

Thursday, September 7, 2000, 12:00 a.m. Pacific

Sound Transit says no to audit

by Andrew Garber
Seattle Times staff reporter

Sound Transit yesterday rejected demands for a review of its ability to pay for a 21-mile light-rail system.

A coalition of elected officials, activists, businessmen and community leaders is calling for an independent audit, contending that Sound Transit is way over budget. The group yesterday urged the regional agency to reassess its situation before accepting federal money.

Sound Transit officials said there were no cost overruns and no need for an audit.

"We're already audited to death," said Dave Earling, chairman of the Sound Transit board.

He said the request for a review is another attempt by critics to kill light rail, projected to cost about \$2.4 billion.

"They have simply twisted the truth to suggest a crisis, when in fact there isn't any," he said.

The two sides held dueling news conferences yesterday to argue the costs and merits of light rail. The system, approved by voters in 1996, would stretch from SeaTac to Seattle's University District.

The debate over light rail intensified recently after King County Executive Ron Sims proposed raising the sales tax to pay for transportation projects, including extension of light rail from the U District to Northgate.

Metropolitan King County Councilwoman Maggi Fimia, D-Shoreline, has opposed Sims' proposal and has pushed an alternative plan that would devote the money to the county's Metro bus system.

Fimia led off the news-media briefing yesterday, backed by a crowd supporting the call for an audit.

"We want to know how large the bill will be," she said. "Who will end up paying, and how much will it cost?"

The group proposed a three-member panel, with one person picked by Sound Transit, another by the coalition and a third person mutually agreed upon. The panel would then pick a consultant to guide proceedings.

Fimia's office released a list of more than 80 people calling for an audit, including former Gov. Booth Gardner, County Councilmen Rob McKenna and Kent Pullen, Seattle City Councilmen Nick Licata and Peter Steinbrueck, and Sammamish Mayor Jack Barry.

Fimia and others contend that Sound Transit, the regional transit authority charged with designing and building the light-rail system, is more than \$500 million over budget. They say the tab could go higher once the agency starts digging a 4 1/2-mile light-rail tunnel from downtown to the U District.

Modern Transit Constructors was selected earlier this month as the finalist to dig the tunnel. Sound Transit has said Modern Transit's initial estimate for digging the tunnel came in over budget, but details have not been provided.

Matt Griffin, a member of the coalition and a developer whose projects include Pacific Place and the downtown Nordstrom store, said there are too many unknowns. "We don't want to walk the plank without knowing where we're headed," he said.

The coalition said Sound Transit needed to review its finances before accepting a half-billion dollars in federal money that would bind taxpayers to complete the rail line. The federal proposal is expected to go to Congress soon for review.

Earling said there was no need for an audit of Sound Transit's finances because the agency had already been audited, both by the state and Deloitte & Touche, a private firm.

As for cost overruns, there aren't any, he said.

The light-rail budget has increased from \$1.6 billion to almost \$2 billion, in 1995 dollars, since voters approved the project. The amount would be equal to \$2.4 billion in current dollars.

But the increases were approved by the Sound Transit board for projects such as extending light rail to Seattle-Tacoma International Airport, Earling said. The agency, he said, has the needed money.

Reid Shockey, chairman of the agency's citizens oversight panel, said

yesterday he thinks the light-rail system can be built on time and within the budget, if Sound Transit restrains itself.

The panel plans to release its midyear report on the agency today.

"Our major concern is that the costs of the program keep rising," Shockey said in a letter to the board. "If these trends continue, Sound Transit will not be able to afford to do what was promised."

He urged the agency to "refrain from any further add-ons . . . that are not affordable."

Earling said the biggest unknown for Sound Transit is whether contractors may run into problems while digging the tunnel. The agency has done extensive soil testing, Earling said, but if workers "run into a giant nest of boulders" not found by tests, "we'd be liable."

Sound Transit has reserves to deal with such problems if they arise, he said.

Sims, a member of the Sound Transit board, said the request for an audit is a symptom of political gridlock that has prevented the region from tackling its transportation problems. Delay could result in Sound Transit losing the federal money, he said.

"It's time to move forward," he said. "No more delays. Just build it."

Andrew Garber's phone message number is 206-464-2595

Local News: Wednesday, December 13, 2000

Light-rail cost soars \$1 billion

By Seattle Times Staff

Sound Transit blew the doors off its previous cost estimates yesterday, saying it will cost an additional billion dollars and three extra years to build a 21-mile light-rail line.

The agency's staff, in a report led by two newly hired executives, acknowledged that its previous timetable and cost estimates were unrealistic. Tunnel construction, land acquisition and agreements with property owners have all ended up dramatically more expensive than the agency predicted.

The light-rail line can still be built if voter-approved taxes are kept in place an additional three years and the federal government kicks in an additional \$215 million, said Joni Earl, who joined Sound Transit as chief operating officer in October. She led the reassessment of the agency's finances.

The light-rail line from SeaTac to the University District is the core of a system of express buses, commuter trains and light rail approved by voters in King, Pierce and Snohomish counties in 1996.

Light rail's price tag rose from \$1.9 billion to \$2.6 billion under the new estimates released yesterday, a difference that will amount to more than \$1 billion by the time the money is actually spent. And light rail would start running in 2009, three years later than envisioned in the measure approved by voters. Earl said the issuance of the report represented a move toward openness by the agency.

"We need to make sure we're candid and honest and make sure we don't repeat the errors with too much optimism," she said. "We hope the public stays with us, because we believe the public still wants this project."

In a section called "Lessons Learned," the report said the agency staff should have told its board what effect an ambitious construction schedule and numerous design changes would have on the overall costs.

"In trying to respond to community desires, third-party requests and board wishes, the board was not adequately informed about the cumulative cost impacts of many, many small and large decisions," the report said.

Sound Transit has wrestled with its budget most of this year, and this latest set of estimates was requested by the board after critics accused the agency of concealing cost overruns.

