

BOARD WORKSHOP ON ORGANIZING FOR SYSTEM EXPANSION

Summary Minutes**May 4, 2018**

CALL TO ORDER

The workshop was called to order at 1:37 p.m. by Chair Dave Somers, in the Holland America Line Room, World Trade Center, 2200 Alaskan Way, Seattle, Washington

BOARD MEMBERS PRESENT

Chair

(P) *Dave Somers, Snohomish County Executive*

Vice Chairs

(A) *John Marchione, City of Redmond Mayor*

(P) *Ron Lucas, City of Steilacoom Mayor*

Board Members

(P) *Nancy Backus, City of Auburn Mayor*

(P) *David Baker, City of Kenmore Mayor*

(P) *Claudia Balducci, King County Councilmember*

(P) *Dow Constantine, King County Executive*

(A) *Bruce Dammeier, Pierce County Executive*

(A) *Jenny Durkan, Seattle Mayor*

(P) *Dave Earling, City of Edmonds Mayor*

(A) *Rob Johnson, Seattle Councilmember*

(A) *Kent Keel, City of University Place Mayor*

(P) *Joe McDermott, King County Council Chair*

(P) *Roger Millar, WSDOT Secretary*

(P) *Paul Roberts, Everett Councilmember*

(A) *Dave Upthegrove, King County Councilmember*

(A) *Peter von Reichbauer, King County*

Councilmember

(P) *Victoria Woodards, City of Tacoma Mayor*

WELCOME AND INTRODUCTIONS

Chair Dave Somers welcomed the Board and stated that the purpose of the workshop was to discuss board organization for the successful implementation of the Sound Transit system expansion program. He noted that Boardmember Roberts would be participating in the workshop by phone.

Chair Somers introduced the workshop facilitator, David Knowles. Mr. Knowles has 25 years of experience in planning and policy making for transit agencies. He has a broad-based perspective on public agency challenges from his work as a consultant; former Director of Planning for the City of Portland, Oregon; and two-term elected councilor at Metro, Portland's regional government.

MEETING PURPOSE AND DESIRED OUTCOMES

Chair Somers stated that Sound Transit is undertaking an ambitious effort to build a transformative mass transit system for the Puget Sound Region. To accomplish its mission of building out the voter-approved ST2 and ST3 plans, Sound Transit must reform the way it does business to ensure projects are being built on time and within budget. Sound Transit must also adopt internal reforms to maintain a focus on excellent customer service and project delivery.

Chair Somers stated that over the past year, he has met with board members to look at the board's existing processes in light of the changes brought on by the passage of ST3. Three of the themes that emerged during those conversations will be discussed during the workshop. Those themes are the work ahead over the next five years, organizing the board's committees to handle the work, and looking at ways to rebalance the board's workload and approval levels.

Chair Somers said that Mr. Rogoff would be presenting a five-year outlook so that board members are fully cognizant of the work ahead while discussing changes to board committees and how to balance

the board's workload and oversight role. Board member involvement in this effort is crucial for maintaining public support and regional unity. His goal is to give the board the necessary tools to ensure appropriate oversight and to maintain positive strategic direction.

By the end of the day, the desired outcomes will be solid direction to staff on changes to the board committee structure and changes to the delegations of board, committee, and executive oversight that will allow both oversight and guidance in all important strategic areas and improved efficiencies for day-to-day agency business. There will be no action taken at the workshop.

FIVE-YEAR OUTLOOK

Peter Rogoff, CEO, provided an overview of future challenges and opportunities during the next five years.

Leadership on Project Development

The System Expansion Implementation Plan will seek to shorten project delivery times. This will only be possible through assistance from the board by establishing trust with municipalities, tribes, and stakeholders; driving to a preferred alternative earlier while maintaining project scope discipline; and executing partnering agreements that will allow environmental review and permitting processes to be streamlined. Major project decisions are coming to the board faster than ever before and will require board member knowledge of project details regarding preferred alternatives.

Vice Chair Lucas asked staff to look at the possibility of board members having alternates at the meetings.

