparency with the Public

Sound Transit publishes information that is seldom made public by other agencies, including monthly status updates on capital project schedules and budgets, quarterly financial reports, and annual productivity data on its transit routes. The Citizen Oversight Panel has monitored these and other reports and has regularly commented on their user friendliness for a general audience. We are pleased to note that the agency has always welcomed input and over the years has improved its public information in many ways. The Sound Transit website was redesigned several years ago to be a comprehensive resource on the agency's services, projects and plans.

Community responsiveness related to capital projects, to service changes and to ST2 planning has been high. Sound Transit has developed a sophisticated capability in conducting community outreach services both directly with the public and through electronic means.

Equity Principle

“Subarea equity should be an equity principle not an obstacle to a regional transportation plan.”⁷ As stated elsewhere in this report, COP has concluded over the years of observing the implementation of *Sound Move* that subarea equity, while a good idea in 1996, had become a hindrance to future extensions of the regional system. We urged the Board as early as the spring of 2005 to revisit its policy in light of the envisioned system plan of the future. The Board did so, and while upholding the core equity concept, refined its interpretation of regional equity to maximize system development. Members of COP were complimentary of the agency’s adherence to the spirit and intent of equity along with an updating of its application to where the region is today.

Financial Policies

The financial policies established in *Sound Move* incorporated commitments to fiscal prudence, equity and accountability. Prudence in the use of debt has been a cornerstone of financial planning at Sound Transit since the beginning. While legally authorized to issue general obligation debt equal to 1.5% of the value of taxable property in the district, Sound Transit imposed on itself a much more conservative debt financing capacity of an agency-wide 1.3 net debt coverage ratio. It also reserved 5% of capital costs as an additional reserve. In ST2, the agency is proposing to increase that conservatism to a coverage ratio of 1.5. The proposed 1.5 ratio reserves \$1.2 billion in capacity compared to \$750 million under the old policy.

Together with the proposed policy changes that remove the subarea-level coverage ratio and the 10% subarea contribution to systemwide costs, these changes give the Board added flexibility to manage changing circumstances while continuing the commitment to fiscal prudence. COP has noted that, “Conservative financial planning and debt financing policies have served Sound Transit well. They provided an additional reserve of financial capacity that was needed to close the funding gap on some major projects.”⁸

The financial policies related to high standards of accountability also remain unchanged. While certain internal accounting procedures are being streamlined, core policies related to monitoring, reporting and auditing remain in place, as do external accountability mechanisms which are discussed below.

External Oversight

As a public agency, Sound Transit operates in an environment of intense scrutiny. In addition to state laws regarding financial and state audits and the new state performance audit function, the

⁷ *Sound Move Year 8*, Lesson 7, page 30

⁸ *Sound Move Year 8*, Lesson 8, page 31

agency is required to comply with federal laws and Federal Transit Administration oversight mechanisms. These are ongoing and continue with Phase 2 of the regional plan.

Sound Move also incorporated additional external oversight by an Expert Review Panel for technical review of the plan and its financial assumptions and a Citizen Oversight Panel for citizen review of adherence to commitments made to voters. Both of these mechanisms continue in ST2. The Expert Review Panel has been meeting for over a year and has provided detailed comments on numerous aspects of the technical planning, including capital and operating cost estimates, economic assumptions, risk assessments and transportation, engineering and construction elements of the plan. Sound Transit staff have responded to all of the comments and have incorporated many of them into the plan.

Since 1997, this Citizen Oversight Panel has been monitoring all aspects of Sound Transit's implementation of its first phase programs. The Panel's fifteen volunteer members have comprised skills and backgrounds in engineering, finance, public works, business management, public policy and citizen involvement. COP has published regular twice-yearly reports on implementation progress and presented these to the Board and to the press and public. Sound Transit has welcomed the feedback and used it over the years to improve a wide variety of functions within the agency.

Concerns and Challenges in ST2

COP members believe that on balance the Draft ST2 Plan is a good regional investment that meets key thresholds for planning, outreach and sound policy. As a 20-year plan, however, it does contain risks and uncertainties that the public should be aware of. These are in two main areas: financial assumptions and the region's strong projected growth. ST2 is built on cost estimates, revenue forecasts, inflation forecasts, and growth rates in population, employment, traffic and transit ridership. All are fundamentally unknowable despite our best planning science and all are subject to shocks that we cannot anticipate. Protection against worst-case scenarios is at best a balancing act between cautious action and paralysis. If we allow fear of the worst case to overwhelm us, nothing will get built. If we do not build in enough cushion against unforeseen circumstances, projects could become stalled in mid-development.