Last month, capping weeks of speculation, the agency acknowledged that the single biggest piece of the light-rail project, the tunnel from downtown to the University District, was going to cost \$171 million more than the \$557 million the agency had budgeted for it.

But that overrun was less than a third of the \$680 million in changes made public yesterday. They include:

** \$385 million for construction and equipment

** \$82 million more to buy land and relocate property owners and tenants

** \$96 million for agreements with third parties, including the costs of buying the downtown Seattle transit tunnel and getting permission from the University of Washington to run the light-rail tunnel under campus

** \$117 million in additional administrative and operating costs for the light-rail project - partly due to extending the schedule an additional three years.

News of the higher price tag drew calls for further examinations from a light-rail critic, King County council member Maggi Fimia of Shoreline.

"We're still not getting to an independent review," said Fimia, spokeswoman for Sane Transit, a citizens group that has been trying to persuade Sound Transit to submit to an outside look at its finances. "Sane Transit members and others want an independent review of the light-rail system. We have major concerns about the credibility of the agency."

Despite the additional costs, Earl said the project can still be built without raising new taxes - as long as the Sound Transit board exercises its option to extend voter-approved sales tax and vehicle fees for an additional three years, through 2009.

Earl said she believed the Sound Transit board has the power to extend the taxes without asking voters for additional approval. The board is scheduled to discuss the findings tomorrow and will schedule two public "open houses" in January to allow citizens to ask questions and give their reactions.

By Jan. 11, the board will decide whether to officially commit to the light-rail project by signing a contract with the Federal Transit Administration for a \$500 million federal grant.

Earl worked on the report with another new member of Sound Transit's administration - Lyndon "Tuck" Wilson, Sound Transit's interim director of Link light rail and former director of the Westside light-rail project in Portland. Said Wilson of the light-rail project: "It becomes a value judgment for the community - is this the kind of community

we want to be?" Light rail is "an elegant solution" to moving people, he said, "even at this price."

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Local News: Sunday, December 17, 2000

Light rail: a lot of money and a lot of questions

by Seattle Times staff

After months of speculation about the state of its finances, Sound Transit disclosed last week that its light-rail line would cost a billion dollars more than it had previously figured.

Puget Sound commuters could have to wait until fall 2009 - three years longer than planned - for the light-rail link between SeaTac and the University District. And just to cover cost overruns, residents would have to pay transit taxes for the three years they couldn't use it. Opponents ridiculed the project as "WPPSS on Wheels," after the failed nuclear-power venture of the 1970s and '80s that resulted in an \$2 billion public-bond default. Sound Transit staff apologized and promised that this budget was finally realistic.

Below are some commonly asked questions about the light-rail plan.

Q: How much trouble is light rail in? With \$1.3 billion in projected cost overruns disclosed last week and opposition on so many fronts, is the Sound Transit light-rail plan on the verge of collapse?

A: Probably not. The only people who can pull the plug on light rail are Sound Transit board members. Despite the turmoil of the past month, the staunchest light-rail supporters on the board - Chairman Dave Earling, King County Executive Ron Sims, Transportation Secretary Sid Morrison and County Councilman Greg Nickels - are not wavering, at least not publicly.

County Councilman Rob McKenna, a board member who opposes light rail, acknowledges that the votes do not exist to delay the project.

However, in a telling move, the board last week asked its Washington lobbyist whether it could accept a \$500 million federal light-rail grant but then back out later if more problems emerge. The answer was yes, as long as the agency returns the federal money.

Q: Should Sound Transit board members worry about voter anger over the cost increases?

A: Light-rail opponents say they're counting on a groundswell of voter anger over the financial troubles to raise the pressure level on the elected Sound Transit board members to change their minds and abandon light rail.

Many people are angry with Sound Transit : Rainier Valley residents, downtown and Capitol Hill businesses, North End neighborhoods that want light rail extended to

Northgate. But two recent polls - one commissioned by Sound Transit and one by Gov. Gary Locke's transportation commission - found overwhelming support for mass transit in the Seattle metro area. Two-thirds of respondents in Sound Transit's poll agreed with the statement, "It's important for the light-rail system to be done right, even if it costs more."

The poll didn't ask them how much more.

Q: When does light rail bust the budget?

A: Last week the cost for the 21-mile line was estimated at \$3.6 billion. A year ago the estimate was \$2.3 billion. But there is no set budget for the project. Voters from King, Pierce and Snohomish counties endorsed taxes to pay for Sound Transit in 1996, but the ballot measure did not set a spending limit for light rail. That was intentional, because no one knew exactly how much it would cost.

Q: Is it possible that the project cannot be built within the existing financing mechanism?

A: Sound Transit is financed through supplemental sales and vehicle taxes, which pay for express buses, regional commuter trains and mass-transit-related highway improvements. To pay the additional \$1.2 billion, the Sound Transit staff last week proposed extending the taxes an extra three years, from 2006 through 2009. That means claiming tax revenue that many people were hoping would be available to pay for phase two of the project.

The latest Sound Transit budget also assumes \$200 million more from the federal government in additional federal money beyond the \$500 million it was already counting on. There is no guarantee Uncle Sam will come up with an extra \$200 million.

Q: Why is Sound Transit in such a hurry? They announce massive overruns, and then they want to make a final decision on the project by Jan. 11.

A: Sound Transit officials say the January deadline is to sign an agreement with the Federal Transit Administration for a \$500 million grant for light rail from downtown Seattle to the University District. Opponents say Sound Transit is using the federal-grant deadline as an excuse to rush the process when light-rail opposition seems to be peaking.

Q: Why not forget the grant and take time to study all the options again?

A: Sound Transit opponents, including Sane Transit, a group that includes government and business leaders make this argument. Former Gov. Booth Gardner, a Sane Transit member, argues that Sound Transit should forget the grant deadline and consider less-expensive transit plans, such as expanded bus systems or a monorail.

