



April 25, 2019

Sound Transit Board
The Honorable John Marchione, Chair
401 South Jackson Street
Seattle, WA 98104

Re: Citizen Oversight Panel 2018 Year-End Report

Dear Chair Marchione:

This is the 22nd year that the Citizen Oversight Panel (COP) has reported our current assessment of Sound Transit's performance to the Board and the public. The COP appreciates the opportunity to express its insights and the seriousness with which the Board takes our recommendations. This report covers two areas: first we highlight several of the many accomplishments achieved by the Agency in 2018, and second, we note issues of concern to the COP.

The COP's authorizing legislation requires that it monitor seven major areas of the Agency's performance:

- Sound Transit's adherence to its public commitments
- The open and timely involvement of citizen in the Sound Transit district in decisions affecting local communities and the district as a whole
- The process of evaluating project alternatives
- The capital and operating budgets and finance plans
- Equity in subarea budgets and reporting
- Discipline in management of schedules and budgets
- Review of Agency performance audits

For 2018, the COP has found that the Agency is in substantial compliance in all of these areas.

Major Accomplishments

System Expansion Implementation Plan

The Agency's System Expansion Implementation Plan (SEIP), developed in 2017 to facilitate all phases of ST3 project delivery, continues to yield significant positive results. Four Elected Leadership Groups (ELGs) have been created across the region, comprised of Board members and other officials representing

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diverse constituencies, who work together with Stakeholder Advisory Groups (SAG) to build consensus earlier in the environmental process and thereby reduce the number of alternatives to study. The SEIP process for the Ballard and West Seattle Link extensions has resulted in much higher community involvement than for previous capital projects.

Board Reorganization and Agency Mission

The Board and Agency undertook steps in 2018 to realign and modernize Sound Transit's processes as it undertakes build out of the largest transit program currently underway in the country. The Agency issued a new mission statement, "We are connecting more people to more places," and a refreshed set of core values: collaboration, customer focus, inclusion and respect, integrity, quality and safety.

The Board increased the threshold for procurement and budget actions that it considers, to up to \$2 million in operating expenses and \$5 million for capital expenditures. This step will allow the staff to bring fewer small procurement actions to the Board, freeing up its time for more focused engagement of policy and project planning. The Board also reorganized its committee structure to strengthen its oversight of the Agency's finances. The Audit and Reporting Committee, which met quarterly, was replaced with a Finance and Audit Committee that will meet bi-monthly beginning February 21, 2019, and will continue to oversee all internal and external auditing processes. Adjustments to the Operations Committee were also made to refocus on the customer experience and system enhancement.

Full Funding Grant Agreement for Lynnwood Link Extension

On December 20, 2018, the Federal Transit Administration (FTA) executed a \$1.17 billion Full Funding Grant Agreement (FFGA) for the Lynnwood Link Extension and a \$658 million low-interest loan for the project facilitated through the Transportation Infrastructure Finance and Innovation Act (TIFIA). This long-awaited agreement is particularly significant in light of uncertainties surrounding the future of the FTA's Capital Investment Grants program (CIG), the federal funding source for major transit investments throughout the country.

East Link and Northgate Link Tunnels

Tunnel excavation between the East Main and Downtown Bellevue Link stations was completed in 15 months, five months earlier than planned. The tunnel will open in 2023 with the rest of the East Link Extension. The 3.5-mile Northgate Link tunnel was selected as 2018's "Tunnel Achievement" of the year by *Tunnel Business Magazine*.

The COP also notes and commends the Agency's swift action to make design modifications to construction currently underway at the Northgate Station, where public stairways are being added to provide redundancy to escalators in response to conveyance issues at the University and Capitol Hill Link stations.

Pareto Award

Sound Transit received the Pareto Award of Excellence from the Institute of Public Procurement, its highest level of peer recognition and accreditation. The Agency is one of only three in the nation that currently holds the award, for practices that are fair and cost-effective and thus ensure that taxpayers are receiving the best value for their tax dollars.

Bond Ratings

Sound Transit continues to maintain notably high bond ratings, including Standard & Poor's highest rating, AAA, for all of the Agency's bonds.

Staffing

Sound Transit made significant, strategic investments in personnel in 2018, including the creation of an Office of Equal Employment Opportunity (EEO), Equity, and Inclusion, the hiring of a Chief Customer Experience Officer, and the addition of 235 new employees, representing a 17 percent rate of growth. By 2023, staff is expected to have grown by 60 percent since the passage of ST3. The Agency's fundamental commitment to continuous process improvement and knowledge transfer will help attract and retain the high quality, rapidly expanding workforce that will be responsible for the Agency's future success.

Communications and Public Involvement

The COP is specifically tasked with assessing Sound Transit's public involvement process, which the Agency performs particularly well. As part of its SEIP, Sound Transit is taking additional steps to engage stakeholders earlier and more often in the environmental process. Historically underrepresented communities along project corridors are a particular focus of outreach efforts conducted consistent with the principles of the City of Seattle's Race and Justice Initiative and Executive Order 2017-13. Strategies include conducting interviews with social service providers in the area, utilizing translators at public meetings, holding smaller meetings focused on individual communities, and meeting communities where they gather, such as in churches, community centers and individual homes. These efforts have already resulted in record levels of public involvement in the development of the West Seattle and Ballard Link extension projects.

Areas of Concern

Adequacy and Appropriateness of System Access and Awareness of Emerging Technologies

This was an item of concern in last year's COP Year End Report. We subsequently convened a task force to study a number of issues related to this topic in more detail. The task force's work is not yet complete and is currently awaiting the findings and recommendations of the Transit System Access Strategic Plan consultant's study, which is underway. A final report from the task force is anticipated later this year.

