



Citizens' Year-End 2008

Performance Report on Sound Transit

January 27, 2009

*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** and **ST2**.*

*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 and may be
contacted by calling Jenny Tuke at Sound Transit at 206-398-5172, by
email at jenny.tuke@soundtransit.org or by writing to:*

*Citizen Oversight Panel
Union Station
401 South Jackson Street
Seattle, WA 98104*



January 27, 2009

Sound Transit Board
Honorable Greg Nickels, Chair
Union Station
401 South Jackson Street
Seattle, WA 98104

Dear Chair Nickels and Board Members:

The Citizen Oversight Panel is pleased to find that in many respects 2008 was a very good year for Sound Transit and the people it serves.

Passage of Proposition 1. First, we congratulate the staff and Board on the passage by voters of Proposition 1. The ST2 package was carefully planned, skillfully negotiated as a regional proposal bringing benefits to all three counties, and effectively communicated to voters. We especially wish to acknowledge your leadership, Chair Nickels, and your tireless efforts to bring the Board together in support of the successful plan.

Sound Move Progress. Sound Transit met 28 out of 39 milestones that it set itself in 2008. The Central Link Initial Segment approached 95% completion as Sound Transit geared up its preparations for passenger service to Tukwila in July and to the Airport by year-end 2009. Despite the many challenges, Link's Initial Segment is still projected to come in within its adopted baseline budget and on schedule for the grand opening on July 3, 2009. Nine other capital projects opened for service in 2008: two Sounder stations and seven Regional Express projects.

Ridership Growth. Sounder ridership again grew at a very strong 22% through the third quarter of 2008. ST Express bus ridership also increased 22%, an exceptional increase on the usually more slowly growing bus mode. As fuel prices peaked at over \$4.00 per gallon this past summer and with the increasing awareness of global climate change, many people began to shift their travel behavior and transit ridership soared throughout the country. In the Puget Sound region, this was an especially strong validation of the regional transit investments of the past twelve years.

CHAIR

Dick Chapin

VICE CHAIR

Paul Wiesner

Josh Benaloh

Aubrey Davis

Chris Elwell

Bob Goldstein

Miriam Helgeland

Bob Hitchcock

Karen Miller

Michael Murphy

Dave Russell

Stuart Scheuerman

Bruce Seiber

Vic Sood

JD Wessling

Honorable Greg Nickels

January 27, 2009

Page 2

While 2008 represented great progress in significant areas, we nevertheless have several major concerns and believe there are some serious challenges facing Sound Transit.

Operating Costs. Costs in virtually every area of Sound Transit operations continue to grow rapidly, reflecting increases both in transit services and in base agency operations. Our previously expressed concerns about cost growth in transit operations now extend to other areas of the agency. The 2009 staff operating budget is proposed to grow 17% over 2008 projected actuals. These figures include the start-up of Central Link and additional service on Sounder and ST Express, but are calculated before any additions required by the newly adopted ST2 plan. COP members are very concerned about these rapid increases in expenses and have agreed to form a special task force this year to delve into the underlying reasons for the huge increases cited in the accompanying report.

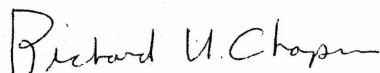
Smart Card program. We again highlight our concerns about the Smart Card program: the repeated schedule delays and the project management challenges. Today we are also making you aware of a serious concern we have identified about the security of the card. Sound Transit will be using newer technology cards that are believed to mitigate some of the known risks. Nevertheless, in a recent letter to the CEO, the Panel recommended that an independent security analysis of the Orca card be conducted.

We urge the Board and its Finance Committee to monitor operating costs more closely in the future so that a culture of cost control and operational efficiency becomes established within the agency.

We look forward with great anticipation to the regional transit expansion of the new ST2 era. It will bring its own set of challenges and pressures as Sound Transit sets out to develop the light rail system outward in all directions and, through Sounder, REX and the System Access Program, begins to fill in the next set of connections in the region. The lessons of Sound Move will be at the forefront again and the Board will have to resist intense local pressures.

Sincerely,

CITIZEN OVERSIGHT PANEL



Richard U. Chapin
Chair

cc: Joni Earl

Citizens' Year-End 2008

Performance Report on Sound Transit

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, first, of *Sound Move*, and now, of *ST2*, the voter approved regional transit plans. The Panel prepares yearly progress reports and periodic communications to the Board as issues arise. This is the Panel's twentieth report and covers Sound Transit's performance during 2008.