Sound Transit argues that it took years of lobbying and support from Washington's congressional delegation to get the money and to lose the grant would be tantamount to giving up on the project.

Q: If Sound Transit was off by \$1 billion before, how accurate are the latest figures?

A: The Sound Transit staff members insist the budget released last week is realistic. They say they failed to total everything up and look at the bottom line, and they promise no more surprises. The new budget has \$400 million in contingency funds to cover unforeseen problems, they said.

Q: Why doesn't Sound Transit consider cheaper alternatives like buses and monorail? In the past year light-rail opponents have proposed using the Sound Transit money to pay for 1,000 free commuter buses. They've also proposed a system of monorail lines that would run along freeways. Why won't Sound Transit talk about these possibilities?

A: The answer lies in the way Sound Transit was born. It was created by the voters in a ballot measure that was specific about the kind of technology it should use. The plan specified express buses, commuter trains and a core light-rail line from SeaTac to the University District.

Sound Transit board members say even if other technologies were worth examining, their job is not to study them, that they are bound by what voters in three counties approved in 1996. The only way they could back out of light rail, board chairman Earling said, would be if the system could not be built for technical or financial reasons.

Sound Transit says most other technologies were studied in the 1980s and early '90s. Light rail is expensive but moves far more people than any other technology.

Opponents disagree, saying a monorail never was seriously considered and that the free-bus plan could take many more cars off highways a lot less expensively than building tunnels. For the agency to seriously consider other technologies could require bringing another ballot measure to the voters.

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Local News: Sunday, December 17, 2000

Excerpts from Sound Transit's report on projected costs

This week Sound Transit made public a "briefing book" on projected system costs. The full report is available at www.soundtransit.org, under the link to "current issues related to light rail." Here are excerpts with key sections of the report:

Voters Chose Light Rail

* After all that study and review the voters spoke clearly in 1996--they said they want light rail as part of this region's transportation options and are willing to raise their taxes to pay for it. Sound Move won by 57 percent, with some Seattle neighborhoods supporting it by nearly 80 percent.

Light Rail Adds Critically Needed Capacity

* Link ridership will be higher than just about any other light rail system in the nation. Link will carry about 120,000 people in the heavily congested central Seattle corridor by 2010 and more than 150,000 by 2020. Link light rail will remove 16,000 vehicles from the daily commute - equal to a 55-mile long line of bumper-to-bumper vehicles taken off the road every day.

The Central Link Corridor - Population, Employment and Congestion all Growing

* Our region is the 13th largest metropolitan area in the country yet consistently ranks in the top three nationwide for the worst rush hour congestion. Traffic on I- 5 through downtown Seattle is stop-and-go many hours every day.

* The most congested part of the entire state of Washington is also the most densely developed. The narrow corridor squeezed between Elliott Bay and Lake Union on the west, and Lake Washington on the east, includes the top three urban employment centers in the state: downtown Seattle, the University District and First Hill.

* Swedish, Harborview, Virginia Mason, Group Health and UW Medical Center are all major regional destinations served by light rail.

* Rainier Valley has one of the highest per capita ridership in the entire Metro bus system, a substantial number of households without access to a car and a high concentration of ethnic minorities, seniors and children.

* By 2020, the City of Tukwila is expected to grow by 74,000 jobs.

* Each year more than 23 million travelers use Sea-Tac International Airport - the fifth fastest growing airport in the world.

A New, Faster, More Reliable Travel Choice

- * Almost one-third of the 100,000-plus daily light rail riders will be former automobile commuters.
- * Light rail will dramatically reduce travel times for current bus riders - cutting commute times for many residents, especially those in the University and Roosevelt districts, on Capitol Hill, Beacon Hill and in the Rainier Valley.
- * Link will move riders from Capitol Hill to Westlake Center in four minutes, a journey that can take 20 minutes or more by bus today. Citizens in the Rainier Valley will be able to get from the Columbia City station to their jobs at First Hill's medical facilities in 16 minutes. Northgate light rail riders will be at the University District in six minutes, or downtown Seattle in 15. (Editor's note: The extension to Northgate is not now part of funding plans.) In the segment from the University District to Sea-Tac, light rail trains will deliver people within walking distance of 300,000 jobs.

Federal Funding is Available Now

- * The federal government is prepared to provide \$500 million in matching funds for the first segment of the project, with more to come later for the rest. If the project is stopped now, that money will go to projects elsewhere in the country.

Lessons Learned

The past two months have involved a great deal of soul-searching and looking back. The more significant lessons learned are listed below.

- * Earlier budget discussions with the Sound Transit Board should have occurred to clearly define what was included and what was not included at each stage of design, as well as the intended use for contingencies and the role the board would play in decisions about project costs, contingencies, and project scope.
- * A higher priority should have been placed on informing the board about the issue of cost control, about scope creep, and about the effects of some design and budget changes on the project's cost to complete before some actions were taken. In trying to respond to community desires, third party requests and board wishes, the board was not adequately informed about the cumulative cost impacts of many, many, small and large decisions.
- * An in depth discussion should have been held with the board to seek its advice about the aggressive schedule and its known challenges that affected price. The discussion should have been framed by this question: "If it costs a lot more money to build the tunnel on the Sound Move schedule, should the schedule be extended to lessen budget impacts?" Emphasis on schedule directly or indirectly influenced many contracting decisions.

Dealing with the project estimates from this point forward

All cost estimates must be an open book, with regular reporting to the board on the status of each design contract, each construction contract, each equipment procurement contract, and the resulting updated estimate to complete for the entire LPA. Contingencies must be clearly identified, justified, and included in the capital budget.

Scope creep must be guarded against with requests for scope additions to the project referred immediately to the board for decision, in the context of overall cost to complete and affordability.

Cost to Complete

The revised cost to complete for Central Link pursuant to the Board motion is \$2.6 billion (1995\$) for the Locally Preferred Alternative (LPA). The cost to complete for the Minimum Operable Segment (MOS) is \$1.6 billion (1995\$) with project reserve. This equates to \$3.6 billion and \$2.3 billion in Year of Expenditure (YOE) dollars respectively.

