

## **ATTACHMENT B**

### **Westside Purple Line Extension Section 1 Project**

#### **Measure R and Measure M Unified Cost Management Policy Analysis**

##### **Introduction**

The Measure R and Measure M Unified Cost Management Policy (the Policy) was adopted by the Metro Board of Directors in June 2018. The precursor Measure R cost management policy was adopted in March 2011. The intent of the Policy is to inform the Metro Board of Directors regarding cost increases to Measure R- and Measure M-funded projects and the strategies available to close a funding gap. The Westside Purple Line Extension Section 1 Project (the Project) is subject to this policy analysis.

The life of project (LOP) budget for the Project was last approved by the Board in August 2020 at \$2,978,879,593. The Project is subject to the Policy analysis now due to a proposed \$150,000,000 increase to the LOP budget. Funding for the cost increase is needed through FY 2026. This analysis recommends trade-offs required by the Policy to identify the funds necessary to meet the cost increase.

##### **Measure R and Measure M Unified Cost Management Policy Summary**

The adopted Policy stipulates the following.

If a project cost increase occurs, the Metro Board of Directors must approve a plan of action to address the issue prior to taking any action necessary to permit the project to move to the next milestone. Shortfalls will first be addressed at the project level prior to evaluation for any additional resources using these methods in this order as appropriate:

- 1) Scope reductions;
- 2) New local agency funding resources;
- 3) Value Engineering;
- 4) Other cost reductions within the same transit or highway corridor;
- 5) Other cost reductions within the same subregion; and finally,
- 6) Countywide transit or highway cost reductions or other funds will be sought using pre-established priorities.

##### **Scope Reductions**

The Project cost increase is due primarily to the discovery and removal of an anomaly. Any attempt to identify and negotiate agreeable reductions to the scope may result in further delays and potential additional costs. Because of this, we recommend moving to the next step.

##### **New Local Agency Funding Resources**

Local funding resources (i.e., specific to the affected corridor or subregion) are considered in the next step as opposed to countywide or regional sources so as not to

impact the funding of other Metro Board-approved projects and programs or subregions in the County.

The Project is eligible for Measure M and Measure R funding and is currently allocated \$1,660,466,475 of the total \$4,074,000,000 of funding that is identified in the Measure R sales tax ordinance Expenditure Plan.

The Project is located primarily in the Central City Area, with a relatively small section in the Westside Cities subregion (as defined in the Policy, as amended), and has station locations in the cities of Los Angeles and Beverly Hills. Local funding resources from both the subregions and cities could be considered for the cost increase.

#### *Funding Within the Corridor*

The Project is within the same subregion as Expo Phase 1 and shares the corridor with Expo Phase 2. The Expo Projects had unused funds totaling an estimated \$229,582,693 from the combined life of project budget, and \$200,000,000 of the Expo funds were made available to the Project in August 2020 (Board item # 2020-0351). No other surplus or otherwise available funding has been identified from other Metro projects on the same corridor.

#### *Subregional Programs and Local Agency Contributions*

Measure M has funding for a transit-eligible Subregional Equity Program (SEP) in the Central City Area and Westside Cities subregions. The subregions could allocate a portion of the funding for the Project, which requires notice to and approval by the subregions. The Measure M Expenditure Plan includes \$235 million for the Central City Area SEP and \$160 million for the Westside Cities SEP. The SEP funds are programmed beginning in FY 2043 in the Long Range Transportation Plan Financial Forecast due to limited financial capacity. Staff has previously recommended that the South Bay and Central City Area subregions allocate a portion of the SEP to address a \$90 million cost increase on the Crenshaw/LAX Transit Project. Per Board action in May 2020 (Motion 38.1 # 2020-0356), staff is developing, in partnership with all Board offices, a uniform process by which subregions can elect to use SEP funding. Staff is also pursuing a reimbursement process that will utilize SEP funding to address an \$11.9 million shortfall on the Eastside Light Rail Access (Gold Line) project (Board item # 2020-0931).

#### *Local Agency Contributions*

The cities with Project stations are expected to contribute funding to the Project as part of the 3% local agency funding assumption included in the Measure R ordinance. The cities are generally not responsible for cost increases to the projects and are not considered as a source of funding for the Project cost increase.

Measure M, as well as Measure R and Propositions A and C, provide “local return” funding to Los Angeles and Beverly Hills. The cities will receive an estimated \$3.23 billion of local return (Los Angeles \$3.2 billion, Beverly Hills \$27 million) over the ten year period FY 2021 to FY 2030 that is eligible for transit use and could contribute a

portion to the Project (not adjusted for any negative impact to countywide sales tax due to the current global pandemic). However, prior Board actions relating to the Twenty-Eight by '28 Initiative and funding for the cost increase to Foothill Extension to Pomona did not support use of local return, and it is presumed these funds would not be available for the cost increase to the Project.