Review of Sound Transit Activities in 2008

Sound Transit plans, coordinates and manages major programs to design and build capital projects. It is also growing into a multi-faceted operating agency that provides transit services to 60,000 riders every weekday and maintains dozens of facilities throughout the region. It plays a vital role as a regional coordinating body for various regional activities and supporting programs.

ST2 and Proposition 1

In November 2007, a combined roads and transit package went before the voters and failed to pass. In the aftermath the Sound Transit Board and staff went back to work to come up with a new regional transit plan that could pass muster with voters. After a great deal of effort, both on the technical side and in regional consensus-building, a new plan was adopted and passed in November 2008, with 56% of the electorate's support in the Sound Transit district.

COP members wanted especially to acknowledge the leadership of Chair Nickels who stepped forward very shortly after the failure of the first vote, to lead the Board to a new plan for the November 2008 ballot. The Board's decision process was transparent, organized and supported by the technical analysis of the staff and their immense contribution is to be congratulated as well.

Sound Move Progress

In addition to the community's strong vote of confidence in Sound Transit at the recent November ballot, the agency continued to make good progress toward completing the remaining projects of Sound Move. As with many large capital programs that take years to fulfill, circumstances have changed, costs have risen and schedules have slipped on individual projects. Nevertheless, Sound Transit met 28 out of 39 milestones that it set itself in 2008.

Capital Projects. Nine projects opened for service in 2008: two Sounder stations and seven Regional Express projects.

Ground was broken for construction of two additional projects: the Everett Station parking expansion and the South Tacoma Sounder station. The long-delayed Mountlake Terrace Freeway Station construction was issued for bid in December 2008, with bid results due in February 2009. The Star Lake Freeway Station project was cancelled by the Board after it was determined that there was no feasible project within a budget the subarea could afford.

Very significant schedule and budget risks continue for the I-90 Two-Way Transit Stages 2 and 3 projects. Sound Transit has funded its share of the projects as well as the entire current estimate for Stage 3, contingent on WSDOT's commitment to work collaboratively to manage scope. But WSDOT's \$24 million contribution to Stage 2 is currently budgeted for the 2017-2019 biennium. Funding authorization by the state is urgently needed to be moved to the current biennium as these projects are on the critical path for East Link over the I-90 bridge and they are essential to provide needed capacity during the 520 bridge reconstruction. Also, we want to highlight that WSDOT and Sound Transit must work earnestly and cooperatively over the next year to resolve the terms of the agreement for the conversion of the I-90 center roadway for use by East Link to avoid further significant risks to the I-90 Stage 2 and 3 projects and East Link light rail.

The other significant project risk is the D-to-M Street track and signal segment of the Sounder corridor in Tacoma. In December 2007, Sound Transit and the City of Tacoma agreed to a preferred alternative that included a railroad overpass and that put the project \$75 million over budget. Sound Transit was able to contribute \$25 million of that added amount; grant dollars and other funding sources must be secured to fill the shortfall. In addition to the funding gap, this project also continues to experience community expectations for betterments far beyond those in the agreed-upon project scope, with requests that exceed the already expanded budget. It is critical that the City of Tacoma identify cost reductions and cost management strategies as the key third party.

Initial Segment and Airport Link. The Initial Segment approached 95% completion as construction continued on all aspects of the project including the light rail track work, the Beacon Hill tunnel, station finishes and system elements along the entire Martin Luther King Way corridor through Tukwila to the Airport. All 35 light rail vehicles have been delivered and testing began. Preparations for passenger service included vehicle operator hiring and training and a visible campaign of safety education in the communities along the corridor.

The critical path continues to be the Beacon Hill Tunnel and Station, both civil and systems contracts. Due to project delays, Link had expended only 68% of its planned progress for the year through the third quarter. The lower than planned expenditure was primarily due to delayed access to the Beacon Hill Tunnel for follow-on systems work, and a longer period of time to resolve and settle construction disputes for civil contracts in 2008. Systems contractors have had to work side-by-side with the civil contractors on site, leading to significant coordination challenges and change orders. In recognition of some of these delays, Link has negotiated change orders with some of the systems contractors. Recently Link had to ask the Board to authorize \$7 million in additional contingency funds to address these costs. This was a proactive

measure that will allow Sound Transit to address future potential changes to critical path work. A number of unresolved claims remain and will have to be mediated before the project can be closed out.