We have much improved confidence in our cost-to-complete and we want our board to share in this confidence. We encourage dialogue between board members and staff. Staff is available to provide all necessary answers to regain board confidence.

1. Significantly more engineering has been performed.

* For the tunnel project: We now have actual construction staging sites defined with layouts of construction equipment, spoil removal access haul routes and noise and vibration mitigation measures more fully defined. We have a much better understanding of the sequencing of construction, which has helped us identify constraints in our schedule that result in added costs as evidenced by our bid proposals.

* We have completed our final detailed geotechnical engineering analysis and laboratory work all the way from the University down to the southern half of the Rainier Valley. This gives us a much better understanding of how the ground will behave and helps us identify the cost drivers that contributed to our cost growth.

* We have incorporated vertical alignment shifts in our tunnel profile based on this laboratory work which will lessen risk associated with tunnel construction. Although this increased construction costs, we would have been too much at risk had we proceeded with the vertical profile assumptions made at the time of the initial cost estimates.

* We gained experience through our discussions with our contractor elect, giving us new insight into market conditions, effects of our negotiated project labor agreement, and the market and labor constraints and conditions associated with large scale construction activities. Although we had benefit of our peer review panel, they, too, based their review

on the data we furnished them at that time. We have once again conducted peer review of our cost estimates and have called upon additional reviewers with more new eyes.

2. Significantly more analysis on actual real estate definition and costs has occurred.

* We now have draft detailed parcel takes, both full and partial, which allowed our real estate consultants to better estimate property and relocation costs. This is particularly true for the tunnel portion and Rainier Valley.

* Over the next 60 to 90 days, we will be looking for ways to reduce agency overhead over the length of the project. Efforts being looked at include using benchmarks with other agencies, internal audit of agency overhead and comprehensive review of business practices.

3. We erred in reducing contingencies and have corrected that error.

* Design Contingency is a measure of the level of knowledge that engineers have about a project at the time of the estimate. It is not to cover added scope; it is not to cover unforeseen conditions. All civil contracts have a 15% design contingency for the portions of the project in which we have performed the added engineering analysis. This includes all contracts from the University to the southern end of the Rainier Valley. For the Tukwila and SeaTac portions of the LPA, we have allotted a 25% design contingency.

* Construction Contingency is a contingency to cover the unforeseen circumstances that may arise during construction. It is not to cover added scope. We have a 10% construction contingency on all construction contracts. Ten percent contingencies for at-grade and aerial guideway are consistent with industry standards. Further savings in construction will help fund additional construction contingencies by incorporating the many useful suggestions we have received from our discussion process with our contractor-elect.

What additional resource options are available to the Board?

* Change in Financial Policies or Regional Cost Allocations

The board could elect to alter some of its financial policies to generate additional Phase I resources. For example, it could elect to lower the debt service coverage for each subarea, which would allow additional borrowing.

The board could also re-allocate some currently unobligated Regional Fund programs to other uses. These programs are System-wide Contingency (\$13 million YOE), Phase II Planning (\$38 million YOE), Research and Technology (\$38 million YOE), and Fare Integration (\$58 million YOE).

Other Local and Federal Funding Sources

There may be the possibility for direct participation by the Washington State Department of Transportation and other local governments (City of Seattle, King County, University of Washington, Port of Seattle, City of Tukwila and City of SeaTac) in specific project cost elements currently included in the Link budget. These opportunities should be identified by Link staff for future discussion with affected board members and elected officials.

There are also other competitive federal funding processes that Sound Transit and/or its partners can participate in that can apply to the Central Link project.

How could extensions north of the University District be funded?

A variety of mechanisms are available to pay for additional program elements north of the University District. Fortunately, the segment between Northeast 45th and Northgate can be broken down into three distinct elements:

- * Creation of a north portal.
- * Extension of the interim terminus to the Roosevelt area.
- * Completing the segment all the way to Northgate.

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SEATTLE POST-INTELLIGENCER
<http://seattlep-i.nwsourc.com/local/rail12.shtml>

Light rail votes to steam ahead
Groundbreaking for Sound Transit could begin by year's end despite soaring costs

Friday, January 12, 2001

By CHRIS McGANN
SEATTLE POST-INTELLIGENCER REPORTER

Sound Transit's board last night took a deep breath and voted 14-1 to move forward with a \$3.6 billion light rail project beset by soaring cost estimates, delays and growing criticism.

Turning aside pleas for a new public vote before proceeding, the board decided to accept a \$500 million, multiyear federal grant, thereby committing to complete a key section of the rail system from South Lander Street to Northeast 45th Street.

In doing so, the board also agreed to accept the staff's latest cost estimate for the central rail link from SeaTac to Seattle, which is \$1.2 billion higher than the \$2.4 billion previously estimated.

And the board swallowed hard and accepted the staff's new schedule, pushing the completion date from 2006 to 2009 and requiring three additional years of motor-vehicle excise and sales taxes to support the project.

"It's a major milestone. I'm impressed with the board's resolve to make a difficult decision in a difficult time," said Sound Transit Director Bob White. "Moving forward is important to the region."

Tuck Wilson, Sound Transit's interim light-rail director, told the board that adopting the new \$3.6 billion budget and accepting the federal money will allow breaking ground on rail at the end of this year.

King County Councilman Rob McKenna cast the sole dissenting vote, saying he thought the costs would continue to rise.

And under his questioning, Chief Operating Officer Joni Earl admitted that project costs would be closer to \$4 billion once \$191 million in borrowing costs, \$11 million in public art, \$50 million in mitigation of neighborhood impacts and \$157 million in reserves are added.

The costs are worth it, most board members and agency leaders agreed.

"Thirty years ago an earlier generation had this same opportunity to build a light rail system. They didn't. We don't want to repeat their mistake," said Sound Transit board member and Mayor Paul Schell.