#### *State and Federal Funding (Discretionary)*

The FTA has previously granted the Project \$1.25 billion through a New Starts grant and the USDOT has provided funding through a \$856 million TIFIA loan. The March 2021 federal American Rescue Plan Act increased the New Starts grant by \$66,428,844. This funding can partially address the impact of the cost increase. Additional State or federal discretionary funding (where Metro would compete for the funding) is not probable, given the Project has experienced a cost increase and the design/build contract is already awarded.

#### Value Engineering

The Project cost increase is due primarily to the discovery and removal of an anomaly. Any attempt to identify and negotiate agreeable value engineering may result in further delays and potential additional costs. As a result, we recommend moving to the next step.

#### Other Cost Reductions within the Same Transit or Highway Corridor, or within the Same Sub-region

The cities and subregions have existing funding programs that have funding amounts yet to be programmed to the subregion or spent. The SEP is discussed above in section "Subregional Programs and Local Agency Contributions."

The cities also receive funding through the Call-For-Projects, the competitive grant program that is funded and managed by Metro for the benefit of LA County cities, transit operators, and State highway projects that was last held in 2015. At times the funding for certain projects in the Call-For-Projects is "de-obligated" if not spent within a reasonable timeframe and this can be a funding source for other uses. Currently there is not a meaningful amount of de-obligated funds available unless the cities choose to terminate an existing project, and all other projects are moving through their respective development process.

#### Countywide Cost Reductions and/or Other Funds

If new local agency resources are not allocated to the Project cost increase, regional or countywide funding could be considered. These funds are programmed for other uses in Metro's financial forecast, during the timeframe when funds are needed for the Project cost increase. Eligible sources of countywide funding are limited due to the restriction on the use of Proposition A and C for the Project and include General Fund and Lease Revenues. These countywide sources are not sufficient to address the cost increase.

### *State and Federal Funding (Formula)*

Metro receives quasi-formula funding from the State through the Regional Improvement Program (RIP) and Local Partnership Program (LPP). This is considered regional funding as it can be applied countywide to both transit and highway spending. The most recent RIP funding was allocated to projects submitted in Metro's 2020 RTIP and the next cycle of the LPP is planned to be used on the \$801 million Division 20 project. However, the 2020 federal Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) allocated funding to the State, and the State decided to allocate a portion of the funding through the RIP. Metro expects a \$38 million increase in its RIP share. Per concurrent Board action in April 2021 (Board item # 2021-0114), Metro staff propose that this funding is allocated to the East San Fernando Valley project.

Metro receives federal formula funding from the Congestion Mitigation and Air Quality (CMAQ) Improvement Program and the Surface Transportation Block Grant Program (STBG). Metro also receives an allocation of funds from the "Highway Infrastructure Program," which is a federal formula grant created in 2018 for uses that include the construction of highways, bridges, tunnels, transit capital, and ITS; operational improvements; highway and transit safety improvements; and pedestrian and bicycle projects, among others. Funding from the CMAQ, STBG, and the Highway Infrastructure Program grant will be programmed in the pending 2021 Short Range Transportation Plan. The initial apportionments (FFY 2018 \$25,835,214, FFY 2019 \$36,399,992) from the Highway Infrastructure Program are only eligible for highway projects and will be allocated to those entering construction. Per concurrent Board action in April 2021 (Board item # 2021-0114), Metro staff propose that this funding is allocated to Metro highway projects.

### **Recommendation**

Metro staff recommends the use of \$66,428,844 of additional New Starts and \$83,571,156 of Measure R Transit 35% for the proposed \$150,000,000 LOP budget increase. The Project and other components of the subway are currently allocated a maximum amount of Measure R allowed in the Expenditure Plan. Therefore, we are recommending the swapping of Proposition A 35% funds with Measure R 35% on the Crenshaw/LAX Project. This is done to address the ordinance restrictions on the amount of Measure R funding by project and the use of Prop A and C on new subway projects. The following table shows the proposed transfers of Measure R and Prop A and C funds.

**Strategy to Address Westside Purple Line Extension Section 1 Funding Gap**

(\$ in millions)	<b>Measure R 35%</b>	<b>Proposition C 25%</b>	<b>Proposition A 35%</b>	<b>Total</b>
<b>Westside Purple Line Extension</b>	\$ 83.57			\$ 83.57
<b>Crenshaw/LAX LRT</b>	\$ (83.57)		\$ 83.57	\$ -
<b>Additional SRTP Shortfall</b>			\$ (83.57)	\$ (83.57)
<b>Balance</b>	\$ -	\$ -	\$ -	\$ -

Metro staff will concurrently work with the Central City Area and Westside Cities subregions to provide the required 120 day written notification and seek formal approval from the governing body for use of the subregional equity program as a reimbursement or funding source for future expenditures. Should the subregion not approve the use of the funds, Metro staff will return to the Board with an update on the alternative potential funding source, comprised entirely of Proposition A 35% swapped with Measure R 35%, and a fiscal impact analysis of the use of these funds for the project.