The Airport Link baseline budget was amended in February 2008 to accommodate a refined Airport station design and associated facilities. Through the third quarter, progress was good, achieving 90% of planned budget expenditure for construction. The Airport Link project remains within budget and on schedule to open for passenger service by the end of 2009.

Despite the many challenges, Link is projected to come in within its baseline budget and the schedule continues to hold for the grand opening of Central Link on July 3, 2009 and Airport Link on December 31, 2009.

University Link. Final design and contract development advanced to 85% completion on University Link, the extension of light rail from downtown Seattle through Capitol Hill to the University of Washington. The first major construction contract for U Link went to bid in 2008 and came in well below cost estimates, a very welcome development after years of an overheated construction market. This first contract will prepare the way for the tunnel boring machine to pass under I-5 by modifying the structures beneath the freeway. The first tunneling contract is scheduled to be awarded in the second quarter of this year.

Two milestones were missed relating to U Link: the award of the \$813 million federal funding grant and the ground-breaking for U Link were both delayed from December 2008 to early 2009. Management however has stated that these delays will not affect the overall schedule. In 2008 the Federal Transit Administration asked Sound Transit to add approximately \$140 M in contingencies to the baseline budget, which grew to \$1.95 billion including financing. Offsetting the cost to Sound Transit, the FTA agreed to increase the federal grant by \$63 M. The Panel intends to monitor the contract procurement process for the next round of major capital projects and, to that end, will create a COP Capital Procurement Task Force in 2009.

Ridership Growth and Service Additions

As fuel prices peaked at over \$4.00 per gallon this past summer and with the increasing awareness of global climate change, many people began to shift their travel behavior and transit ridership soared throughout the country. The Puget Sound region was no exception and all of the region's transit agencies experienced strong ridership growth. Sound Transit's commuter rail, ST Express bus and Tacoma Link service together reached 60,000 combined weekday boardings in 2008. This represents 10% of the total three-county region's average weekday transit travel. The added capacity in the region will increase significantly in 2009 when Central Link opens for service.

Sounder service to Mukilteo Station began in 2008 and new trips were added on both the north and south Sounder segments. The added capacity was welcome in light of the continued strong growth in ridership and overcrowding on some trips. At the end of the third quarter, average Sounder weekday ridership exceeded 10,000 boardings, a 25% increase over the previous year.

ST Express bus service was added to serve two new park and ride facilities, South Everett Park and Ride and Lakewood Station. Additional buses were delivered to increase the Sound Transit fleet to 240 and bus service grew by about 15,000 hours. The regional express bus service also saw very strong growth in 2008, with average weekday boardings growing 23% over the previous year. The strongest growth occurred on the Everett-Bellevue, Lynnwood-Bellevue, and Redmond-Seattle routes.

The 2009 Service Implementation Plan proposes to address the challenge of overcrowding that has emerged on some routes through efficiencies and promoting off-peak travel times. Until new buses can be acquired under the ST2 program, ST Express is limited in the amount of new service it can provide. Addressing station access issues along especially the Sounder south corridor also continues to be a challenge for Sound Transit. A funding partnership with the City of Auburn and Pierce Transit will create the new Lakeland Hills Connector shuttle service to feed riders to the Auburn Station, which is severely constrained in its parking capacity.

Smart Card

In last year's COP report, we stated that despite challenges and delays, the Orca Smart Card project had completed its beta test phase and the electronic card reading equipment was in the process of being installed on the region's buses and at train and ferry facilities. Sound Transit management stated then that the project was on track for final rollout of the new system by the end of 2008, with full public use in early 2009.

We are disappointed to report that implementation of the new system has slipped again and is now in danger of not being ready for the start-up of light rail service in July. While the existing Puget Pass and ticket vending system can of course be used, the repeated delays in this region's program of fare integration and automation are frustrating for all involved. (Sound Transit is not the primary project manager for this project, however, it has invested at least \$2.4 million dollars and years of effort in regional coordination on the project.)

Several months ago, a COP member who has expertise in encryption technology identified a potentially serious concern with the security of the Smart Card transaction protocols and urged that an independent review be conducted. In at least two other cities that use these contactless cards, security vulnerabilities were discovered which caused both financial losses and significant public embarrassment and loss of confidence. Sound Transit will be using newer technology cards that are believed to mitigate some of the known risks, but the Panel has sent a letter to the Sound Transit CEO urging that this independent review be conducted as soon as possible. We bring this matter to the Board's attention in hopes that by the time this report is released, the review will have been authorized and initiated.

