

## Sound Transit 3 Expert Review Panel

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June 20, 2016

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Dear Sirs,

On June 6 the ST3 Expert Review Panel met for the sixth time to review methodologies and key assumptions that Sound Transit is using to prepare a regional ballot measure. This meeting was focused on briefings regarding the ST3 Draft System Plan, review and discussion of the ST3 Finance Plan, and discussion regarding project schedules and strategies for delivery of the ST3 projects.

As you know, State law establishes an independent panel of experts to “assure appropriate system plan assumptions and to provide for review of system plan results”. Our panel has worked diligently to review materials, raise questions with staff, suggest methodologies that panel members believe to be consistent with industry best practices, and engage Sound Transit staff in discussions about the myriad of assumptions used to create the ST3 proposal. The mix of panel members with local and national perspectives has allowed us to have robust conversations about Sound Transit’s work.

In keeping with our practice during the past year, we have prepared a summary of the panel’s comments from the June 6 meeting. We hope this letter will be of value to Sound Transit Board members as they prepare to take final action on the ST3 plan at their June 23 meeting. This will not be the final letter from the panel. After the Sound Transit Board decision, we will provide a final letter reviewing the requirements of state law, summarizing our comments, and providing a thorough review of our work during the past year.

Because the Board is being asked to adopt the ST3 System Plan and Finance Plan documents, we have several comments about those specific documents, as well as several other comments from our meeting.

### **Comments on ST3 Draft Plan Document**

The panel received a briefing on the draft plan being considered by the Board. We understand that the plan will be referenced in the ballot measure, so the plan provides the foundational descriptions of the ST3 projects and programs for the region's citizens. The following comments are offered by panel members for the board's consideration. We hope they will provide greater clarity for those now, and in the future, who want to understand the ST3 proposal.

*Reference to State Legislation:* Legislation enacted in 2015 altered the responsibilities and requirements for Sound Transit if voters approve the new funding sources included in this legislation. Two of these added responsibilities are to fund both: (a) \$518 million of various education activities in the ST region (Sections 422 and 423, Chapter 44, Laws of 2015, 3<sup>rd</sup> Special Session); and (b) \$22 million of affordable housing (Section 329, Chapter 44, Laws of 2015, 3<sup>rd</sup> Special Session). We suggest that voters should be apprised of these mandated expenditures by Sound Transit if the new taxing authority is approved. Voters will be authorizing tax increases and extensions to fund high capacity transportation systems, as well as these two additional purposes. Although these two mandated expenditures do not relate to the basic purpose of a regional transit authority, it is important for voters to understand these new requirements

*Reference to Operations and Maintenance Facilities:* The panel was briefed on the plans for constructing maintenance facilities as part of the ST3 plan. We heard from staff that one of the lessons learned from ST2 was that there should be greater clarity in the initial program description about the general location of the proposed maintenance facilities. The draft plan states that light rail maintenance facilities will be constructed in the north and south corridors. That broad description does not provide much additional clarity. The panel suggests that language be inserted into the plan making it clear which jurisdictions (but not specific locations) are being considered for location of the ST3 maintenance facilities.

*Annexations:* The draft plan describes the method for annexing areas outside, but adjacent to the Sound Transit District. On page 17 of the draft plan there is a description regarding one method of annexation, where the Sound Transit Board may call for an annexation election. The panel suggests that the language should also reference the other "indirect" method of annexation into the Sound Transit district. Areas may be added to a regional transit authority when a city that is already included in a RTA annexes territory outside of the RTA district. That newly annexed territory also is simultaneously annexed to the RTA under RCW 81.112.050(1). This method of annexation was recently approved by resolution at the June 2<sup>nd</sup> Board meeting for additional areas in the cities of Bellevue, Issaquah, Renton and Sammamish.

*Major Changes to Proposed Alignment:* Panel members had discussion with Sound Transit staff on June 6 regarding the future study of options for the proposed light rail alignments included in the plan. For example, several stakeholder groups or jurisdictions have already expressed interest in supporting construction of a tunnel in alignments where a tunnel is not being proposed. Staff responded that such a major change in the project scope resulting in increased costs would likely require additional funding from other public or private sources, beyond what is available through the ST3 funding package. The Panel suggests that the plan should make it clear that it is likely “outside” funding would be necessary to support major alignment changes. This would help set expectations regarding future discussions about alternatives. This suggestion could be particularly useful in light of the fact that the proposed ST3 plan includes provisional projects. We assume that additional ST3 funding for a tunnel that is not included in the current plan would be at the expense of identified provisional projects.

