



December 28, 2006

Dr. Michael Meyer  
Chairman, Expert Review Panel  
Professor of Civil Engineering  
Georgia Institute of Technology  
PO Box 0355  
Atlanta, GA 30332

Dear Dr. Meyer:

Thank you very much for the Expert Review Panel (Panel) letter of October 20, 2006, providing key preliminary findings on the ongoing technical analyses supporting Sound Transit's development of our plan for the second phase of our Long-Range Regional Transit System Plan (Sound Transit 2, or ST2). Sound Transit (ST) Boardmembers were pleased that the Panel found ST's technical work to be generally sound and both consistent with transit industry standards and capable of supporting the Board's decision-making. The Board also appreciates the Panel's well-considered suggestions for improvement.

ST remains on a schedule that, in accordance with State legislation, requires us to place the ST2 ballot measure before the voters in November 2007.

Your October letter raised several important issues to which I will respond here. Please feel free to contact me with additional comments or concerns.

### 1. Cost Estimating

#### Agreements with Local Jurisdictions

The ST Board takes to heart the Panel's strong encouragement to secure agreements and/or term sheets with local jurisdictions pertaining to the scope and funding of ST2 candidate projects. While it may be impossible to obtain formal agreements ST2 projects prior to the vote, ST continues to pursue formal acknowledgement and comment on the projects' scopes by local jurisdictions and other affected governmental agencies. These activities have led to fairly broad understanding between ST and its partner jurisdictions on the overall scope and cost of projects under consideration by the ST Board for inclusion in the Phase Two plan. This should benefit our future interactions with partner agencies regarding project implementation. ST staff plans to brief the Panel on this subject at your January meeting. We will re-emphasize the caution shared during the Panel's July meeting that it may not be possible to conclude interlocal agreements on project implementation prior to the adoption of a final ST2 Plan. Such agreements customarily are finalized during and after conclusion of project-level environmental processes, which in many cases will be several years in the offing.

#### BOARD CHAIR

John W. Ladenburg  
*Pierce County Executive*

#### BOARD VICE CHAIRS

Connie Marshall  
*Bellevue Councilmember*

Mark Olson  
*Everett Councilmember*

#### BOARD MEMBERS

Julie Anderson  
*Tacoma Councilmember*

Mary-Alyce Burleigh  
*Kirkland Councilmember*

Fred Butler  
*Issaquah Deputy Council President*

Dow Constantine  
*King County Councilmember*

Dave Enslow  
*Sumner Mayor*

Doug MacDonald  
*Washington State Department  
of Transportation Secretary*

Richard Marin  
*Edmonds Councilmember*

Richard McIver  
*Seattle Councilmember*

Greg Nickels  
*Seattle Mayor*

Julia Patterson  
*King County Councilmember*

Larry Phillips  
*Chair, King County Council*

Aaron Reardon  
*Snohomish County Executive*

Ron Sims  
*King County Executive*

Claudia Thomas  
*Lakewood Mayor*

Pete von Reichbauer  
*Vice Chair, King County Council*

#### CHIEF EXECUTIVE OFFICER

Joni Earl

### Inflation Assumptions

We recently incorporated new annual forecasts of inflation for construction, real estate and general project costs into the ST2 financial model, and have briefed the ST Board on this subject. We also have briefed our Board (October 5, 2006) on a comparison between ST's assumed inflation rates and those of the Washington State Department of Transportation (WSDOT). We intend to present this information to you at the Panel's meeting in January 2007.

Additionally, we have closely examined the extraordinary escalation in the cost of certain construction materials. This recent analysis indicated that, in the very near term, an average 10% cost adjustment (inflation) was necessary to update light rail total project delivery costs from 2005 to 2006.

Similarly, we have concluded that in order to adjust real estate cost estimates from 2005 to 2006 dollars (which, because of the timing of the estimates, represented slightly less than a full year of change), an average adjustment of 6% was necessary. This equates to roughly twice the general annual inflation rate experienced in the region. Again, ST staff is prepared to provide the Panel with a briefing on this topic in January.

Staff also is assembling data on subarea-level real estate inflation experienced during the Sound Move period, for the types of properties most often acquired by ST for our projects. If you wish, we could be prepared to present this information at a future meeting. Additional time is required because ST typically acquires a mix of properties that is somewhat different than that reflected in any generally available inflation indices. We have not tracked inflation by county, as the Panel inquired, because our large real estate acquisition program has been concentrated so far in only one light rail corridor in King County. The ST Express and Sounder programs have required far fewer real estate transactions each year, and these purchases have varied greatly in geography, zoning, and highest and best use. As an example, the rate at which residential housing property increases in value may differ dramatically than that of commercial, industrial or retail properties. Thus, rendering simple summaries is difficult.