But in a lengthy public hearing preceding yesterday's board vote, most speakers urged caution.

Long-time rail critic Emory Bundy noted that Sound Transit had promised voters in 1996 that its cost assumptions were extremely conservative. Voters that year approved the bus, light-rail and commuter-train system, agreeing to pay for it with a 0.4 percent sales tax and a 0.3 percent vehicle tax. "You have misrepresented this whole project to the feds," Bundy contended. "I don't think that puts you in good stead when you return for an additional \$931 million" in federal funding.

Former Gov. Booth Gardner was among several speakers promoting a free-bus program as an alternative to light rail. He said that light rail does nothing about traffic congestion, is not cost-effective and does nothing for the suburbs.

Others urged a monorail as an alternative.

Monorail advocate Peter Sherwin asked the board rhetorically, "What cost increase would it take for you to reconsider this project?"

King County Councilwoman Maggi Fimia said that records of calls to the county switchboard indicate that 263 callers wanted a referendum on light rail before moving forward while only two callers said go ahead.

McKenna said he is extremely uncomfortable with signing a binding federal grant contract before all the information has been provided. Other people urged the board not to wait.

In a written message read to the board, Washington Transportation Commissioner Connie Niva implored Sound Transit to get on with it. Niva said waiting brings added problems and expense and reminded the board that the Interstate 5 corridor through Seattle is not in line for any road improvements.

"People are tired of talk about transportation," she said. "It's time to act."

Dick Ford of West Seattle said this area has a history of doing nothing about high-capacity transit. "We're at a crossroads," he told the board. "This is perhaps the most difficult decision you'll make in your political career."

Now that Sound Transit has committed to the project, upcoming battles will be waged on planners' tables and in public hearings, as the staff tries to rein in costs while honoring voters' wishes.

In the next six months, agency officials will seek efficiencies through design changes, finalize rail routes and station locations, reduce bus volumes on downtown streets during construction and attempt to regain public trust through community outreach.

Wilson said the new budget and schedule will restore public confidence, account for higher-than-expected tunnel costs in Capitol Hill and compare favorably with projects in other cities.

The general sense among board members is that it's politically worse to be accused of losing federal money for the region than to incur other problems with the project.

Hailing the 14-1 vote, Wilson said, "It's very heartening to know that the project is being launched with that momentum. It will take that to sustain this project over the next nine years."

King County Executive and board member Ron Sims said, "It is time to breach the dam of indecision and move forward. If we don't take this first step, how can we ever expect to build a system?"

Sid Morrison, Washington Department of Transportation secretary and board member, said federal grant agreements are not precise documents but political documents. "Don't let this one get away."

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March 30, 2001

Steve Clifford reviewed the two studies of Sound Transit's financial capacity to implement Link light rail. They were commissioned by the Federal Transit Administration, carried out by Diversified Capital, Inc., and submitted to FTA August 9, 2000 and January 11, 2001. He was Deputy Comptroller of New York City in the 1970s, when the city was digging out from a mountain of debt, a well-publicized and eventually successful exercise headed by Felix Rohatyn. Subsequently Clifford was Chief Financial Officer, then Chief Executive Officer of King Broadcasting Company.

He asks to remain on background only; he prefers not to be publicly attributed.

Steve said that meeting a financial target can be a game, particularly if the target is far enough into the future. One can reach virtually any conclusion one wants to, given sufficiently malleable assumptions for costs and revenue. Compounded interest rates over time is a powerful tool. That's what Sound Transit has done. To balance, it simply went out enough years so that optimistic rates (particularly economic growth, but also lowered cost assumptions), compounded over time, "solved" its financial problems.

Last year the assumption of Sound Transit/DCI was for continuing growth in tax revenues at a robust 4.2 percent per year, over ten years. That was a highly optimistic assumption. But with the \$1.5 billion in higher costs now factored in, 4.2 percent isn't enough. What is? In the face of a slowing economy, Sound Transit now has ratcheted annual tax revenue growth up to 5.1 percent over the coming decade, and added an additional decade at 5.2 percent annual growth. That adds \$692.5 million revenue over the two decades.

To meet Sound Transit's projections, the regional economy must grow to almost triple the size it is today, by 2020. That is a fantastic assumption, requiring very rapid population growth, amplified by a rapid, uninterrupted growth in productivity. This metropolitan region must radically outperform the 3 percent annual growth rate considered by the Federal Reserve Bank as optimally sustainable for the nation. If only four of the 20 years have flat growth, the remaining 16 will have to average a stunning 6.4 percent annual increase in tax revenues.

Cost overruns are not good for an agency's credit rating. Sound Transit has admitted a \$1.5 billion cost overrun since last August's DCI report, which means that the debt service coverage has been diminished. One would expect the projected interest rate for long-term borrowing to go up, not down. But Sound Transit assumes in its new budget that its cost of borrowing will drop from 6.0 to 5.85 percent. Given the scale of its long-term borrowing plans, that amounts to a lot of money.

Over the decade 2010 - 2019, Sound Transit is scheduled to generate nearly \$560 million in interest from General Fund, O&M Reserves, on a steeply-ascending trajectory. With that trajectory, and the farebox assumptions, it won't take many additional years before Sound Transit will become a profit-making center. It is beyond credible that the agency

will recover between 55 and 60 percent of its O&M costs from the farebox—even more improbable, during its first decade of operation. And on top of that, it is scheduled to be earning, by decade's end, \$120 million per year in interest on its reserve fund, while it's simultaneously deeply mired in long-term debt. This implausible outcome is based on unreasonable assumptions which, when projected over a decade-plus, become absurd on their face.

Here is the future on which Sound Transit is betting: Tax revenues will ascend from the agency's assumptions in the earlier DCI report. Bond costs are projected to go down, due to lower interest rates. Interest income will go up, due to higher fund balances. Farebox revenues will be double the norm for mature rail systems. Operating costs will be moderated by lower rates of inflation, as will construction costs. There must be no more cost overruns, no more surprises, save within the very modest contingency funds. Any overruns must be so modest they will not touch the \$157 million reserve fund, which is budgeted as a revenue-producing cash cow.

