

ATTACHMENT C

Westside Purple Line Extension Section 3 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 3 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 2019 at \$3,223,623,255. The Project is subject to the Policy analysis now due to a proposed \$53,000,000 increase to the LOP budget. Funding for the cost increase is needed through FY 2027. 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 to required improvements to the General Services Administration parking lot and loss of business goodwill for properties at a future Metro station entrance. The scope of the Project has been defined as part of the previously awarded stations and tunneling design-build contracts. Any scope modifications would require renegotiation of the scope, which does not have a certainty of success and may delay the progress of activities. 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 R and Measure M funding and is allocated, prior to this LOP increase, \$500,125,229 of the total \$4,074,000,000 of funding that is identified for the “Westside Subway Extension” in the Measure R sales tax ordinance Expenditure Plan, and all of the \$994,251,000 of funding that is identified for the “Westside Purple Line Extension Section 3” in the Measure M Expenditure Plan.

The Project is located in the Westside subregion and has station locations in the city of Los Angeles. Local funding resources from both the subregion and city could be considered for the cost increase.

Subregional Programs

Measure M has funding for a transit-eligible Subregional Equity Program (SEP) in the Westside subregion. The Measure M Expenditure Plan includes \$160,000,000 for the Westside 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 \$90,000,000 cost increase on the Crenshaw/LAX Transit Project, and the San Gabriel Valley subregion allocate \$126,000,000 for Gold Line Foothill 2B. Metro staff has also recommended that the Central City Area and Westside Cities subregions use the SEP to reimburse \$84,571,156 for a Westside Extension Section 1 cost increase. However, motion #2021-0435 from June 2021 states that, henceforth, the Policy is amended to eliminate the Subregional Equity Program from consideration to address project funding shortfalls during construction. Because of this motion, the SEP is not considered for the Project cost increase.

Local Agency Contributions

The City of Los Angeles has Project stations and is expected to contribute funding to the Project as part of the 3% local agency funding assumption included in the Measure R ordinance and requirement in the Measure M ordinance. The city is generally not responsible for cost increases to the Project and the 3% contribution is not considered 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. The city will receive an estimated \$3.8 billion of local return over the ten-year period FY 2023 to FY 2032 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 Gold Line Foothill 2B, Crenshaw/LAX Transit, Westside Subway Section 1, and Eastside Access 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 WSE Section 2 and Section 3 projects \$1.187 billion and \$1.3 billion respectively through the New Starts program. The March 2021 federal American Rescue Plan Act increased the New Starts grant on Section 2 and 3 by a combined \$151,855,538. In January 2023, the FTA granted an additional \$59,583,554 of New Starts funding for Section 3. In addition, through federal budgetary action, FTA has accelerated the Section 3 New Starts funding by \$221,983,701 in comparison to the scheduled payments in the Full Funding Grant Agreement. The increase and acceleration in New Starts can make Measure R funding available to address the cost increase on the Project. 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 to required improvements to the General Services Administration parking lot and loss of business goodwill for properties at a future Metro station entrance. The scope of the Project has been defined as part of the previously awarded stations and tunneling design-build contracts. Value engineering for cost savings may require renegotiation of the scope, which does not have a certainty of success and may delay the progress of activities. Because of this, we recommend moving to the next step.

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

The city and subregion 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."

The city also receives 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 city chooses to terminate an existing project, and all other projects are moving through their respective development process.

The subregion receives Measure M funding for other transit capital projects - Sepulveda Pass Transit Corridor, Crenshaw Northern Extension, and Lincoln Blvd BRT. These projects have not completed or have not started their respective environmental process and it is too early to determine if they could be delivered with excess or surplus funding that could provide funding for the Project cost increase.

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 2020 Long Range Transportation Plan 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 through the Congestion Mitigation & Air Quality Program (CMAQ), Regional Improvement Program (RIP), Local Partnership Program (LPP) and Surface Transportation Block Grant Program (STBGP) (Formerly RSTP). The approved funding plan, prior to the current LOP increase, includes \$45 million of CMAQ, \$31.8 million of RIP, and \$93 million of STBGP funding. 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. The RIP has been allocated to projects submitted in Metro's RTIP and the next cycle of the LPP is planned to be used for other purposes. There is estimated capacity to program additional CMAQ and STBGP to the Project and could be considered if the recommended use of Measure R is not approved. CMAQ is also eligible for transit operations and the maximum eligible amount of CMAQ is currently programmed for planned new Metro rail projects.

Recommendation

Metro staff recommends the use of \$53,000,000 of additional and accelerated New Starts, which will make available an equal amount of Measure R Transit 35% for the proposed \$53,000,000 LOP budget increase.