Capital Project Delivery

Decisions about project alignments will be coming to the Board in rapid succession, with several large project alignments being selected within months of each other.

The board will be asked for assistance with determining the feasibility and efficacy of possible public-private partnerships (P3). Possible benefits to P3s could include financing, community acceptance, agency bandwidth, and contractor performance and management. Potential P3 projects could include I-405 and SR 522 bus rapid transit, the ST2 bus base, and the South Kirkland-Issaquah Link.

There will need to be board deliberation and decisions made around several other large issues including managing the agency's relationships with the Washington State Department of Transportation (WSDOT), mitigating workforce shortages, promoting local hiring, and advancing and prioritizing diversity for the Sound Transit workforce.

Chair Somers asked how P3 would work with subarea enhancements. Mr. Rogoff stated that P3 might provide opportunities to expedite projects sooner. Where there is a subarea equity challenge for financing, it is possible that Sound Transit will find a financial partnership to speed up the work.

Operations Business Model

Sound Transit will need the right operations business model to meet growing demand. Decisions will include who is operating Sound Transit services and managing and protecting the Sound Transit brand.

Significant light rail expansion may require a different operating and maintenance model with the expansion into Pierce and Snohomish Counties. With ownership of the Downtown Seattle Transit

Tunnel (DSTT), operations and maintenance will either be transferred to Sound Transit or the agency will contract with King County Metro.

As more light rail goes into operation, there will be discussions surrounding existing ST Express bus service. Questions include whether demand for bus service will decline as light rail is expanded, or whether both systems will remain at capacity and face crowding issues. There will be decisions around bus base and bus contracting expansion and whether to pay for partner bus base expansions or build capacity for Sound Transit buses.

New Policy Directions

Equitable transit oriented development (TOD) is becoming an ongoing board responsibility. TOD transactions will continue coming to the board with an increase outside of the City of Seattle. Decisions will need to be made about partnering with public housing authorities; opportunities to support community TOD within a half mile of the stations; and structure, goals, and governance of the new TOD revolving fund.

There will be board direction needed on the issue of paid parking and parking permitting, specifically on the cost and percent utilization of paid parking in existing facilities and the parking allotted for single occupancy drivers.

Future policy questions include issues with the System Access Fund as it currently exists and how to divide those resources, developing a process for subarea equity, and determining the agency's approach to ridesharing. They also include sustainability issues including battery-operated vehicles, the acquisition and possible change to double-decker vehicles, and reviewing opportunities for electricity needs and how to keep operations within sustainability goals.

Enhanced customer experience strategies will come to the board to look at simplifying fare policy and payment options, establishing a customer defined performance metrics, replacing existing wayfinding, enhancing seamless modal integration, prohibiting bicycles on Link during peak hours, and improving customer communication.

Continuing Oversight and Governance

The largest challenge approaching the board in terms of routine functions is the volume of actions and contract approvals that will be occurring. The number of board actions will be increasing quickly as the agency launches major projects in all five subareas.

Routine board governance also includes management of the Financial Plan and the management of the capital program as it moves forward. There is a potential need to reassess the capital program should there be a loss in federal funding, motor vehicle excise tax funding, and economic factors.

The agency will need to mitigate community disruption during construction when the buses come out of the DSTT, during street and lane closures, and operating change to existing service to facilitate construction.

Another area for board direction is how to approach the long-term future for Sound Transit offices. The agency is currently working out of five buildings with lease expirations ending in 2023. The board will need to decide if the agency should transition to a unified administrative office.

There is also the issue of all required partner integration work, cooperation with the Puget Sound Regional Council (PSRC), transit integration and coordination with partners' projects, and board composition.

Mr. Rogoff ended with a summary of the next five years. There will be a need for intensified board engagement for project development in collaboration with jurisdictions for expedited project timelines, dramatic increase in the number of contract actions, critical decisions on capital delivery approaches, fundamentals of operating business models, policy debate and decision-making, and continued oversight of dynamic financial plan and budget development.