*Transit Oriented Development (TOD):* The draft Plan states (on page 12):

“Development around transit investments represents a significant opportunity both to shape communities that attract jobs and housing opportunities affordable at a range of incomes, and to improve equitable access to opportunities for current and future residents.”

Panel members noted that TOD policy works if the transportation investments are aligned with the land use and zoning policy of the jurisdiction where stations will be located. For example, at our June meeting we discussed the plans for the infill light rail station at 130<sup>th</sup> St. in Seattle. If the ST3 plan is approved by voters there will be an \$85 million investment in a station that does not currently have the zoning to support robust TOD. The panel was told that City of Seattle officials have expressed an intent to modify the zoning adjacent to the new station.

The panel suggests that the board consider including language in the plan that references the need to work closely with jurisdictions and that there is an expectation that land use actions, consistent with TOD policy, will be put in place to enhance ridership of the regional bus and rail systems to support the substantial capital investments voters will be making.

*Review of Plan Appendices:* The ST3 system plan has a series of appendices. The panel received a draft of Appendix C, titled, “Benefits, Costs, Revenues, Capacity, Reliability and Performance Characteristics”, today. Because we have not had time to review the document thoroughly, we will provide any comments regarding this document in our final letter.

### **Comments on ST3 Finance Plan Document**

The panel received a presentation regarding the draft ST3 Finance Plan and had discussions regarding elements of the plan and the sensitivity analysis that was conducted for the plan.

*Sales Tax Growth:* The plan assumes that sales tax will grow at an average annual rate of 1.6% real growth (the amount over inflation). The panel believes this is a reasonable growth assumption. However, we would note that in addition to the usual fluctuations in sales tax revenue based on regional and national economic conditions, there is also some risk that over the life of the ST3 program this growth may not be realized due to the shifting of consumer purchases from brick and mortar stores to internet purchases.

*O & M Cost Growth:* The plan assumes an O & M annual growth rate of 1% above CPI. Again, the panel believes this is a reasonable assumption. However, we see this is another area of risk for the plan. This would seem to be a very conservative assumption given the historical growth in healthcare costs nationwide. This represents a risk to be watched in light of the cost of purchased transportation services as well as Sound Transit's own labor costs.

*Sensitivity Analysis:* At our June 6 meeting Sound Transit staff reviewed the analysis they had done to test the sensitivity of several key assumptions embedded in the Finance Plan: potential capital cost increases, lower than anticipated sales tax revenues, a recession early in the ST3 program, higher than anticipated interest rates, and increased inflation. This analysis represents sound industry practice. However, the sensitivity analysis and Monte Carlo runs presented to the panel did not include all of the most recent project delivery schedules. The analysis should be updated and shared prior to board action.

It is worth noting that the results provided to the panel indicated the financial plan had a good probability of success. Variance in the assumed levels of revenue (particularly for sales tax and MVET) in the early years of the ST3 program, have the greatest impact on Sound Transit's ability to meet its program goals and stated financial policies. Significantly lower revenues in the early years would create risk (in approximately 2038) of not being able to meet the debt service coverage ratios.

*Sources of Funds:* The draft ST3 Finance Plan includes a description of the various revenues included in the plan, including the assumptions behind the anticipated rates of growth. However there is no description of the rate of growth of the property tax revenue, and no description of what is included in "Other Revenues". It would also be helpful to include the assumption about the level of fares that generate the fare revenues. Adding these descriptions would provide greater clarity about the sources of funds included in the plan.

*Cost Per Household:* Best practices suggests that clear, meaningful information should be provided to voters about the proposed ST3 taxes. This can be accomplished by providing voters with a statement about the impacts on a typical household, and making available to citizens the methodology used to calculate household impacts. In addition, as we have stated before, Sound Transit materials should make it clear that the ballot proposition will both **add new taxes** and **continue existing ST taxes** (as is mentioned in the finance plan). We understand that it can be

difficult to succinctly communicate meaningful cost figures to voters, but full transparency is important for residents to understand the proposal.