COP believes that the assumptions on which ST2 is based are generally reasonable, however, we urge diligent monitoring and reporting to validate assumptions over time and to make corrections as needed.

Caution Against Over-Promising

In the eagerness to meet needs in all parts of the region, there is often a temptation to pile on more projects than a plan can reasonably sustain. This is sometimes colloquially referred to as hanging ornaments on a Christmas tree. To date, the Draft ST2 Plan has done a good job of resisting this temptation. However, with the recent announcement by staff of the addition of \$815 million (2006 dollars) in new assumptions of federal grants and farebox revenues, COP is concerned that there not be a last-minute addition of many new projects as final plan adoption

approaches. COP urges the Board to be cautious not to over-promise more than the plan can reasonably deliver and to leave an ample financial cushion to deal with possible future shocks. Any projects added at this late stage of planning must clearly benefit the regional system, not just one area.

Financial Plan Assumptions

The 20-year ST2 financial plan makes the following assumptions for average annual growth:

Consumer price index (CPI)(general inflation)	3.75%
Building cost index (BCI)	3.63%
Right-of-way index (ROWI) (real estate)	4.73%
Sales tax growth rate	5.2%
Bond interest rate (borrowing)	6.0%

These figures are forecasts provided by independent economic research firms and augmented with additional contingencies by Sound Transit. Using these assumptions and the proposed projects and cost estimates listed in Attachment A, the financial plan forecasts an agency-wide cash balance of almost \$1 billion in 2029 and a debt service coverage ratio of 1.79 (the policy threshold would be 1.5, as discussed above). The project cost estimates already contain substantial contingencies, so these assumptions appear to give ST2 a healthy financial cushion over the 20-year period.

Compared to the past ten years, the assumptions for general inflation, sales tax growth and bond interest seem within a prudent range, however, the inflation rates for construction and real estate seem optimistic. Building costs grew 10% in just one year from 2005 to 2006 as calculated by the Washington State Department of Transportation and by Sound Transit for its projects. Real estate prices in the central Puget Sound region have been growing at 10% to 15% annually for several years. Strong growth in the region is forecast to continue.

Sensitivity tests conducted by the agency indicate that an inflation shock that bumped inflation up less than half of one percent per year would bring the agency’s debt coverage ratio down to the 1.2 to 1.3 range. So would increases in capital costs of 13% and a slowdown in sales tax growth of .4%, each occurring separately. Cash reserve balances would drop by more than half. These are not large changes in assumptions but their long-term financial impact could have a very negative effect. If all of these changes to the financial assumptions occurred simultaneously, the program would no longer be feasible as proposed. Thus, for the financing plan to be adequate, any deviation from the base scenario assumptions will need to stay within a relatively narrow range.

Operating Costs

COP has often written about the unsustainable growth in transit operating costs. Sound Transit contracts for operation of its bus service with three local transit agencies, Community Transit, King County Metro and Pierce Transit. It is currently negotiating operating agreements with Metro for operation of Link light rail and cost projections are not yet available. Sound Transit’s

own costs are added onto the partner costs for a total cost per platform hour that is projected to reach \$118 in 2007. This represents an average annual increase per hour of 6% since 2000. When new service and facilities are added in, Sound Transit's annual transit operating costs have grown 11% per year.

The ST2 financial plan assumes that transit operating costs will grow just 5% per year. A new Service Enhancement Fund is created to add service hours over the 20-year plan at a rate of .5% to 1% per year. Staff have defended these slower increases by stating that as light rail service is added throughout the region, bus service will be able to be curtailed. COP is skeptical of this argument and believes that as regional demand grows, both light rail and bus services will have to be provided at service levels that are acceptable to riders. We believe the ST2 forecast of 5% annual growth in costs is too optimistic and could result in cutbacks to service and capital projects if growth is more rapid.

Construction Market

In February 2007 the Link Airport Station received just one bid for construction--that bid was 90% higher than the engineer's estimate. A month earlier, the I-90 Stage 1 project came in 23% over estimate with five bids. In 2006, five projects ranging from \$3 to \$24 million came in on average 5.5% over estimate. This is just a snapshot in time, nevertheless, it is an alarming one.