BOARD COMMITTEE RESPONSIBILITIES AND STRUCTURES

Mr. Knowles stated that there will be an increased workload ahead for the agency, which will impact the board's committee structure. During discussions with Chair Somers, board members comments included restructuring the board committees to focus on strategic issues and build on board member expertise, and looking at how to address new subject areas either through changes to committee structure or other options.

Chair Somers presented his recommendation for a new committee structure. He suggested the following four committees: Executive Committee, Rider Experience and Operations Committee, Capital Expansion Committee, and Finance and Audit Committee. Monetary authority should be given for the Executive Committee, Rider Experience and Operations Committee, and Capital Expansion Committee at the same level.

Executive Committee

The Executive Committee would add direction and implementation of systemwide programs like the System Access Fund and Innovation Fund; add monetary authority equal to the Capital Committee and Operations and Administration Committee; and add transit oriented development transactions and all surplus property declarations. Financial oversight would move to the Finance and Audit Committee.

Rider Experience and Operations Committee

The Operations and Administration Committee would be renamed the Rider Experience and Operations Committee. This change would add greater emphasis on customer-facing programs and proposals and rider experience activities. The committee would review system enhancement and state of good repair projects as well as quarterly financial and contract reports related to agency operations.

Capital Expansion Committee

The Capital Committee would be renamed the Capital Expansion Committee. The proposed change would remove system enhancement and state of good repair projects, and surplus property declarations from the existing Capital Committee. The committee would review quarterly financial reports and contract reports related to system expansion.

Finance and Audit Committee

The Audit and Reporting Committee would be disbanded and a Finance and Audit Committee would be established and tasked with more stringent oversight of the budget and financial plan. This committee would retain the current Audit and Reporting Committee responsibilities. The committee would also review agency risks, annual investment, debt plan, budgets, and financial plan. The committee would meet more frequently than quarterly.

Chair Somers asked the board members for their input on his recommended committee structure.

Boardmembers appreciated the addition of the rider experience. This component is currently discussed but does not have a home with any one committee.

Boardmembers also wanted to tie the work with partners to a committee. Mr. Rogoff felt that partner relationships would come under the Executive Committee because it includes policy and because the

membership of that committee includes county executives and committee chairs. Boardmembers also felt that information on those issues should also be provided to other committees.

Boardmembers questioned if Capital Expansion is the right name since not everything in the capital budget is related to the expansion program. It was suggested the Capital Expansion Committee be named System Expansion Committee to eliminate losing financial focus on those projects. There was also concern that the capital functions are being split between the Rider Experience and Operations Committee and the Capital Expansion Committee. Mr. Rogoff clarified that operations information would be provided to the capital expansion committee when projects are being reviewed.

Boardmembers were generally supportive of the concept of moving some of the responsibilities to different committees as a way to manage the workload. There was concern that the committees will have workload challenges unless the authority level of the committees is changed. Due to challenges in getting a quorum for some meetings, the board needs to be strategic about committee appointments.

The new structure needs to meet the needs of staff. There should be a change to the rules to allow actions to be further delegated to the Executive Committee. One suggestion was for policy issues to come to the board every other meeting.

Boardmembers asked if financial oversight is being taken out of the Executive Committee. Mr. Rogoff clarified that the Finance and Audit Committee would be reviewing the Financial Plan. The budget is currently reviewed and recommended to the Board by the Operations and Administration and the Capital Committees. This change to the committees could augment that or the Rider Experience and Operations Committee and Capital Expansion Committee could forward the budget to the Finance and Audit Committee. There are different ways this could be structured.

Chair Somers advised the board that the goal is to get the committee structure completed by the end of the year. He asked staff to come to the Executive Committee in May or June with a presentation.

BALANCE OF BOARD OVERSIGHT AND WORKLOAD

Mr. Knowles stated that during Chair Somers' conversations with board members, board oversight and board workload were discussed. Board members suggested providing more opportunities for board engagement on strategic issues and to consider increasing approval levels. The board is being asked to provide direction to staff on a balance of board versus CEO authority to provide efficiency over the next five years. Expenditures and board actions have grown and will continue to grow.

