

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 February 2016 at \$2,778,879,593. The Project is subject to the Policy analysis now due to a proposed \$200,000,000 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 attributable to additional work requirements of the cities of Beverly Hills and Los Angeles, additional work for dewatering systems, changes and additions to scope to accommodate Metro standards, and an additional safety program and safety equipment. 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 \$1,521,509,235 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 have unused funds totaling an estimated \$229,582,693 from the combined life of project budget. A portion of the unused funds equal to \$6,234,052 are comprised of City of Los Angeles and Santa Monica excess contributions that will be or have already been returned and will not accrue to Metro. The remaining unused funds have been programmed in the Long Term Transportation Plan Financial Forecast and can be reprogrammed for other uses. The Board approved in July 2018 (Board report #2018-0388) the distribution of an estimated amount of the unused funds: \$11,500,000 to the Metro Blue Line Track & System Refurbishment Project (CP 205115); \$5,100,000 to Expo Project close-out items; and \$200,000,000 to the Westside Purple Line Project Section 2. The distribution of funds to Section 2 has not been expended as the existing life of project budget and funding plan were determined prior to the July 2018 Board action. The \$200,000,000 Expo funds distributed to Section 2 can alternatively be made available to the Project.

There are several administrative restrictions that limit the application of the unused Expo funds to the Project. The funds are comprised of local sales tax – Measure R 35% Transit, Proposition A 35% Rail, and Proposition C 25% Transit-Related Streets. The Measure R funds are primarily “surplus” funds from Phase 2 and are to be expended in the subregion, per the Measure R ordinance. The Expo Projects traverse through both the Central City Area and Westside Cities subregions. Additionally, the Metro Board has adopted a policy to reduce Measure R surplus by any debt interest incurred to finance a project (Metro has issued approximately \$490 million of debt to finance the Expo Phase 2 Project). Because of these restrictions, we recommend charging all available Measure

R to the Expo Projects, which will free-up Proposition A and C. However, because the Project is considered “new subway,” it is not eligible for Proposition A or C. We further recommend that the Proposition A and C funds are reallocated to the Crenshaw/LAX Project, which will allow Measure R to be used for Project. This type of multi-project fund swap that attempts to navigate Metro ordinance restrictions has previously been approved by the Board for the Regional Connector Project.

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 will develop, in partnership with all Board offices, a uniform process by which subregions can elect to use SEP funding that will be reported back during the September 2020 Board cycle.

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. 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 attributable to additional work requirements of the cities of Beverly Hills and Los Angeles, additional work for dewatering systems, changes and additions to scope to accommodate Metro standards, and an additional safety program and safety equipment. 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. There is currently no capacity in the RIP or LPP through FY 2025. The RIP has been 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.

Recommendation

Metro staff recommends the use of \$200,000,000 representing unused Expo Phases 1 and 2 funds for the proposed LOP budget increase.

To close the Project funding gap, we recommend shifting the balance of Prop A 35% and Prop C 25% funds that were previously programmed for Expo Phases I & II but not expended. To address ordinance restrictions on the use of Prop A and C on new subway projects, we are recommending the swapping of these funds with Measure R 35% on the Crenshaw/LAX Project. This modification keeps the Crenshaw/LAX Project funding amount in place whilst maximizing the use of Measure R 35% funds on the Project.

Strategy to Address Westside Purple Line Extension Section 1 Funding Gap

(\$ in millions)	Measure R 35%	Proposition C 25%	Proposition A 35%	Total
Westside Purple Line Extension	\$ 200.00			\$ 200.00
Crenshaw/LAX LRT	\$ (200.00)	\$ 80.00	\$ 120.00	\$ -
Expo I & II		\$ (80.00)	\$ (120.00)	\$ (200.00)
Additional SRTP Shortfall				\$ -
Balance	\$ -	\$ -	\$ -	\$ -