Anecdotal information from the construction industry throughout the region indicates that the current bid climate is very difficult compared to any time in the last several decades. Not just public agencies, but the private construction market is very active and many contractors are competing for workers, heavy equipment and materials. Contractors are also bumping up against their bonding capacity and management resources. The Draft ST2 Plan is heavily weighted to very large contracts that only a small number of firms can bid on. This will limit the competition and increase pressure on construction costs. This will definitely be a challenge for Sound Transit in the coming years.

Project Coordination and Sequencing with WSDOT & RTID

At the same time that Sound Transit will be going to market with its program of large transit projects, WSDOT and RTID will be developing their highway programs authorized under the recent state gas tax increases and the proposed regional .1% sales tax and .8% motor vehicle excise tax. Billions of dollars of projects will be in design and construction at the same time over the next years. Coordination and sequencing of projects to avoid undue constrictions in the market as well as undue transportation impacts will be a huge challenge.

COP believes that these risks and challenges can be managed. The Panel also believes that with the much strengthened technical analysis, scoping, estimating and communication, Sound Transit has a very solid plan. With the added policy flexibility, future Sound Transit Boards will have the ability to allocate resources and adjust the overall program to meet future conditions. The agency's core commitments continue and lessons from past mistakes have created a firm basis for the region's transit system expansion.

Attachment A

Draft ST2 Plan Project List

	2006 \$000
<i>Link light rail--north corridor</i>	
University of Washington to Northgate	1,356
Northgate to Jackson Park (145th)	322
Jackson Park (145th) to Shoreline (185th)	358
Shoreline (185th) to Mountlake Terrace (236th)	227
Mountlake Terrace (236th) to Lynnwood Transit Center (Terminal)	383
Planning, environmental, preliminary engineering, ROW preservation Lynnwood to Everett	85
Light rail maintenance base and fleet (corridor share)	386
Streetcar/bus connection downtown Seattle to Capitol Hill	149
	<hr/> 3,267
<i>Link light rail--east corridor</i>	
Seattle to Downtown Bellevue (aerial)	1,685
Downtown Bellevue to Overlake (aerial, terminal)	822
Preliminary engineering, ROW preservation Overlake to Redmond	101
Planning study on SR 520	5
Planning study on I-90: South Bellevue to Issaquah	3
Light rail maintenance base and fleet (corridor share)	431
	<hr/> 3,046
<i>Link light rail--south corridor</i>	
SeaTac Airport to South 200th Street	303
South 200th Street to Kent-Des Moines Road via SR 99	382
Kent-Des Moines Road to South 272nd Street via SR 99	408
South 272nd Street to Federal Way Transit Center via SR 99	420
Federal Way Transit Center to South 348th Street via I-5	348
South 348th Street to Port of Tacoma via I-5 (Terminal)	528
Preliminary engineering, ROW preservation Port of Tacoma to Tacoma Dome	34
Light rail maintenance base and fleet (corridor share)	462
	<hr/> 2,883
Subtotal Link	9,196
<i>Sounder commuter rail--north corridor</i>	
Joint development parking garage at Mukilteo Station	10
New permanent station at Edmonds Crossing	31
	<hr/> 40
<i>Sounder commuter rail--south corridor</i>	
Permanent station at Tukwila	28
Parking garage at Auburn Station	30
Parking garage and pedestrian bridge at Sumner Station	38
Parking garage and pedestrian bridge at Puyallup Station	53
Track and structure upgrades between Tacoma Dome Station and Reservation Junction	58
	<hr/> 207
Subtotal Sounder	248

<i>ST-Express bus--north corridor</i>	
Bus maintenance base and fleet (corridor share)	24
<i>ST-Express bus--east corridor</i>	
Transit center and parking garage (Bothell)	45
North 8th Street parking garage (Renton)	41
Bus maintenance base and fleet (corridor share)	78
	<hr/>
	164
<i>ST-Express bus--south corridor</i>	
Shared funding for parking garage at Burien Transit Center	13
Bus maintenance base and fleet (corridor share)	72
	<hr/>
	85
Subtotal ST-Express	273
TOTAL ST2 Plan	9,717

Attachment B

Citizen Oversight Panel

Patsy Tsui Bonincontri. Ms. Bonincontri, a resident of Bellevue, is a practicing architect with Puget Sound Energy where she manages capital facility projects. She is versed in working with plans, specifications, schedules and project management tools. Her professional experience includes national account retail roll out work, retail, commercial and mixed-use projects throughout the U.S. as well as overseas work. She is currently a Bellevue Planning Commissioner and has been involved in helping the city with its regulations and planning processes. Ms. Bonincontri earned her architecture degree at the University of Southern California.