The existing board policy establishes approval levels for a variety of actions. Current delegations are CEO up to \$200,000, committees up to \$5 million, and anything over \$5 million goes to the board. The board oversees 3 percent of the actions and 97 percent of the dollars.

Peer analysis indicates that transit agencies rely on dollar levels with delegations to CEO's or general managers ranging from a low of \$100,000 to a high of unlimited value. CEO's or general managers may elevate any particular approval within their dollar authority as appropriate on a case-to-case basis.

Over the next five years, board responsibilities will expand and the quantity of agenda items will minimize time needed for strategic discussion during meetings. Mr. Knowles presented the board members with four possible approval levels to prompt discussion.

Example A

- Committee delegation increased to \$10 million; CEO delegation increased to \$500K.
 - Decreases the number of annual actions approved by the Board by 9 percent, or around 13 actions.

- Decreases the number of annual actions delegated to the committees by 6 percent, or around 4 actions.
- Board controls 94 percent of the annual procurement dollars.
- Committee controls 5 percent of the annual procurement dollars.

Example B

- Committee delegation increased to \$20 million; CEO delegation increased to \$1 million.
 - Decreases the number of annual actions approved by the Board by 18 percent, or around 27 actions.
 - Decreases the number of annual actions delegated to the committees by 9 percent, or around 6 actions.
 - Board controls 90 percent of the annual procurement dollars.
 - Committee controls 9 percent of the annual procurement dollars.

Example C

- Committee delegation increased to \$20 million; CEO delegation increased to \$2 million.
 - Decreases the number of annual actions approved by the Board by 18 percent, or around 27 actions.
 - Decreases the number of annual actions delegated to the committees by 30 percent, or around 18 actions.
 - Board controls 89 percent of the annual procurement dollars.
 - Committee controls 9 percent of the annual procurement dollars.

Example D

- Committee delegation increased to \$50 million; CEO delegation increased to \$5 million.
 - Decreases the number of annual actions approved by the Board by 24 percent, or around 35 actions.
 - Decreases the number of annual actions delegated to the committees by 43 percent, or around 26 actions.
 - Board controls 82 percent of the annual procurement dollars.
 - Committee controls 15 percent of the annual procurement dollars.

Mr. Knowles commented that some peer agencies set different approval levels based on contract type or procurement method. Sound Transit currently has different approval levels for sole source contracts and proprietary contracts. The board could consider a categorical approach with more than one approval level, or exceptions/exclusions to the approval levels. There is a clear relationship between how much accountability and oversight the board exercises and how much business can be accomplished at meetings.

Boardmembers noted that issues that come up are usually not related to the dollar amount of the contract. There was an interest in identifying a trigger that should bump something up to the board because of controversy, a procurement method, the nature of the business, a sole source contract, or lobbying contracts.

Boardmembers spoke in favor of accountability and transparency, fairness for those attempting to contract with Sound Transit, and the need to keep projects moving. The board needs to receive the right reports, even if they are being reviewed retrospectively.

Mr. Rogoff suggested that instead of reporting on one major project, staff could do a major project update presentation. Staff would need to find a different way to provide meaningful, substantive information on projects.

Boardmembers asked if there has been an analysis on where there have been problems or patterns on certain contracts in the past. Staff should find procedural ways to manage the workload and ways to

look at contracts to determine when there needs to be board discussion. Mr. Rogoff replied that staff looked at peer agencies to see how they handle this and they almost all fell back to the quantitative measure because they are easy to manage. There are certain contracts, no matter how small, that should come to the board. Some issues get media attention that should go to the board. It is hard to find a quantitative approach to measure those.

Boardmembers asked Michael Trzuppek, Sound Transit Interim CFO, to share his thoughts. Mr. Trzuppek commented that he agrees with the importance of transparency. He stated that transparency could be solved in many ways. Should the board increase the CEO's budget authority, the board should have access to those contracts and reports. The CEO can bring anything controversial to the board. He said the dollar amounts in the options presented may look large, but they are a small percentage of the annual budget.