Lessons Learned

COP has long been observing Sound Transit's recovery from its past mistakes through learning and incorporating new practices. We reported to you last year that we had formed a Lessons Learned task force to examine how well individual project lessons are being disseminated agency-wide. We said we would report to the Board on what we found.

A formal Lessons Learned program has now been institutionalized at Sound Transit. Staff throughout the agency are able to propose Lessons to a program coordinator who convenes interdisciplinary teams to review and summarize the Lessons identified. The Lessons are written up and made available agency-wide in an internal data base. We have been briefed on and have reviewed Lessons in the real estate, facility design and facility maintenance areas. Recently COP asked for an update on how many Lessons have been completed and posted to the system. We applaud Sound Transit for this program and hope that the posted Lessons are in fact regularly reviewed by project managers and other staff who may be new to the agency or to a particular subject matter. We believe that there will always be a tension between the formal program and actual learning unless continuing program efforts are made to disseminate the Lessons to people who may be unfamiliar with Sound Transit's history.

Finances and Financial Accountability

The economy in the Puget Sound region began to slow in the middle of last year and the financial market crisis in the fall then led to a decline in consumption, business activity, employment and tax revenues for many governments. Sound Transit was not spared the impact of the slowdown and the credit crisis. Fortunately, the agency has healthy cash reserves (about \$400 million at the end of Q3 2008) and has not had to go to the markets to issue bonds in this very unfavorable credit climate. A number of risks did emerge that affected Sound Transit:

- Insurer AIG was downgraded in September, triggering changes in payment terms on a private lease-equity transaction Sound Transit had entered into. Sound Transit is now working to meet its obligations under the agreements. If the transaction were to default, the agency could potentially incur a significant liability.
- The King County Investment Pool, where Sound Transit invests some of its cash, experienced a number of impaired investments and there was some loss of principal involved. Sound Transit took a write-down of \$265,000 due to the impairment.
- The Lehman Brothers bankruptcy in September affected the debt service reserve fund on Sound Transit's 2005 bonds but no principal was at risk.

Also, sales tax revenues began to decline last summer and by October were down 2.2 % vs. budget. While the revenue decline is not immediately threatening to the agency's financial capacity, COP members are concerned about the longer term impacts to the 25-year finance plan for ST2. Overall, Sound Transit's financial policies and financial management have protected the agency against some of the poor decisions that severely affected other municipalities last year.

Due to some significant errors, thousands of individuals outside the district were incorrectly charged the motor vehicle excise tax. Sound Transit has agreed to refund the incorrectly collected taxes to the tune of about \$3 million.

Sound Transit received a clean independent financial audit for the tenth consecutive year in 2008. The annual review of adherence to subarea equity procedures was also conducted and found to be in compliance with all written policies. Beginning with the adoption of ST2, the

staff recommended and the Sound Transit Board adopted streamlined financial policies relating to subarea tracking. COP supported these new policies which significantly simplify accounting procedures by no longer tracking subarea allocations at the transaction level. Subarea monitoring will now reside at the project level and revenue and expenditures will be certified to be in subarea compliance annually and at project close-out.

COP Concerns about Operating Costs

This Panel has expressed concerns about cost growth in transit operations for several years. With the 2009 budget, this concern now extends to other areas of the agency. Costs in virtually every area of Sound Transit operations continue to experience significant growth. The 2009 staff operating budget is increasing 7.9% over the previous year's budget, but 17% over 2008 forecasted actuals. These increases account for the start-up of Central Link and additional service on Sounder and ST Express, but are before any additions required by the newly adopted ST2 plan. It is not clear to us and recent budget presentations have not provided detailed information on what share of cost growth is attributable to service growth and what share is in base agency operations. COP members are very concerned about the rapid increases in expenses and have agreed to form a task force this year to delve into the underlying reasons.

A related issue we have identified and bring to the Board's attention with this report is what appears to be a need for tighter budget development and management. For several budget cycles we have observed that budgeted figures are more generous than reported actual spending in some categories, however, subsequent budgets do not appear to take the lower spending into account. In an environment where cost control should be a high priority, under-spending would appear to be a signal for lower, not higher, budgets in subsequent years. We believe that this practice makes it more difficult to determine the actual level of underlying cost growth.