In the first DCI report there were a number of "sensitivity analyses:" 1) Farebox revenue was assessed at about 30 percent, which is in a normal range. 2) Annual tax revenue growth at 2.1 percent, instead of 4.2 percent. 3) O&M costs 10 percent higher than projected. 4) A 10 percent cost overrun in development costs. Then there was a "stress case scenario" that combined the "unlikely scenario" of items 1, 3, and 4 all occurring. This put the agency into fiscal distress for eight years, 2001-2008, but from which it rebounded in 2009.

Had the current DCI report been consistent in its methodology, and applied the same stress case scenario, the project would have failed the test, badly. But the only adverse presumption in the new, modified "stress scenario" is that the hoped-for federal grants don't materialize, beyond the existing \$500 million full funding grant agreement. Even Sound Transit describes that hope as "high risk." The altered, optimistic tax growth rates, favorable bond interest rates, gratifying interest revenue income, low operating inflation costs, scintillating farebox revenues, etc., all are presumed to work in favor of Sound Transit. Given those presumptions--and by extending the time horizon of the ten-year transit plan that voters approved to 24 years, so more revenue can accumulate and compound—Sound Transit concludes, and DCI and FTA concur, it can complete its "minimum operable segment" (MOS-1), 7.2 mile rail line from University District to Lander Street.

In the 1970s, New York City had dug an enormous hole for itself, and was drowning in red ink. The city was in effective bankruptcy, and there was considerable doubt whether there was a way out. I asked Steve Clifford, who was part of the hard-headed, disciplined, creative team, lead by Felix Rohatyn, that helped the city scratch its way back to the surface, if he would comment on any comparisons between the plight of NYC and the current Sound Transit situation.

He said NYC got into trouble by a series of well-intended steps for which the consequences could not be easily foreseen, exacerbated by events in the macro economy.

But in the case of Sound Transit, it's all there, clear as day. This region is walking into a fiscal disaster with its eyes open.

Summarized by Emory Bundy, reviewed and approved by Steve Clifford

Light rail can't be finished by 2009

By Andrew Garber
Seattle Times staff reporter

Sound Transit can't build a 21-mile light-rail system from SeaTac to Seattle's University District by 2009.

That's the reluctant conclusion of Sound Transit staff after crunching numbers the past few weeks.

"I don't think it's conceivable to do the whole thing" by 2009, said Joni Earl, the agency's acting executive director.

This represents the agency's second projected delay in completing the system. In December, Sound Transit said the rail line, which was expected to be done by 2006, would be delayed by three years. Now, no date is being given.

The agency has the money - about \$2 billion in local funds - to build something before the end of this decade. But during a Sound Transit board workshop yesterday, there was no consensus about what to do next.

"You're seeing the beginning of the debate to carve up the 21 miles," said board member Rob McKenna, a Metropolitan King County councilman and light-rail critic.

Sound Transit had planned to split the light-rail project into two parts. The first phase would build a \$2.6 billion, seven-mile segment from South Lander Street in South Seattle north to the U District. The second phase would go south 14 miles, from South Lander to SeaTac, and cost about \$1.5 billion. The entire system was to be completed in 2009.

The latest blow to that plan came earlier this month, when Sound Transit concluded it would fall at least \$190 million short of the \$4.1 billion needed to complete the system. The predicted shortfall results from changes in the amount of federal money the agency believes it can get.

Sound Transit board members yesterday were all over the map about what to do.

Seattle Mayor Paul Schell, a member of the board, said he strongly believes the agency should consider building light rail from downtown Seattle to SeaTac, and then figure out a way to reach the University District. "It's quick and we can afford it," he said.

Board Chairman Dave Earling suggested building light rail from Tukwila north to Capitol Hill first, to salvage as much of the ridership as possible and get the federal money promised for the project.

"This is the type of discussion we want to have," Earling said after the meeting. He said he expects the board to decide what type of system to build by September.

Sound Transit staff gave more details yesterday about the projected costs of various segments of the 21-mile line, so that the panel could decide what to keep and what to postpone.

The agency, using only local money, probably could afford to build light rail from the Convention Place station south through the downtown transit tunnel to Tukwila by 2008, said Lyndon "Tuck" Wilson, Sound Transit's acting light-rail director. It would cost about an additional \$400 million to go to SeaTac and Seattle-Tacoma International Airport, he said.

That extra money probably would have to come from the federal government, which is increasingly skeptical about the project.

Sound Transit has an agreement with the Federal Transit Administration (FTA) for \$500 million in federal grants through 2006 for the northern part of the route. However, allocations for this year and next, totaling \$125 million, are on hold because of a report from the inspector general in the U.S. Department of Transportation.

The report questioned Sound Transit's construction-cost estimate for light rail and the agency's ability to pay for the project. The inspector general recommended Sound Transit not get any money until it proved its numbers were accurate and Congress had more time to review the project.

The FTA has said Sound Transit was too optimistic about how much additional federal money it could get. It suggested the agency scale back future requests. Sound Transit is scrambling to answer the inspector general's questions, decide how much federal money it's likely to get, and reconfigure the light-rail line within a few months.

One key issue is the number of riders, Wilson said. A light-rail line from Convention Place to SeaTac would carry 35,000 to 50,000 riders daily. By comparison, a line from South Lander Street to the U District would have about 85,000 riders daily.

"The central question is where is there consensus to build light rail now?" Wilson said.

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Friday, June 15, 2001 - 12:00 a.m. Pacific

Rail agency is urged to skip tunnel

By Andrew Garber
Seattle Times staff reporter

Sound Transit is under growing pressure to consider a light-rail route through South Lake Union instead of tunneling under Seattle's Capitol Hill.