Chair Somers commented that he would like to give more responsibility to the CEO. He asked the board members to identify categories of issues where the Board should retain authority. Areas identified by the board included: lobbying contracts, sole source contracts, public-private partnerships (P3), any contract the CEO determines should be elevated to the board level, contracts outside of the approved annual budget, contracts the CEO views as a possible conflict of interest, and contracts with embedded policy implications. Mr. Rogoff stated that staff will look further into recommended categorical exceptions and bring suggestions to the board.

Boardmembers supported moving toward an increased approval authority level. However, contract approvals that have a policy decision embedded in them should come to the board.

Mr. Knowles asked the board members to give staff direction about where the board is leaning in terms of authority levels.

Boardmembers spoke in favor of option C and D. Option D received the most support. Board members commented that when looking at the overall budget for this agency, Option D is still not that large and it would free up time for other work that needs to be done by the board. Unless there is a dramatic change in board responsibilities, the committees and board will be slowed down by contracts. Boardmembers also felt the higher approval authority would allow committees to take final action on more contracts, which would free up the board for more briefings.

Peter Rogoff commented that routine expenses are handled at the lower dollar levels, but capital contracts should exceed the higher thresholds. This puts more responsibility on the CEO to be the arbiter of what should or should not be in front of the board. Policy issues would be brought to the Board for direction.

Mr. Knowles summarized the discussion by stating that there was an emerging consensus for Option D to increase the delegation to the committees to \$50 million and CEO to \$5 million with the following exemptions:

- Lobbying contracts
- Sole source contracts
- Any contract the CEO determines should be elevated to the board level
- Contracts outside of the approved annual budget
- Any contract the CEO views as a possible conflict of interest
- Any contract with embedded policy implications

The boardmembers asked that the regular reporting of contracts approved by the CEO be increased in frequency for board review. Internal controls of the contracting process must be adjusted to ensure the highest level of equity and transparency in contracting practices.

BOARD COMMUNICATION

Mr. Knowles introduced the subject of board member feedback on communications. During the CEO's discussions with board members, feedback on communications included the desire to have more opportunities for communication between board members and opportunities for outside perspectives.

Staff would like to ensure that the board has the information they need at the right time to address the work ahead. Currently, each year the board receives approximately 40 meeting packets with over 200 staff reports, a variety of reports and publications including monthly reports, quarterly reports, and annual reports. He asked the board what information is important for their decision-making and whether the board would like to see changes to existing reports.

Boardmembers expressed concern that they are not able to read everything that is sent by staff. There was support for ensuring documents have executive summaries or more visual presentations with a link to additional information. Boardmembers also commented that the board meeting is important for hearing information from staff during the presentations. Boardmembers also asked for modifications to current communications, including finding ways to consolidate emails, combine communications into a summary report, or standardize email subject lines.

Boardmembers supported the current format of the staff reports that accompany actions. The reports are a nice length, normally 3 to 4 pages, but can be repetitive.

Boardmembers asked staff to look at all the reports and suggest what might be deleted, merged, or slimmed down and let the board react to the staff's suggestions.

Staff was also asked to create a work plan to show boardmembers the schedule for the year and be able to see upcoming policy decisions and the steps involved. Board members discussed creating a work plan at the first of the year or by quarter based on a general sense of the timing from staff, and update it throughout the year. Mr. Rogoff commented that it may be difficult to do for contract actions, but it could be done for non-contract actions, such as policy.

NEXT STEPS

Dave Somers asked staff to present a more detailed proposal on committees at the June Executive Committee and Board meetings. The goal is to finish before the end of the year or earlier.

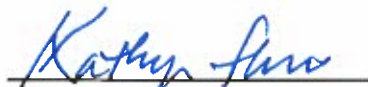
ADJOURN

The workshop was adjourned at 1:10 p.m.



Dave Somers
Board Chair

ATTEST:



Kathryn Flores
Board Administrator

APPROVED on June 28, 2018, JE