We have also observed that some recommendations have been made to the Board about the need for various new operating practices. We believe there is a need for more detailed policy analysis or budget analysis to back up such proposals. Especially as budgets will be amended and will grow significantly this year for the startup of ST2, we urge that the Board require much more rigorous analysis and public discussion of operating practices. We are concerned that a number of new operating programs are being created that have not been scrutinized in-depth by the Board. Examples include the transit security program, the creation of an in-house ticket vending management program, and a significant increase in the agency's in-house facility maintenance staff. We identify questions we have about these operating areas below.

Agency Operating Costs

Sound Transit operating costs are proposed to grow 7.9% in 2009 over last year's budget, to \$65.4 million. These costs include salaries and benefits for 394 employees, services, materials and supplies, leases and rentals, utilities, insurance, and depreciation. This proposed budget was developed before ST2 was passed and at a time when the agency was in a state of uncertainty about whether it would be developing any new capital projects or adding services. The budget includes 22 new staff positions, 18 of which are in transportation services. The 7.9% increase is

on top of last year's 5.8% increase and represents acceleration over previous years, when agency costs were growing more slowly.

	Operating Budget	Change over Previous Year
2009	\$65,379,167	7.9%
2008	\$60,611,651	5.8%
2007	\$57,288,696	3.3%
2006	\$55,453,365	1.5%
2005	\$54,607,147	2.2%
2004	\$53,430,797	
Source: Sound Transit Budgets		

In addition to the accelerating cost growth, we note that over several budget cycles, staff budgets appear to have cushions of 11% to 16% compared to actual spending. While it is laudable that the agency is able to manage with less than budgeted, the recurring pattern would seem to indicate that budgets are inflated and are less than effective as a cost control tool.

	Budget	Estimated/Actual Spending	Difference
2008	60,611,651	58,425,092	-3.7%
2007	57,288,696	51,244,930	-11.8%
2006	55,453,365	47,642,230	-16.4%
2005	54,607,147	48,774,931	-12.0%
2004	53,430,797	47,615,021	-10.9%
Source: Sound Transit Budgets			

Transit Operating Costs

In addition to the start-up of Central Link, many cost areas of transit operations are increasing at rates that COP believes warrant close Board attention.

As the Sound Move capital program has been winding toward completion, an ever-increasing share of Sound Transit's agency effort has moved to becoming an operating entity rather than a capital program. (This will shift back toward capital again with the passage of ST2.) This shift is especially apparent in 2009 as Central Link begins operation and as Sounder and ST Express reach full Sound Move build-out. An increasing share of agency overhead is being allocated to transit operations in 2009. Two operating functions (facilities maintenance and TVM management) are growing significantly, one because an out-sourced function is coming in-house and the other because of significant staff additions as the number of facilities increases. The start-up of Central Link will drive the creation of a new professional transit police force and more than double the cost of transit security. Overall, the fully allocated agency transit operations budget is projected to jump 38% to \$155 million in 2009 (2008 estimated actuals vs. 2009 budget). Not including the costs of the new Central Link operation, the increase will be

16%. Again, COP members believe it has not been made clear how much of the cost growth is attributable to new service and how much to increases in base costs.

ST Express operating costs. ST Express fully allocated operating and maintenance costs are projected to increase 27% to \$90 million in 2009 over the 2008 estimate. Purchased transportation costs are rising 19% over last year's estimate, based on only 8% more platform hours delivered. Agency administrative costs allocated to ST Express are going up 32%. The current 2009 forecast indicates a blended rate of \$137.70 per full Sound Transit platform hour compared to \$129.35 last year. This cost is up 6.4% on top of last year's 13.6%.

The good news for Sound Transit's bus program is that because ridership is projected to grow a very healthy 18%, the cost per boarding is estimated to decline to \$6.79 (a reduction of 2.6%). If the rising unemployment figures in the region dampen this estimated ridership growth, this indicator, too, will be negative.

COP has reported repeatedly on what we view as the unsustainable growth in operating costs of Sound Transit's bus service. This year's increases continue the trend. ST Express bus service is operated under purchased transportation agreements with the three local transit agency partners, King County Metro, Pierce Transit and Community Transit. Sound Transit's own overhead costs are added to the negotiated hourly rates charged by the partners.

In 2009 the current multi-year agreements with the partner agencies expire and must be renegotiated. Staff have briefed the Board on the obstacles to pursuing business models other than the sole source, negotiated contracts with the other public transit agencies. The absence of maintenance base capacity in the region is a primary obstacle and one reason why Sound Transit has few other options. As a result of sales tax declines, the three transit partners are experiencing revenue shortfalls, and there may be pressure on Sound Transit to renew the agreements at terms favorable to the other agencies. We urge the Board, many of whose members serve on the Boards of Metro, Pierce and Community Transit, to work toward a regional strategy for cost containment in transit operations.

