

PUBLIC TESTIMONY SUMMARY

I-900 STATE AUDITOR'S PERFORMANCE AUDIT:

Sound Transit: Performance Audit of the Citizen Oversight Panel, Adjustments to Planned Investments, Construction Management and Ridership Forecasts (October 25, 2012)

As Heard by the Joint Legislative Audit & Review Sub-Committee on I-900 Performance Audits
on November 14, 2012

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Title: Sound Transit: Performance Audit of the Citizen Oversight Panel, Adjustments to Planned Investments, Construction Management and Ridership Forecasts

Audit Summary: According to State Auditor's Office (SAO), the audit examines the agency's response to the recommendations made in a previous SAO audit from 2007. It also examines Sound Transit's ridership, cost and revenue forecasts and how it has modified its construction program in response to changes in those areas. It also looks at how Sound Transit responds to recommendations by the Citizen Oversight Panel (COP).

The SAO found that:

1. The Sound Transit Board has not always taken action to fully address COP concerns and that transparency to the public regarding the COP's work can be improved;
2. Sound Transit's initial adjustments to its original ST2 plan were sufficient and appropriate. However, it now has a smaller than recommended contingency to cover possible cost overruns;
3. Except for its need to increase its ST2 project contingency, Sound Transit has an organizational structure, policies and procedures, expertise, and other resources in place to successfully accomplish most of the adjusted ST2 plan within budget; and
4. Sound Transit's ST2 forecast requires a growth rate for Link light rail ridership through 2030 that appears to be challenging. Economic and employment forecasts indicate questions about its reliability. Sound Transit should adjust ridership assumptions that are no longer valid.

The audit makes 13 recommendations regarding the COP, one recommendation regarding project contingencies, two recommendations regarding life-cycle cost models and value engineering, and 11 recommendations regarding SAO's review of ridership models.

Agency Responses in Audit Report?	Yes, beginning on page 66
Legislative Action Requested?	No, although SAO notes the following regarding Objective 1 (on page 10): “Alternatively, the state Legislature should consider establishing a non-partisan COP (Citizen Oversight Panel) whose members are elected by voters in each of Sound Transit’s five subareas, ensuring each subarea has equal representation on the Panel. If it does so, the Legislature should also examine COP authorities, funding, and transparency, as discussed at Issues 5 and 6.”

Agencies Testifying:

Sound Transit: Ric Ilgenfritz, Executive Director, Project Development and Environmental Planning; Dave Hammond, Internal Audit Director

Sound Transit Citizen Oversight Panel: Kathy Elias, COP Administrator

Summary of Testimony from Audited Agency:

We welcome an audit culture and use it to develop a continuous improvement ethic through the agency. We thank the auditor staff for working so collaboratively with us. We don’t always agree, but we do work well together.

We received good remarks in two areas:

1. **Implementation of the capitol program recommendations from the first state audit.**
The initial segment did come in under budget and on schedule and we are trending well below budget on the University link at this time. We incorporated some of those recommendations and continue to see good results.
2. **The capital program realignment** and changes to the capital program in response to the economic recession also got good marks. It is never easy to scale back capital programs that have been approved by voters. But we did that in a transparent way and consistent with our policies. We appreciate the auditors’ recognition of that.

Two areas where we saw some challenges in this report:

1. **Ridership.** We aren’t entirely comfortable with the conclusions related to ridership. There are a couple of issues with the 13.5 percent growth rate cited by the SAO as being required to meet our system-wide forecasts. First, growth factor is not a metric we use in our forecasting or the industry. Most transit agencies around the country start by building their most productive, highest capacity line first. We built one of our lower performing lines first, the line between downtown Seattle and the airport. The University link extension will open in 2016 and the Northgate extension will open in 2021. Both are forecast to have higher ridership than the initial segment, so we expect to see growth rates in excess of 13.5 percent as those segments come on line. We have every confidence the system will meet or exceed ridership over time.

SAO concluded that because we weren't meeting our 2011 forecast, the methodology done in our 2002 forecast was flawed. However, an earlier part of the audit noted that nobody really saw the economic recession coming. All area public transit systems saw ridership decreases in roughly the same proportions due to the recession, so Sound Transit is not unique. We are, however, on track to meet the forecast by 2014 and are experiencing very positive ridership trends and growth. In addition, that same 2002 forecast actually had a forecast horizon of 2020, not 2011. SAO picked the 2009 number out of the middle of the forecast. But we are also trending on pace to meet the 2020 forecast for that system. We feel pretty good about ridership performance and feel this audit's focus on that forecast is a bit off the mark.

