

ATTACHMENT B

Division 20 Portal Widening 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 Division 20 Project (the Project) is subject to this policy analysis as it is considered an integral part of the Westside Purple Line Extension (WPLE) Section 1, Section 2, and Section 3 projects, which are Measure R- and Measure M-funded.

The life of project (LOP) budget for the Project was last approved by the Board in November 2019 at \$801,749,577. The Project is subject to the Policy analysis now due to a proposed \$75,000,000 (9.4%) increase to the LOP budget. Funding for the cost increase may be 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 to issues with the design that have impacted the cost and schedule. 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 a portion of the total \$4,074,000,000 of Measure R funding that is identified in the Measure R sales tax ordinance Expenditure Plan for the Westside Subway Extension.

The Project is in the Central City Area but serves the Metro Red and Purple Line which are within both the Central City Area and Westside Cities subregions. Local funding resources from both subregions and cities within the subregions could be considered for the cost increase.

Funding Within the Corridor

No other surplus or otherwise available funding has been identified from other Metro projects on the Metro Red and Purple Line corridors.

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 Measure M Expenditure Plan includes \$235 million for the Central City Area SEP and \$160 million for the Westside Cities SEP. The Metro Board previously approved funding plans that include SEP funding from the San Gabriel Valley subregion to address a \$126 million cost increase on Gold Line Foothill Extension, South Bay and Central City Area subregions to address a \$90 million cost increase on Crenshaw/LAX Transit, Central City Area and Westside Cities subregions to address a \$150 million cost increase on Westside Purple Line Extension Section 1, and Central City Area subregion to address a \$11.9 million cost increase on Eastside Light Rail Access (Gold Line). 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 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 and Measure M ordinances. 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. However, prior Board actions relating to the Twenty-Eight by '28 Initiative and funding for the cost increase to Gold Line 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 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. The increase in New Starts can make Measure R funding available that is currently programmed on WSE Section 2 and Section 3 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 primarily to design changes that have increased the cost and extended the schedule. 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 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 being programmed for uses in Metro's financial forecast, during the timeframe when funds are needed for the Project cost increase. Eligible sources of countywide funding include Proposition A and C (allocated to the portion of the Project that is not attributable to "new subway"), General Fund, and Lease Revenues.

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 2022 RIP has zero funding available for new Metro projects. Nevertheless, Metro determined in December 2021 it would request an advance of future RIP shares for mobility improvement projects associated with the I-710 North project. LPP is already programmed for the Project. Future LPP funding is allocated for other projects in Metro's financial forecast.

Metro receives federal formula funding from the Congestion Mitigation and Air Quality (CMAQ) Improvement Program and the Surface Transportation Block Grant Program (STBG). Metro's apportionments from these programs are expected to increase from the 2021 Bipartisan Infrastructure Law. Unfortunately, the Project is not eligible for federal funding because it was not environmentally cleared under the National Environmental Policy Act (NEPA).

Recommendation

Metro staff recommends the use of \$75,000,000 of additional New Starts, which will make available an equal amount of Measure R Transit 35% for the proposed \$75,000,000 LOP budget increase.