Richard U. Chapin. Mr. Chapin is a retired land use attorney residing in Bellevue where he is active in local and state affairs. He served in the Washington Legislature from the 48th District from 1967-1973 and as Chair of the Washington State Land Planning Commission 1973-1975. He was formerly on the boards of the Eastside YMCA, Bellevue Chamber of Commerce, Citizens School Advisory Committee, and King County Master Gardener Foundation, among other civic interests. Mr. Chapin has worked as a mediator, chaired the King County Bar Association's Dispute Resolutions Committee, served on numerous Bar Association committees and is now on its Drug Policy Committee.

Aubrey Davis. Mr. Davis has a distinguished record of public service on health care and transportation policy in the Puget Sound region. He has served as Chair of the Metro Council Transit Committee, Regional Administrator for the U.S. Department of Transportation, as chair of the Washington Transportation Commission, on the executive committee of the TransLake study and on the Expert Review Panel for Sound Transit, among many other roles. He was a founding Board member and CEO of Group Health Cooperative, Mayor of the City of Mercer Island and is the chair of two private companies. Mr. Davis is a resident of Mercer Island and his other interests include the arts and baseball.

Robert Miguel Goldstein. Mr. Goldstein brings financial and budget expertise to the Panel, having served as a chief financial officer, capital finance manager, budget manager and budget and policy analyst for the Seattle Public Library System, the Seattle School District, the City of Seattle and the California Legislature. Mr. Goldstein is also a published author and journalist having covered local, county and state government for the Bellevue Journal-American and the Walla-Walla Union-Bulletin. His policy areas have included transportation, K-12 education, capital project financial management, financial reporting and long-range planning. Mr. Goldstein is a resident of Seattle. He earned a MPA at the University of Washington's Evans School of Public Affairs.

Donald L. Green. Mr. Green is the Director of Operations for the Washington State Department of Health and has served as a senior management operations analyst for the Department of Labor and Industries, chief financial officer of the Governor's Safety Advisory Board (2000-2004) and the U.S. Air Force. He has over 25 years of experience in designing and evaluating business operations at the state and federal levels of government and in the private sector. Mr. Green is active in Pierce County civic affairs and serves as chair of the Pierce College Workforce Development Advisory Committee, on the County Council's Mail-In Ballot Advisory Committee, and on site operating councils in the Clover Park School District. Mr. Green's degree is in public administration from Brigham Young University. He is a resident of Lakewood.

Miriam Helgeland. Ms. Helgeland is a retired teacher and long-time League of Women Voters board member and officer in the South King County area. She has been active on the League's regional transportation committee and participated in site visits to Portland and Vancouver to study their light rail systems. Ms. Helgeland served on the King County Charter Review Commission in 1987-88 and on a later League King County governance study committee. She has also served as president of the Star Lake Improvement Club.

Robert B. Hitchcock. Mr. Hitchcock has 20 years of senior management experience from closely held businesses to large corporations. He is currently the Senior General Manager and Director of Operations for Powell Property Management's senior housing projects, Village Green Retirement Campus in Federal Way and Daystar Retirement in West Seattle. He is responsible for all marketing, administrative, and operational functions. Mr. Hitchcock is active in numerous civic and professional organizations and recently completed a term as Chair for the Federal Way Chamber of Commerce and continues as Chair of the Economic Development Committee. He is President of Federal Way's Festival Days, a member of Rotary and various Masonic organizations. He resides in Tacoma.

Bill LaBorde. Mr. LaBorde, a resident of Tacoma, spent several years immersed in Puget Sound transportation issues as the state lobbyist for the Transportation Choices Coalition. He was also one of the chief proponents of Initiative 937, the clean energy ballot initiative that passed in 2006. Currently, Mr. LaBorde is the director of WashPIRG, where he works on a variety of consumer and environmental issues. He has also been active as a Tacoma Planning Commissioner and Washington Conservation Voters board member and serves on the board of Tacoma Public Utilities.

Paul W. Masten. Mr. Masten is a transportation engineer with over 30 years experience in planning and design of major public works projects. He is currently a principal of BlueRidge Associates and was formerly Managing Principal of Reid Middleton, Inc. in Everett, where he was program manager for many of the firm's largest and most complex projects. Mr. Masten is active in various professional associations and in civic organizations including the Snohomish County Committee for Improved Transportation and the American Council of Engineering Companies - Washington. A resident of Lynnwood, Mr. Masten has a BS degree and graduate work in civil engineering.

