

## **ATTACHMENT E**

### **East San Fernando Valley Light Rail Transit Line 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 July 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 East San Fernando Valley Light Rail Transit Line Project (the Project) is subject to this policy analysis due to a proposed increase in the Project budget relative to the budget established in connection with Metro's receipt of the Section 3005(b) Expedited Project Delivery (EPD) Grant and execution of the Federal Full Funding Grant Agreement (FFGA).

To date, the Project has been funded under the approved Preconstruction Budget of \$1,487,826,000. The proposed \$3,998,675,309 Life-of-Project (LOP) budget represents the total project cost and includes an increase relative to the FFGA budget, which triggers this Policy analysis. The proposed LOP budget includes all incurred and forecasted costs for the Project, including Metro labor and non-labor costs, support services, environmental/planning, design, preconstruction services, utilities, right-of-way, construction, and required contingencies. A full breakdown is provided in Attachment A, Funding and Expenditure Plan.

##### **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 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 since execution of the Federal Full Funding Grant Agreement is attributable primarily to market-driven construction cost escalation, including labor, materials, and contractor pricing, and not to increases in project scope or additional

project requirements. As part of Phase 1 of the Progressive Design-Build contract, value engineering (VE) concepts were evaluated to identify opportunities to capture cost and time savings. As a result, final design plans will incorporate VE's agreed to be carried forward in line with the project scope defined in the FFGA. There is no opportunity to materially reduce Project scope to address the cost increase without affecting the Board-approved Project or delaying delivery. Accordingly, scope reductions are not feasible.

#### 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 all the funding that is identified for the Project in the Measure R and Measure M sales tax ordinance Expenditure Plans.

The Project is in the San Fernando Valley subregion and within the City of Los Angeles. Local funding resources from both the subregion and the city could be considered for the cost increase.

#### *Subregional Programs*

Measure M has funding for a transit-eligible North San Fernando Valley Bus Rapid Transit Improvements subregional program that is designated for the San Fernando Valley. However, this funding has been entirely programmed for a separate project. There is no Subregional Equity Program (SEP) in the San Fernando Valley subregion. The SEP is a subregional program that has the flexibility to be used on highway or transit capital projects, but none is available for San Fernando Valley.

#### *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 the requirement of the Measure M ordinance. However, the cities are generally not responsible for cost increases to the Project as the local contribution amount is determined at 30% design, and thus the 3% contributions are not considered a source of funding for the Project cost increase.

Measure M, Measure R, and Propositions A and C provide "local return" funding to Los Angeles. Los Angeles will receive an estimated \$3.6 billion of local return over ten years from FY 2026 to FY 2035 that is eligible for transit use and could contribute a portion to the Project. 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 the use of local return. It is not assumed that these funds would be available for the cost increase to the Project.

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

The Federal Transit Administration (FTA) has granted the East San Fernando Valley project \$893.32 million, through the Expedited Project Delivery Grant.

The state of California has granted \$805 million in TIRCP funding (through multiple awards) and \$27 million from the Traffic Congestion Relief Program. In addition, Metro allocated formula funding to the Project of \$202 million from the Regional Improvement Program and \$74.9 million from the SB1 Local Partnership Program.

Additional state or federal discretionary funding (where Metro would compete for the funding) is not probable, as the Project cost increase does not reflect added scope or new project benefits that would support a competitive grant request. Also, the Project is about to enter construction, and discretionary grants are generally not eligible for projects in construction (i.e., projects that have awarded construction contracts). Because the Project is advancing to Phase 2 under a mutually agreed upon scope in the Progressive Design-Build Contract, additional discretionary funding is not considered a viable source to address the Project cost increase.

### Value Engineering

Value engineering opportunities were evaluated throughout project development and Phase 1 of the PDB contract, and feasible measures consistent with the approved project scope have been incorporated into the current estimate. No additional material value engineering opportunities have been identified that would reduce costs without affecting the approved project scope.