Souder operating and maintenance costs. Souder operating costs are the one bright light in the Sound Transit cost picture. Despite added trips and 25% growth in vehicle hours to be delivered this coming year, fully allocated operating costs are projected to increase only 19% over the 2008 estimate. That is because the structure of the operating agreement with BNSF was front-loaded with higher per hour and per mile costs during the capital improvement phase, and now that construction is complete, the unit costs are coming down. The cost per hour is estimated to decrease 6.4% in 2009. Since ridership is projected to continue to grow at a very strong rate, the cost per boarding is estimated to decline 13% to \$11.84.

However, agency costs and maintenance costs for Souder are not as reassuring. Souder salaries and benefits will jump 120% next year as facility maintenance is increased and TVM management is brought in-house. While Sound Transit states that there will be a corresponding decrease in contracted service, 2009 will be a transitional year and there will be overlap between contracted work and the work done by in-house staff. Allocated agency administration is

increasing 49%. Security costs on Sounder are going up 35%. These increases are expressed in comparison to 2008 estimates.

Performed under agreement by Amtrak at its Holgate Yard maintenance facility, Sounder vehicle maintenance is increasing 16%, in part as a result of added vehicle trips. At its May 2008 meeting, the Transit Operations Task Force was briefed on the status of the Amtrak maintenance contract. Staff explained that the Amtrak vehicle maintenance cost per vehicle mile was \$10.21 (2006 dollars), compared to rates ranging from \$1.36 to \$6.72 at comparable peer agencies. Sound Transit is projecting at full build-out to pay twice as much per mile for Sounder maintenance as the average of other agencies. Part of the reason for this unfavorable arrangement is the fact that, at the time of Sounder implementation, there was only one vendor, Amtrak, that had the capacity to provide vehicle maintenance. The existing contract with Amtrak continues after the initial ten years (at the end of 2009) unless one of the parties gives notice to terminate. Sound Transit is in the process of re-negotiating its terms for an interim period. Within a few years, it is hoped, Sound Transit will be able to build its own Sounder maintenance facility and then will have the option to procure the service competitively or bring it in-house at more favorable terms.

Tacoma Link operating costs. Despite flat service levels, the fully allocated transit operating costs will go up 28% over the estimated 2008 cost. Tacoma Link operating employees negotiated a labor agreement with Sound Transit in 2008 with new-hire light rail vehicle operators paid \$18.93 per hour in the first year of the contract. The agency is also adding an operations and maintenance supervisor to the Tacoma Link staff. As a result, salaries and benefits will go up 33% to \$1.8 million. One position will be shared with Central Link, bringing this increase down somewhat. The other single largest increase is in allocated agency administrative costs which are rising 66% over last year.

Tacoma Link is now a maturing service after more than five years in operation. It is operated directly by Sound Transit and does not have the constraints of limited base capacity and partner cost structures that affect the other modes. Service hours are being reduced slightly in 2009 and ridership is projected to be flat or to decline. The cost per boarding is estimated to jump to \$4.80 in 2009, an increase of 29%. This development is extremely worrisome to members of the Panel.

Central Link operating costs. The 2009 budget to operate and maintain Link is \$22 million, based on six months of operation. Link is projected to cost \$346 per service hour and \$7.33 per boarding in its first six months. Sound Transit has established a number of peer agencies for cost comparison purposes and the Initial Segment of Link is in the most expensive half of the peer group.

Transit security. In 2008 Transit Operations staff sought the Board's approval to create a dedicated transit police force comprised of a mix of private security guards and commissioned law enforcement officers. Contracts were executed with Securitas in the amount of \$14 million over five years for private security to patrol Sounder and ST Express buses, stations and transit centers, and the King County Sheriff's Office for \$16.8 M over five years for armed deputies to patrol primarily Central Link trains but also other facilities that experience a high rate of criminal

incidents. The total agency costs for safety and security were estimated to be \$3.3 M in 2008 with a proposed 82% increase to \$6 M in 2009.