Karen Miller. Ms. Miller, a resident of Mountlake Terrace, is a former member of the Snohomish County Council, which she chaired for two years. Among numerous civic activities, she has served on the Mountlake Terrace Planning Commission and Library Board, on the Board of Directors for the Luther Child Center and the Snohomish County Public Defenders Association. She also served on the Board of Trustees of Edmonds Community College for over 20 years, was President of the Community and Technical Colleges Association of the State of Washington, and was President of the Municipal Research Services Corporation. Ms. Miller currently serves as Chair of the Washington State Housing Finance Commission.

David A. Russell, Ph.D. Mr. Russell is a retired professor and chair of the Department of Aeronautics and Astronautics at the University of Washington. He earned his Ph.D. at Caltech, worked in aircraft, energy and medical engineering, and co-founded a successful engineering research firm before his retirement in 2000. Mr. Russell is a former elected official, having served as mayor and council member of the City of Kirkland, president of the Puget Sound Regional Council, and on the Sound Transit Board in its early years. His civic involvement has included Futurewise and the Cascade Land Conservancy. He was named Public Official of the Year by the Municipal League of King County in 1996.

Larry E. Shannon. Mr. Shannon retired in 1993 after 25 years with the U.S. Army Corps of Engineers, where he held the position of Chief of the Design and Project Management Division in the Seattle District. He has extensive engineering and management expertise on large public works facilities and is familiar with public works regulations, policy development and fund control. He was recognized as Government Engineer of the Year in 1993 by the Puget Sound Engineers Council. Mr. Shannon is a resident of Bellevue and is the past Chair of the Bellevue Transportation Commission.

Paul J. Wiesner, MD. Dr. Wiesner is a semi-retired public health physician and an active member of the Roosevelt Neighborhood Association where he advocated for the 12th Avenue light rail alignment. Dr. Wiesner is on the faculty at the Northwest Center for Public Health Practice at the University of Washington and is the author of more than 70 articles in scientific journals. During his medical career, he directed several national programs at the Centers for Disease Control, served as director of a county Board of Health, and was active as a member and leader in various associations of public health officials. In 2002 he was honored as Health Officer of the Year by the National Association of Local Boards of Health.

Former Panel Members

Bruce Agnew. Edmonds, served 1997-1999.

Anoop Batra. Federal Way, served 1997.

Diane Carlson. Tacoma, served 1997-1999.

Arlington W. (Art) Carter Jr. Seattle, served 1997-2004, served as chair 2001-2003.

Darrell Chapman. Snohomish County, served 2002-2003.

Marcus Courtney. Seattle, served 2003-2004.

Allan B. Darr. Everett, served 1997-2001.

Bertha Eades. Redmond, served 1998-2007.
Claudia B. Ellsworth. Tacoma, served 1999-2001.
Steven M. Goldblatt. Seattle, served 1997-2003, served as chair 1997-1999.
Ramon J. Gould. Edmonds, served 2000-2004.
Kevin J. Grossman. Shoreline, served 2004.
Virginia Gunby. Seattle, served 1997-2004.
Lynn A. Guttmann. Seattle, served 2006.
Frederick M. Hart. Seattle, served 1997-2003.
Michael A. (Tony) Hudson. Tacoma, served 1998-2000.
Terry Lukens. Bellevue, served 1997-1999.
Thomas M. Luthy. Bellevue, served 1997-2003.
Kristi A. Mandt. Seattle, served 1997-2001.
Mary McCumber. Seattle, served 2004-2005
John Murtha. Seattle, served 2005
David Osaki. Federal Way, served 1997-2003.
C.T. Purdom. Federal Way, served 2006.
Katherine Rose. Tacoma, served 1997-98.
Donald L. Russell. Seattle, served 2003.
Thomas R. Ryan. Puyallup, served 2005-2007.
Jessyn Schor. Seattle, served 2004-2005
Reid Shockey. Everett, served 1997-2003, served as chair 1999-2001.
Al Stipe. Federal Way, served 1997-2005
Stephen C. Wamback. Tacoma, served 2001-2005.
Stephanie Weber. Kirkland, served 1997-98.
Phillip TK Yin. Seattle, served 2001-03.