"Our ability to complete light rail is in serious doubt because of the escalating costs and risk of the Capitol Hill tunnel route," a coalition of community leaders wrote in a letter to the agency board yesterday. "We believe ... Sound Transit should immediately begin developing an alternative alignment through South Lake Union."

The letter was presented to the board by Michael Vaska, a Seattle attorney, Aaron Ostrom with 1000 Friends of Washington and former Gov. Daniel Evans. They said the alternative route could substantially reduce costs.

Evans, who is on the University of Washington Board of Regents, raised the prospect of the university building a research campus in South Lake Union. Evans said the university was not actively pursuing such a step, but it was an option. "We're running out of space for research," he said.

H. Mason Sizemore, president and chief operating officer of The Seattle Times, also sent a letter to the Sound Transit board this week supporting a South Lake Union route if the agency decides to drop Capitol Hill. The Times owns land in the South Lake Union area.

Sizemore noted the letter represented The Times business view and was "totally divorced from decisions involving news coverage and editorial endorsements."

King County Executive Ron Sims and Seattle Mayor Paul Schell, both Sound Transit board members, broached the idea of going through South Lake Union in May as a possible way to save money.

The agency originally planned to build a 21-mile light-rail system in two parts. The first, seven-mile northern phase would have been built from South Lander Street to the University District going through Capitol Hill. A 14-mile southern segment would have been built between South Lander Street and SeaTac.

In December, Sound Transit revealed that the light-rail project was more than \$1 billion over budget. Cost increases for the Capitol Hill tunnel

played a major role in the budget overrun.

The agency has had to scrap its original plans and is now debating how large a light-rail system to start with and what route it should take.

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Thursday, January 24, 2002 - 12:21 a.m. Pacific

Panel lauds Sound Transit for 'new fiscal restraint'

By Eric Pryne

Seattle Times staff reporter

Sound Transit's in-house watchdogs say the agency may finally be headed in the right direction.

"We have seen evidence of a new fiscal restraint and new staff and board efforts to evaluate and control expenditures," the Citizen Oversight Panel said in its semiannual report, released yesterday.

The new report contrasts dramatically with past assessments, in which the panel ripped the agency for management failures, cost overruns, schedule delays and poor communication.

Panel Chairman Arlington Carter, a retired Boeing vice president, said the new review probably was the best report card the group had given Sound Transit in years.

"We think they're on the right road," he said. "We don't think they're there yet."

Meanwhile, Sound Transit's staff has recommended that the agency's board eliminate several of the 17 route options presented earlier this month for a possible light-rail line from downtown Seattle to the University District.

The board is expected to take up those recommendations when it meets today.

The Citizen Oversight Panel's 15 volunteer members are appointed by the Sound Transit board but are independent of agency management. The panel is composed of business, government, community and academic leaders.

The panel's new report applauds the agency for stronger leadership, improved fiscal management, more-vigorous board oversight, and better relations with federal and local officials. Under new Executive Director Joni Earl's leadership, "professionalism has never been higher," the group says, "and accountability to mission and goals appears to be real for the first time."

During the last half of 2001, the report says, "the agency seemed slowly but surely to be emerging from its past missteps."

Sound Transit still is recovering from a crisis that peaked a year ago, when the agency revealed its proposed 21-mile light-rail line from the University District to SeaTac was three years behind schedule and \$1 billion over budget. Top managers resigned, and the regional-transit agency went back to the drawing board.

Last month, the Sound Transit board approved a scaled-back, 14-mile line from downtown Seattle to Tukwila.

While generally positive, the oversight panel's report also highlights several problems, including:

- . Continuing delays and rising costs in expanding Sounder commuter-rail service.

- . A new revenue projection that shows Pierce County won't generate enough tax money by 2009 for Sound Transit to pay for the light rail, commuter rail and bus service planned there.

- . Cost overruns at the planned Everett bus and commuter-rail station, a problem the panel attributed to "staff failures to anticipate routine requirements and poor communication with third parties."

To keep costs down, Carter said, Sound Transit must keep regional interests in mind as it negotiates with local governments over individual segments of its projects: "You just can't optimize every feature for every community," he said.

Sound Transit doesn't have the money now to extend light rail north from downtown Seattle but has vowed to build that segment and is planning an environmental review of possible routes. The original proposal called for a tunnel under Portage Bay with stations on First Hill and Capitol Hill, and two in the University District.

The agency's staff recommends that alignment remain on the table for now, along with such alternatives as a tunnel under Montlake and an elevated line along Interstate 5. Among the options it suggests be dropped now are:

- . A partly elevated, partly underground route along Boren Avenue, with stations at Denny Way and Mercer Street. It would be cheaper than the original route, a staff report says, but wouldn't attract many riders.

- . A tunnel route that bypasses First Hill but adds a second station on Capitol Hill. It wouldn't save much money and would attract fewer riders, the report concludes.

. A new bridge 70 feet above the Lake Washington Ship Canal just west of Interstate 5. It would cost at least as much as the original route and have lower ridership, the report says, and the bridge would require a drawspan to allow some ships to pass.

The board is expected to decide next month which options will undergo detailed environmental review. A final decision could come in mid-2003.

Eric Pryne can be reached at 206- 464-2231 or epryne@seattletimes.com.

SEATTLE POST-INTELLIGENCER

Sound Transit likely to OK audit at last

Critic says it's like 'closing barn door after horses are gone'

Thursday, July 26, 2001

By CHRIS MCGANN
SEATTLE POST-INTELLIGENCER REPORTER

For the first time in its history, Sound Transit's board of directors today is likely to approve money for a long-awaited outside audit of its light-rail cost estimates.

The agency had adamantly refused such a move despite a vocal public demand for an independent examination that intensified until this spring, when plans to build Seattle's 21-mile light-rail system in this decade finally imploded.

In the 10 months since critics first called for an outside audit, the agency has been scalded by critics, investigated by the U.S. Department of Transportation and castigated by Congress, which ultimately suspended federal money largely because the agency badly underestimated the costs of its light-rail project.