In the past, the Sound Transit Board has opted for a policy direction that preferred unarmed, private security guards for most ST routes and facilities. This policy was prudent, as law enforcement officers cost three times as much per hour as security guards do, and as most typical bus and commuter rail transit tends to experience fairly low levels of nuisance incidents, but not much real criminal activity. In anticipation of the start-up of Central Link, security staff recommended that some law enforcement would be appropriate and necessary, as the Link corridor runs through central and south Seattle, among the highest crime areas of the region. Additionally, several transit facilities and parking garages in South King County, notably Auburn, Kent and Federal Way, had experienced a spike in incidents that local police could not always respond to promptly.

The adopted security plan for the law enforcement contract includes a transit police chief, six sergeants and 28 officers (4 for Sounder and 19 for Central Link). The plan for the security guards calls for about 56 guards and 15 other personnel including dispatchers and supervisors. The stated goals of the security plan are to provide a safe, secure and comfortable environment for customers, employees and the general public through prevention, deterrence, detection and response.

The Panel applauds these goals and agrees that a safe and comfortable transit environment is important. However, our members were concerned to observe that no policy alternatives were presented to the Board for consideration. The security plan was proposed as a contract approval and was adopted without any discussion of how the combination of guards and officers was arrived at. COP felt that the plan appeared to lean toward a very rich mixture of costly services and believed the Board, if asked, might have opted to direct a leaner alternative. We urge the Board to monitor the need for these costly security services by requesting regular reports on crime statistics and incidents at Sound Transit facilities and the costs of essential security services.

Facility maintenance costs. By the end of 2009, Sound Transit will be maintaining 45 facilities throughout the region, including commuter rail and light rail stations, park and ride facilities, transit centers, two O&M bases, and the Union Station headquarters. All of these facilities require regular janitorial and landscaping services, routine maintenance of mechanical systems as well as technical services for systems inspections, testing and repairs. Performing these services requires about 100 vendor contracts and the staff to manage them. In last year's report, COP noted that the FTA in its Triennial Review conducted a review of Sound Transit compliance with all FTA regulations related to operations and maintenance and had one finding related to the facility maintenance plan and that the agency was working on improvements.

Facility maintenance services for Tacoma Link, Sounder and Regional Express are budgeted to grow from \$1.8 M last year to \$2.2 M in 2009. To this 20% increase, the budget proposes to add seven full-time facility field specialists who will manage the vendor contracts, issue work orders and oversee contractor work. The current staffing plan of 12 FTEs will grow to 19. In addition,

more than \$1 M is being added to the contracted service budget for facility and way maintenance of Central Link.

This is another example of a growing operating area that we encourage the Board to ask staff for a thorough public briefing. As Sound Transit completes more projects each year, it must operate and maintain the facilities going forward, further adding to ongoing costs. COP believes the Board should request more detailed analysis and periodic reports on how many facilities are under the agency's ownership, what typical costs are to operate and maintain them, how Sound Transit's costs compare to other agencies' costs and what alternatives exist to manage these costs.

TVM Maintenance costs. To date, only Sounder has used ticket vending machines; starting in 2009 Central Link will use them as well. The agency will go from 32 to 85 machines. In the past, Sound Transit has used contracted vendors to manage the cash from the TVMs and maintain the machines. In 2008 these contracts cost an estimated \$700,000. Beginning this year, the software management and mechanical maintenance of the TVMs is being brought in-house, with 7.5 FTEs added to staff. While Sound Transit staff concluded that this change was justified, Panel members have not seen the case made. We have questions about the analysis that was prepared in support of the move to in-house TVM management: What is the average cost per machine under the contracted and in-house approaches? Were flexibility and future technologies considered as factors in the decision? COP encourages the Board to continue to ask these and other questions when approving large new staffing commitments.

Transit Operations Task Force. In recognition of these concerning trends, the Board in 2008 created a Transit Operations Task Force which began meeting in April. The Task Force has reviewed ST Express O&M trends and issues; maintenance base capacity and cost issues for bus and rail; fleet composition; and parking capacity and facilities. In December the Board directed Sound Transit staff to present proposals for operational cost containment and efficiency measures based on recommendations from the Task Force by June 30, 2009. COP had hopes that the Transit Operations Task Force would yield improved efficiency strategies in cost control. While the Task Force has engaged in a thorough review of key operational issues it has yet to adopt new strategies or approaches in this area. An even more focused effort will be needed to delve more deeply into some of the identified issues and to develop potential cost control proposals.