### Methodology

We are pleased that, as a result of your July review, the Panel again concluded that our ST2 cost estimating methodology is sound and consistent with industry standards. An essential goal for the ST2 planning process has been to develop cost elements for which the projects, as they are scoped, could be delivered into public service.

In response to the Panel's expressed concerns, we have conducted a formalized risk assessment process for the LRT segments under consideration for ST2. We expect to review this with you at your January meeting.

## **2. Constructability Issues**

### Project Sequencing

As you may be aware, the ST Board of Directors gave direction to staff regarding the capital and service components for developing a preliminary draft ST2 package. We anticipate that the Board will take action on a draft package on January 11, 2007, and release it for public comment. From that point forward until

final plan adoption, expected in April 2007, staff will be refining the sequencing of projects over the 20-year timeframe of ST2. As you have suggested, considerations during sequencing will include project readiness, ridership, borrowing, agency cash flow and financial reserves. Additionally, we will be working with the Regional Transportation Investment District (RTID) to identify, to the extent practicable, opportunities for sequencing both the roads and high capacity transit programs.

#### Construction Bidding Process

We greatly appreciate the Panel's time and thoughts on improving the construction bidding process, and will take all nine of your major points to heart. We agree wholeheartedly with the overall themes of greater direct involvement of the contractor industry, schedule coordination with WSDOT and sponsors of other mega-projects, proper sizing and bundling of some contracts, and the appropriate assumption of risk by ST. While these are "details" that may not become specific features of the ST2 Plan itself, we will remain cognizant of these issues as the Sound Move and ST2 programs move forward.

#### Constructability on the I-90 Floating Bridge

I am pleased that additional information provided may give the Panel a higher comfort level with the feasibility of light rail construction and operations on the I-90 bridge. As planning and environmental work proceeds in the I-90/East Corridor, we will perform additional analyses, including work to better understand the nature and frequency of storms that could affect light rail operations on the bridge.

### **3. Review of ST2 Scenarios**

#### Subarea Equity

The ST Board has made upholding the principle of subarea equity a high priority for the ST2 Plan. This issue has been discussed by the Board on several occasions. The final plan and its supporting financial plan will document which projects and transit services are being funded by each subarea and the locations of those improvements. By definition, when the Board adopts a final plan, it will find the ST2 Plan to be equitable, as required by State law, and establish that the subareas are funding projects and services from which their citizens benefit. To the extent that subarea equity determination is supported by "agreements" beyond the financial plan itself, we will document those.

#### Creation of Unfunded Priorities List

The ST2 Draft Package that the ST Board of Directors is currently considering, and which it will release soon for public review, does incorporate the "provisional" project feature suggested by the Panel. The current Draft Package map includes light rail extensions south of Port of Tacoma/Fife to downtown Tacoma, and east of Overlake Transit Center to downtown Redmond, as "dotted lines" -- indicating that funding these projects will be contingent on unanticipated revenues and/or project cost savings. We agree with the Panel's observation that this mechanism could provide voters with a more clear vision of the overall ST2 proposal. We will work proactively, however, to help citizens understand that there are no guarantees that these provisional projects will be funded.

#### Coordination with the Regional Transportation Improvement District (RTID)

ST and the RTID are actively coordinating on a wide variety of issues, such as project lists, project sequencing, assumptions underlying financial projections, public outreach, and the dual 2007 ballot measures seeking voter approval of new taxes. We will update the Panel on this subject at your January meeting.

#### Public Comment and Review

ST conducted extensive public outreach over the late summer and early fall on three ST2 Plan Options. Shortly after the Board releases the Draft Package for public review, another series of public meetings will begin along with other efforts to involve the region's citizens. Again at your January meeting, we plan a detailed report on the overall ST2 public outreach effort.

### **4. Environmental Review**

#### I-90/East Corridor

As the Panel notes, Sound Transit, WSDOT, Federal Transit Administration (FTA), and Federal Highway Administration (FHWA) officials began discussions after the Panel's last meeting regarding the scope and responsibilities of a joint NEPA/SEPA environmental review process for East Link. Based on these conversations, the Federal Transit Administration and Sound Transit will be joint lead agencies for the NEPA environmental review. WSDOT is expected to be a SEPA co-lead with Sound Transit. The Federal Highway Administration requested and is participating in the environmental process as a NEPA cooperating agency.