And it has put on hold the plan to build rail from SeaTac to the University District, shifting its focus to an initial 16-mile segment from SeaTac to downtown Seattle. A route decision is due this fall.

Board chairman Dave Earling said revelations that past cost estimates were so far off make it "obvious" that the board wants more confidence in the estimates before going forward.

But Dan Norton, one critic who demanded an audit last fall, called the reversal "a classic case of closing the barn door after the horses are gone."

In the past year the Sound Transit board did launch an extensive internal review of the entire project and appointed an expert committee to, among other things, reduce project risk. But it continued to spurn an outside look at its capital cost estimates, which grew from \$2.4 billion to \$3.6 billion.

In a news conference last September, Earling said the demand for an audit was "another in a long series from people who want to kill light rail. They are twisting the truth to suggest a crisis." Other board members agreed.

Today, after admitting the crisis, the board appears ready to spend \$475,000 on an audit team of engineers, cost estimators and construction managers. Board members, who in May endorsed the idea, are scheduled to discuss the audit expense and scope today.

"With the experiences ... in the last year, a number of the members of the board want to be sure, as they make the next round of major decisions, that our approach to estimating is correct," Earling said.

Norton questioned the efficacy of the step. "What is the point of the audit now? There is no firm plan, there are no numbers," he said.

King County Councilman Rob McKenna, the only transit board member who joined the call for an audit in September, had a different opinion.

"I've been pounding the table for almost a year to find out why the cost estimates for light rail were so far off," McKenna said. "Until we understand why ... it's difficult to have confidence in the new truncated line."

McKenna also said even if an audit had been last fall, the board still would have been forced to scrap the 21-mile plan.

King County Councilman Greg Nickels, Sound Transit board member, moved for an audit shortly after the Department of Transportation Inspector General recommended that federal money for Sound Transit be suspended.

At a May 24 meeting, most board members agreed to pursue an audit, and the staff has since selected an audit team with extensive transit project experience. The board is expected today to appropriate the money to pay for it.

Deloitte & Touche, a firm contracted since 1998 for Sound Transit financial audits, would manage it.

The board also could decide today whether to audit all cost estimates from 1996 forward -- reviewing what went wrong -- or to look only at current estimates.

Nickels said he wants to start by reviewing the past cost estimates. "Why were those estimates so far off and what in Sound Transit has been fixed to make sure new estimates are accurate?" Nickels asked.

Hugh Simpson, Sound Transit's finance director, said audit team members know the construction industry. "They've worked projects on the East Coast and on the Chunnel (a tunnel connecting France and England). They look at methodology systems, industry standards. They can scrutinize the project, not just the accounts."

Joni Earl, Sound Transit's executive director, said the audit will be a good check of the reforms and adjustments she's made in recent months. She said when board members rejected an audit in September, they didn't know the estimates were so far off.

She said the major focus of this audit should be the method of deriving estimates, and the accuracy of estimates should be tackled this fall.

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Another Sound Transit official calls it quits; new overrun found

By Andrew Garber
Seattle Times staff reporter

Paul Price, the head of Sound Transit's commuter-rail program, resigned yesterday, joining the growing ranks of high-profile people who have left the agency.

The resignation is effective Sept. 4. His announcement came the same day Sound Transit's Citizen Oversight Panel criticized the commuter-rail project for cost increases and schedule delays. The panel estimated the project could top \$1 billion. Sound Transit earlier this year estimated a cost of \$943.8 million to get full service from Tacoma to Everett by 2004.

Sound Transit officials said the panel's report did not influence Price's decision to leave. His resignation was voluntary, said Joni Earl, Sound Transit's executive director.

"He feels like it's 'mission accomplished,' " she said.

Several on the Sound Transit board heaped praise on Price at a meeting yesterday, giving him credit for starting up the commuter-rail line last year. Sound Transit began running trains between Tacoma and Seattle in September. Two trains now travel between the cities in the morning and afternoon commutes carrying about 2,200 people daily.

Price, who earns \$122,000 a year, declined comment. He became the head of commuter rail in 1997.

Several high-ranking officials have left the agency in the past year. Paul Bay, the former light-rail director, resigned in November. Bob White, the former executive director, left in January. Lyndon "Tuck" Wilson, former acting director of the light-rail project, stepped down in June. And Bill Houppermans, the agency's chief engineer, earlier announced plans to leave by the end of this month.

Kevin Phelps, a Sound Transit board member, said Price called him Wednesday about resigning.

"I was clearly left with the impression he was frustrated with not being able to do his job to the best of his ability," Phelps said. "The board played a role in that, and other people in the management team played a role in that."

Phelps said he's heard that more people are thinking of leaving the agency, which has been in turmoil for months. "He should be a very clear wake-up call to our board," Phelps said. "I hope this is not a sign of things to come."

Earl, however, said the turnover in management is nothing to worry about. "I don't think it's alarm-bells time," she said.

Several on the board echoed that opinion.

Price's resignation came as a surprise to Reid Shockey, chairman of the oversight panel. Shockey curtailed his criticism of the commuter-rail program during a report before the board yesterday because of the announcement.

But he said commuter rail has problems, and the board needs to pay more attention to costs and the schedule for getting trains all the way to Everett. The project runs the risk of coming under the same type of criticism as the agency's light-rail project, Shockey said.

Earl would not comment on the panel's new cost estimate. "Do I think it's a project out of control? No," she said.

In other action yesterday, the Sound Transit board decided not to spend \$475,000 for a detailed audit of how the agency went wrong with its proposed 21-mile light-rail project.

Earlier this year, it was discovered that that project was more than \$1 billion over budget. The agency is debating how large a light-rail system should be to start with and what route it should take.

Sound Transit was considering hiring Deloitte & Touche to determine what happened. Instead, the board agreed to pay the firm up to \$100,000 to review the agency's methods for estimating costs.

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