Although “typical” household cost figures for the new taxes are valuable, the more detailed financial documents should provide greater detail for residents. Additional ST3 financial materials should be available that describe tax impacts based on different home values, MVET values, and annual sales purchases, and enable residents to calculate the impacts on their households. Materials could provide easy to understand tax rates for the three sources of funds. For example, the additional property tax would be \$25 per year per \$100,000 of property value. A home valued at \$300,000 would pay \$75 annually, while a home valued at \$400,000 would pay \$100 annually. The MVET rate increase of 0.8% would result in an additional \$80 per year for a \$10,000 vehicle, \$160 per year for a \$20,000 vehicle, and \$240 per year for a \$30,000 vehicle. The sales tax impacts are more difficult for voters to calculate their individual circumstances. One way to describe the impact of a 0.5% sales tax is to provide examples, such as an additional sales tax of \$50 for \$10,000 in annual purchases, or \$150 for \$30,000 in purchases, or \$250 for \$50,000 in annual purchases.

To the extent Sound Transit continues to use typical cost per household in its public materials, the panel continues to suggest that a typical cost per household across the entire Sound Transit district does not account for the considerable differentials in property values among the three counties. For example, the methodology Sound Transit is using assumes an average (weighted) home value of \$360,000. This underestimates the value of homes in King County (\$443,000 average assessed value in 2016), and overestimates the value of homes in Pierce County (\$232,000 in 2015).

The panel would also suggest that the typical cost per household be updated to reflect the most current data. Instead of using older 2013 data regarding median household income, Sound Transit should update the calculation of impact on a typical household by using the more recent State Office of Financial Management projections of median household income for the three counties in the Sound Transit district for 2015. The estimates for median home values should also be updated to reflect current year assessed values across the region. Both of those more current estimates of household income and home values could then be inflated to 2017, when the new taxes would begin. In addition, staff mentioned to the panel a possible adjustment in the estimated impact of the MVET per household. This should also be incorporated into the revised estimate of impact on a typical household.

### **Use of Cost Per Rider and Cost Per New Rider Metrics**

At the June meeting the Panel was pleased to receive information it had requested regarding the cost per rider and cost per new rider for each of the major segments and projects included in the ST3 plan. The Panel believes that cost effectiveness metrics (such as these) are a useful part of the analysis that should be considered as project decisions are made. The Panel would encourage

the board to include cost effectiveness measures (these two or others) as part of the analysis of alternatives that will be conducted during the ST3 environmental review process for the projects. As we have stated previously, we are not suggesting that cost effectiveness measures become the sole basis for decision making, but they should be included in the board's discussions.

### **Project Delivery**

In several of our previous letters we have raised questions about how Sound Transit is planning to manage the unprecedented level of work that will be required to complete ST2 and ST3 projects. We have asked questions about internal capacity, contractor and consultant availability, and the supply of the local labor pool. The panel received a briefing on the work Sound Transit is doing to insure that it can deliver projects on the schedules proposed as part of the ST3 plan. The Panel believes the overall project schedule is aggressive, but that Sound Transit outlined a comprehensive set of actions to address both internal and external workforce issues.

Panel members had several suggestions regarding the work Sound Transit outlined. As we have mentioned previously, we believe there is an opportunity for Sound Transit to collaborate with skilled trade unions and educational institutions to provide training opportunities to help insure a strong regional pool of skilled labor. An example of such a program in this region was a partnership between Boeing and Edmonds Community College. We would also suggest that the proposed peer review include representatives from other regions that have had to manage high levels of capital construction, not just light rail systems.

We appreciate the opportunity to provide comments on this important initiative. I plan to make a brief presentation at the June 23<sup>rd</sup> Sound Transit board meeting. Please let us know if you have any questions about this letter or our remaining work.

Sincerely,



Jim Jacobson  
Chair

Cc: Expert Review Panel Members  
Ric Ilgenfritz, Sound Transit  
Amy Scarton, WSDOT