The parties also have had conversations regarding the actions and approvals necessary for the future change in operations of the center roadway on the I-90 bridge. For example, FHWA approval will be required for conversion of the center roadway to light rail use. Sound Transit has learned that this approval will be primarily based on engineering and operations review in the form of an Interchange Justification Report. ST, WSDOT, FTA, and FHWA are working together closely to develop the methodology and analysis necessary for the Interchange Justification Report, which will be supported by the appropriate environmental analysis.

Regarding the East Link project-level environmental review itself, the lead agencies held a 30-day scoping period in September. The scoping period included an agency scoping meeting and four public meetings, including two in conjunction with ST2/RTID open houses. The meetings were well attended and generated approximately 300 written and oral comments, which were summarized in the East Link Scoping Comment Summary in October 2006. Subsequently, the East Link Project published the Sound Transit Board Briefing Book: Light Rail Alternatives Evaluation in November 2006. Based on these briefing materials and additional public input on the evaluation findings, the Sound Transit Board on December 14, 2006, identified light rail route alternatives for evaluation in the draft EIS. Sound Transit expects to complete conceptual engineering on the East Link light rail alternatives in 2007 and to publish the draft EIS in 2008. The draft EIS will include detailed information regarding the effects

of dedicating the I-90 center roadway to high capacity transit (HCT), as suggested by the Panel. The draft EIS also will include an evaluation of impacts of the conversion on the affected state highway system. Following publication of the draft EIS and a public comment period, the Sound Transit Board will identify a preferred light rail route and stations. Sound Transit expects to publish the final EIS in 2009.

## **5. Financial Planning**

We appreciate the Panel's observation that the financial model "appears to be capable of supporting decision-making around the various options."

### Review of Key Assumptions Regarding Anticipated Expenses

*O&M Costs* --- In your last letter, the Panel made two salient observations regarding the growth of bus operations and maintenance (O&M) costs and the use of the "Service Enhancement Fund" (SEF) to allow for modest but real growth in bus services provided until light rail extensions go into service in the major corridors.

As you noted, our contracted bus service costs have grown 3.5% to 4.5% per year during Sound Move. We believe that including an allowance of 5% per year, which is included in our financial plan, will adequately cover these costs over the 20-year ST2 period. We are aware of the need to control these contracted service costs to sustainable levels. In addition to this 5%, the ST2 Draft Package includes the SEF at an additional 1% per year until 2020 and 0.5% per year thereafter. We project that this amount will allow us to achieve the objectives of the SEF. We recognize, however, that we must clearly articulate the objectives of the SEF to avoid both confusion and unrealistic expectations over its purposes.

### Funding Sources

*Debt-Equity* ---- ST staff recently reported to the Panel on potential ST2 debt-equity ratios. We expect that the ST Board will establish a debt-equity ratio for the ST2 program as a component of the ST2 financial plan to be completed over the next few months.

*Borrowing* --- The ST2 Financial Plan assumes all debt is issued as 30-year long-term fixed rate bonds, with 6.0% interest rate, level amortization and five years of interest only. Under this structure, there is only a small "backloading" of principal for an individual bond issue within the fixed 30-year term. These bonding assumptions are typical for long-term capital project financing and are unlikely to incur any penalty from the bond markets reflected in higher borrowing costs. Sound Transit's two bond series issued in 1999 and 2005 featured these characteristics and achieved borrowing rates at or below those of comparable borrowers in the market at the same time.

### Sensitivity Tests

I understand that since your last meeting, ST staff has provided the Panel with additional financial sensitivity analyses as requested. Staff will be prepared to discuss these analyses with the Panel in January, as well as to discuss any additional sensitivity/risk analyses the Panel may request.

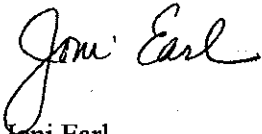
Dr. Michael Meyer  
December 28, 2006  
Page Six

## 6. Evaluation Methodology

We appreciate the Panel's conclusion that the evaluation methodology is "appropriate for the types and level of decisions being faced by the transportation decision makers and the public in Puget Sound." Staff has taken the Panel's previous comments to heart and has incorporated many of the Panel's previously suggested improvements.

In closing, I want to reiterate how important the work of the Expert Review Panel has been to the development of the ST2 Plan. On behalf of the ST Board of Directors, I want to extend our great appreciation to the Panel for your valuable work.

Sincerely,



Joni Earl,  
Chief Executive Officer

c: The Honorable Christine Gregoire, Governor  
Senator Mary Margaret Haugen  
Expert Review Panel Members  
Board of Directors, Sound Transit  
Bob Drewel, Executive Director, Puget Sound Regional Council