### Countywide Cost Reductions and/or Other Funds

Regional or countywide funding could be considered if new local agency resources are not allocated to the Project cost increase. A portion of these funds are programmed for other uses in Metro's 2025 Short Range Transportation Plan financial forecast during the timeframe when funds are needed for the Project cost increase. Eligible sources of countywide funding for the Project, including operations-eligible funds, are Measure R and Measure M Contingency Funds for inflation adjustments, Proposition A and C, the Metro General Fund, and Lease Revenues. Countywide funds are considered if sufficient new local agency resources are not utilized for the cost increase.

Both Measure R and Measure M have funding designated for the Project.

The Measure R Expenditure Plan includes \$68.5 million for the San Fernando Valley East North-South Rapidways project (now the East San Fernando Valley Light Rail Transit Line Project). In addition, the Board approved programming \$182.0 million of Measure R "surplus" funding to the Project from the San Fernando Valley North-South Rapidways (Canoga Corridor) project (also known as the Orange Line Extension to Chatsworth) and \$49.417 million of surplus Measure R Highway funds from the I-5 Capacity Enhancement from SR-134 to SR-170 project.

The Project is also eligible for “inflation adjustments” to be funded from Measure R Contingency Funds. However, the Board adopted the initial Unified Cost Management Policy in January 2011, and this caps the Measure R funding (to exclude inflation adjustments) unless approved as part of the decision criteria set forth in the Policy. The Board has yet to approve the programming of any Measure R funding for inflation adjustments as actual and forecasted Measure R sales tax receipts are materially lower than estimated in the Expenditure Plan, and Metro has incurred a significant amount of debt to meet the Expenditure Plan funding requirements, resulting in Measure R principal and interest payments that must be met. Because of the limited availability of Measure R, no Measure R Contingency Funds are recommended for the Project cost increase.

The Measure M Expenditure Plan includes \$810.5 million of funding for the Project in 2015 dollars. The Measure M funding can be increased for inflation adjustments if, among other things, less than 2/3rds of the funding is spent prior to FY 2027. Metro staff estimate that, based on the current expenditure plan for the Project, most of the Measure M will be spent after FY 2027, resulting in \$210.3 million of Measure M inflation adjustments that can be used for the Project cost increase.

The \$213.6 million balance of funding needed to address the cost increase would come from Proposition C 25%, which is eligible for use on major components of the Project.

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

Metro receives state formula funding through the Regional Improvement Program (RIP) and SB1 Local Partnership Program (LPP), both of which are already programmed in the approved funding plan. Additional capacity in these programs is not currently available, as available formula funds have been committed through existing programming and future cycles are planned for other priorities.

Additional federal funding is also not considered a viable source. The Project has received federal participation through the Section 3005(b) Expedited Project Delivery Grant, and federal participation is based on the budget established under the executed Federal Full Funding Grant Agreement, rather than the locally updated Life-of-Project budget. The EPD regulations limit the federal share to 25% of a project cost. Because the FFGA budget is finalized and the Federal Transit Administration does not recognize the proposed LOP increase as a basis for increasing federal participation, additional federal funding is not assumed to be available to address the Project cost increase.

Accordingly, additional state or federal formula funding is not considered a viable source to address the Project cost increase, and the funding plan instead relies on proposed Measure R and Measure M Contingency Funds for inflation adjustments, as provided under each Ordinance, and additional Proposition C 25% Transit-Related Streets and Highways funding.

## **Recommendation**

Metro staff recommends using approximately \$210.3 million of Measure M 35% for permitted inflation adjustments and \$213.6 million of Proposition C 25% Transit-Related Streets and Highways for the proposed \$423.9 million Project cost increase. These funding sources are identified in the proposed funding plan and represent the most viable strategy to address the funding gap while maintaining delivery of the Board-approved Project.

The recommended use of these funding sources is consistent with the applicable provisions of the Measure M and Proposition C Ordinances and reflects the funding strategy identified through this Policy analysis.