Ridership on Sounder North

For the past several years the COP has expressed concern about the relatively low ridership and high cost per rider on Sounder North. Ridership at the end of the third quarter of 2018 had decreased by over 11 percent since the same period in 2017, which in turn had shown a decrease of almost ten percent over the same period in 2016.

The COP recognizes the Agency's long-term investment in Sounder North and the loyalty its riders have for the service. However, the significant decline in ridership over the past two years is a worrisome trend. The COP recommends that the Agency focus on additional parking and other station access improvements identified in ST3 as an avenue to alleviate some of the current access challenges and to help facilitate growth in ridership.

Asset Management

The COP notes that Sound Transit has completed a Transit Asset Management (TAM) Plan consistent with FTA requirements. In addition, the Agency's Long-Range Financial Plan (LRFP) provides for the repair and replacement of key operating assets through long range models based on generally-accepted principles for the useful life of transit facilities and equipment. The LRFP also includes a \$300 million capital reserve fund dedicated exclusively for asset management, which is assumed to cover 100 percent of replacement costs.

We understand that Sound Transit has an ambitious work plan for the coming year to upgrade its asset management processes, and is hiring additional staff for this purpose. We recommend that Sound Transit as a next step develop a quantitative summary of the status, condition and changes in condition of its infrastructure and rolling stock by major subsystem (e.g. track, bridges, stations, power distribution, etc.) and vehicle class and routinely report its findings on a public-facing web page.

Federal and State Funding Sources

Sound Transit is well aware that two significant sources of funding identified in ST3 remain at risk of being reduced or eliminated. As previously noted, the future of the FTA's capital grants program is uncertain. While completion of the Lynnwood Link Extension FFGA is a milestone, ST3 financing assumptions include almost \$4 billion in additional CIG funds for the Federal Way and Tacoma Link Extension projects. Without these funds, timely completion of two major projects of particular importance to the South King and Pierce County subareas would almost certainly be delayed.

Initiative 976, if approved by voters in 2019, would reduce the statewide Motor Vehicle Excise Tax (MVET) to \$30 per car, and gravely threaten the Agency's ability to complete ST3 as planned. Early analysis by Agency staff indicates that if the initiative were enacted, enforced and feasible to implement, the fiscal impact to Sound Transit would be approximately \$20 billion through the 2041 planned completion of voter approved projects. The initiative greatly reduces resources available for transit expansions and seeks to require Sound Transit to collect and divert taxes from completing projects to retire debt early. Although the COP has no specific recommendations around these issues, they are subjects we will continue to watch closely.

Formalized, Early Identification/Evaluation Process for Alignment Options that Could Necessitate Local Funding

As the planning teams are working through the SEIP process, they are identifying different alignment and station options as prescribed. However, some of the options identified are noted as being significantly over budget and thus would require additional, local funding. The COP recommends that the Agency develop a formalized process that would be implemented as soon as these over-budget options are identified. This process would establish a timeline and steps that the impacted municipalities, Port of Seattle and other agencies must take in the course of identifying and committing additional funding for over-budget options selected to proceed. This process would also make clear that failure to abide by its requirements would impact project delivery timelines.

Social Equity

Sound Transit has incorporated the concept of social equity as a core principle of ST3. The Agency is committed to equity and inclusion as it engages historically underrepresented communities along project corridors. A joint effort with the City of Seattle to develop a Race Equity Toolkit is expected to include enhanced mobility and access, opportunities for equitable development, avoidance of adverse impacts, and meaningful involvement for communities of color and low-income. In April, 2018, the Board adopted an updated transit-oriented development policy (TOD) that includes equity as a component. Equitable TODs will continue to focus urban growth at transit centers while increasing housing access and social and economic opportunities for disadvantaged communities. Again, the COP has no specific recommendations for the Board on this issue, but wishes to emphasize the importance of it as one of Sound Transit's core principles.

Conclusion

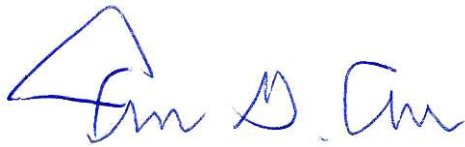
In 2019, construction will accelerate on the East and Northgate Link extensions and design work will proceed on ST3, the largest program of its kind in the United States. Sound Transit's continued emphasis

on hiring, training and retaining a skilled workforce will assure that it has the resources necessary to successfully complete these projects. A formalized process for identifying alignment options that require additional local funding would help manage community expectations. Uncertainty about the reliability of state and federal funding sources, labor shortages, and project cost escalation remain concerns.

The leadership and vision of Sound Transit's executive team is instrumental in guiding the Agency through this crucial period in the region's history. Early work under the SEIP process has resulted in record levels of public involvement on the West Seattle and Ballard Link extensions. Ridership on all modes is expected to reach record levels in 2019. The COP commends the appointments of Ron Lewis as Director, Department of Design, Engineering and Construction, and Tracy Butler as Chief Financial Officer. The COP interacts frequently with these and other staff members and appreciates their consistent candor and professionalism.

Sincerely,

CITIZEN OVERSIGHT PANEL

A handwritten signature in blue ink, appearing to read 'Fred Auch', with a stylized flourish above the first name.

Fred Auch,
Chair

c: Peter M. Rogoff, CEO
Citizen Oversight Panel