COP has been very interested in the work of the Task Force and is anticipating its possible policy guidance in 2009, especially in light of the expiring service agreements with Community Transit, King County Metro, Pierce Transit and Amtrak at the end of the coming year. As these agreements are up for re-negotiation, the Task Force has the opportunity to signal its intent that Sound Transit has a serious commitment to containing costs in the future. While various factors limit Sound Transit's ability to terminate the existing business model arrangements in the short term, in the longer term, it is in the interests of all of the region's transit providers to work together to reduce or even reverse the rate of cost growth. Demand is rising sharply for transit services, and with constrained resources, transit will have to be delivered in more cost-effective ways.

In the private sector, competition and economic forces (such as the current downturn) provide continuous pressure to be more cost-effective, to improve business practices and to increase productivity. Government can be somewhat insulated from these pressures but, especially in the current environment of increasing demand and economic slowdown, policymakers must grapple with the inescapable fact that out-of-control cost growth is unsustainable.

At this intersection between the Sound Move era and the ST2 era, Sound Transit is moving into a new stage as an organization. On the one hand, it will now be a mature, professional operating entity that must develop best-practice operational systems; on the other hand, it will move again into the creative, exciting early stages of a new capital program. Sound Transit should strive to do both well.

The Panel strongly encourages the Task Force and the Board to be fearless in airing the full range of factors affecting operating and maintenance costs. The Task Force should invite its transit partners to a public discussion of how each agency can contribute to cost control. And, Sound Transit should lead a regional effort by adopting policies that encourage cost containment in every area, and as a last resort, authorize staff to sever existing agreements if Sound Transit could operate more cost-effectively under a different model.

COP Thoughts on System Expansion

As it moves into the heady new ST2 era, Sound Transit faces great opportunities but also great challenges. The opportunities are to exert leadership and creativity in planning, design and regional collaboration. The challenges are to overcome obstacles and parochial interests, in a constrained economic environment, and with community expectations that always exceed available budgets.

East Link. This fall, COP members heard a presentation on the City of Bellevue's vision for the Bel-Red corridor. We were impressed with the very thoughtful and detailed visioning process, technical work and integrated plan that has emerged. Sound Transit's proposed East Link alignment is the vital centerpiece of the vision. The City and Sound Transit are largely in agreement on an urban center concept that will transform this former sprawling warehouse district into a dense, pedestrian and transit-friendly mixed-use activity center. The Panel has identified several concerns about the East Link planning to date:

- The first concern addresses the perceived potential impacts of possibly selecting an unfunded underground alignment under the Bellevue CBD as a preferred alternative. Even if additional funding (other than that potentially provided by Bellevue itself) were to become available for the benefit of the Eastside subarea, we urge the Board to maintain a regional perspective in determining its application.
- The second concerns the segment from downtown Bellevue to Overlake. We note that the new NE 16th Street corridor in the Bel-Red segment, which the City of Bellevue has identified as its preferred alignment, would require the acquisition of extensive new right-of-way. We hope that Sound Transit will be able to stand firm in its assumption that

selection of the NE 16th route would occur with contributions of local or developer funding of the needed right-of-way.

- Lastly, we are concerned about the close proximity to each other of the two proposed stations within the Bel-Red corridor. Given the planned high-density development of this segment into an urban activity center, it is prudent to identify locations for these stations. However, the current under-developed state of the corridor and the economic recession and real estate slump would indicate great caution in committing to actual station construction until development plans are more real.

System Access Program. Finally, the Panel anticipates with great interest the development of the ST2 System Access Program. This \$75 million fund is intended to meet needs for connections, station access, parking and feeder services where there are gaps in connectivity among transit modes and facilities. Sound Transit proposes to work with individual communities to design the most effective uses of these funds based on regional transit needs and local preferences. The program will also present new opportunities for collaboration with other transit agencies in the region. Panel members have agreed to create a COP Task Force on Transit Integration later this year to look into existing regional coordination efforts and potential future improvements.

Unlike the Sound Move “Community Connections” program which allocated fixed sums of money with little policy direction or scoping, this new program is expected to be flexible and guided by strong transit principles. It is hoped that the Sound Transit adopted scope control policy will be effective in guiding the planners to distinguish between transit facilities and services, on the one hand, and community amenities that should be paid for by communities themselves, on the other.

As ST2 gears up in its planning and design phase for the new projects, the Sound Transit Board will face many pressures to give in to local jurisdictions’ wish lists. The lessons of Sound Move will be at the forefront again as the Board will have to resist these pressures, think regionally and be guided by the vision of a mobile, connected, thriving three-county region.