We are constantly updating and tweaking our forecast model to try to get the best information we can for our board.

2. **Citizen Oversight Panel (COP).** There are some aspects of the COP recommendations that we think make sense, regarding making COP information and meetings more accessible to the public using technology. Also, we'll look at our process for recruiting to fill COP vacancies.

We do differ with some of the audit conclusions regarding COP roles and responsibilities and how members are picked. The suggestion of electing COP member implies having a more political approach to oversight. COP was approved by voters as part of the SoundMove plan and confirmed by voters as part of the STP plan, so whether that can be changed requires some legal research. As to changing COP roles, we must be careful about duplicating audit and accountability efforts.

When you are called in front of the COP, it's similar to being in front of a legislative oversight committee. It is an effective oversight tool from our perspective and a value added to the agency.

The spirit we are using to look at the audit is to find things in it that we can use to make improvements. We will review the whole audit and take the results of our review to the Sound Transit Board, then get back to the SAO on steps we will take to address some of their recommendations.

The COP administrator is an independent, contracted administrator, working with the COP since its inception in 1997. The COP members have always been extraordinarily qualified and professional community representatives. COP members each devote at least 100 hours annually to their volunteer role.

COP has made hundreds of recommendations, comments, and suggestions to the Sound Transit Board over the years. The agency has responded and adopted almost all of these recommendations. The SAO chose to go well beyond their original audit scope and to highlight just a couple of long-standing issues COP has repeatedly brought to the Sound Transit Board's attention. Based on these few multi-year issues, the SAO concluded that the COP is less than effective. The restructuring proposals the audit offers are based on a flawed and unsupportable premise that COP has not adequately fulfilled its oversight role. If the auditor had done what the audit objective called for, he would have had to conclude that the agency has responded to virtually all of the COP's recommendations.

The audit impugns COP members as less than qualified. The audit suggests a purely sub-area representation model would be more effective than the current model, which is based on both geographic and other community and professional factors. The audit suggests the COP should operate at the level of expert reviewers or paid, professional auditors, thus duplicating the work of numerous levels of oversight. Our COP committee adds a citizen perspective to oversight, not another professional audit perspective.

The audit offers unjustified assertions of insufficient objectivity and conflicts of interest. The COP abides by the same code of ethics as the Sound Transit Board members and any elected official or governmental employee in the state. There have never been any examples of ethical conflicts tainting COP's work and the auditor did not find or cite any. Members regularly discuss and act on matters of perceived conflicts and have, in the past, requested that individual members resign when their outside activities came too close to a perceived conflict of interest.

There appears to be an underlying premise in the entire audit of the COP that oversight has to consist of finding fault and problems. Over the years, the COP and others have found that Sound Transit is a well-managed agency and that it's delivering on its commitments, on time and on budget.

We acknowledge there are always opportunities for improvements in every organization and the COP is no exception to that. But the COP feels that the audit findings are unsupported with evidence and are riddled with innuendo and bias. The COP challenges the audit from the ground up.

Other Parties Testifying:

Mark Ennis, Transportation Director, Washington Policy Center

Summary of Testimony from Other Parties:

We requested the ridership portion of the audit because of the discrepancy we found in Sound Transit's modeling and what Puget Sound Regional Council's (PSRC) models have shown.

Sound Transit promised voters in the 2008 election that their system would carry about 310,000 trips by 2030. PSRC's 2040 Plan says the system will be 84 percent larger and carry 47 percent fewer people than what Sound Transit told voters. With models and predictions, it is inherently hard to decide who's right. However, the Auditors found that PSRC's assumptions are a lot more realistic than Sound Transit's and we agree. SAO recommended Sound Transit adopt some of PSRC's modeling as they move forward. That doesn't change the fact that voters won't get the 310,000 trips they were promised in 2008.

We disagree with the characterization by Sound Transit that they are on-time and on-budget. Once they received their taxing authority, all of their promises fell apart. Sound Transit would say they found mistakes early on and made changes. I don't think voters have any avenue to hold Sound Transit accountable. Sound Transit's claim that they have an elected Board of Directors is wrong. What they do have is a federated board of appointed officials from other jurisdictions, like all Washington State transit agencies. They don't represent Sound Transit to their voters or stand for election on a Sound Transit platform. We recommend the Legislature make Sound Transit a directly elected board of directors, which would provide accountability for the public. There was such a bill in the 2012 session and we urge legislators to continue looking at that solution.