

ATTACHMENT B

Regional Connector 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 Regional Connector Transit Corridor Project (Project) is subject to this policy analysis.

The life of project (LOP) budget for the Project was last approved by the Board in January 2017 at \$1,755,840,570. The Project is subject to the Policy analysis now due to a proposed \$39,000,000 (2.22%) increase to the LOP budget. Funding for the cost increase is needed in FY 2025 and 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.

The policy was amended in January 2015 to establish Regional Facility Areas at Ports, airports and Union Station; and states that any:

“...capital project cost increases to Measure R funded projects within the boundaries of these facilities are exempt from the corridor and subregional cost reductions. Cost increases regarding these projects will be addressed from the regional programs share.”

The Regional Connector Project does not fall within a Regional Facility Area.

Scope Reductions

The project has already been completed. Therefore, scope reductions are no longer an option. 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 funding and is allocated \$160,000,000 of Measure R funding that is identified in the Measure R sales tax ordinance Expenditure Plan for the Regional Connector project. Since the Project is capped at \$160,000,000 of Measure R, no further Measure R funds can be allocated to this project.

Additionally, this Project is not eligible for Measure M funding, as it is not identified on the Measure M sales tax ordinance Expenditure Plan.

Local Agency Contributions

The City of Los Angeles has contributed \$41,984,000 to the Project as a 3% local agency contribution. Local cities are generally not responsible for cost increases to the projects and are not considered as a source of funding for the cost increase.

Measure R, Proposition A, and Proposition C provide “local return” funding to Los Angeles. 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)

Metro was awarded \$669.9 million in federal funding through the New Starts program for the Project. The March 2021 federal American Rescue Plan Act provided an additional \$59,228,414 in New Starts grants. No additional New Starts funding is available to fund the Project cost increase.

The project is also supported by the State Capital Project Loans totaling \$242.19 million, along with \$114.87 million from the State High-Speed Rail bonds.

Additional State or federal discretionary funding (where Metro would compete for the funding) is not probable, given the Project is in the close out phase and the design/build contract scope is already completed.

Value Engineering

The project has been completed and the proposed cost increase is to fund additional costs to close out the remaining financial items with the contractor and reach a settlement. After close out, Metro will then officially close the contract with the

contractor. Therefore, value engineering is no longer an option, and we recommend moving to the next step.

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

Since the funding for the Project LOP increase is needed for FY 2025, it would be administratively challenging to secure a technical solution and Board approval to reallocate funds from other capital projects for the Project's cost increase. Potential capital projects along the Project corridor for fund transfers include the Eastside Extension Phase 2 and the A (Gold) Line Extension to Montclair, both of which have already had their scope and funding approved by the Metro Board. While it is possible to explore cost reductions in other projects within the corridor or subregion to cover the cost increase, staff has not identified any projects that could be reduced to provide the necessary funding within the timeframe needed to fund the Project.

The City of Los Angeles also receives funding through the Call-For-Projects, the competitive grant program funded and managed by Metro for the benefit of LA County cities, transit operators, and State highway projects 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, subject to Board approval of the use.

As the Project is not eligible for Measure M, the Measure M transit-eligible funding program Subregional Equity Program (SEP) does not apply to the Project.

Countywide Cost Reductions and/or Other Funds

Given the nature of the Project cost increase, new grant funding sources are unlikely, and regional or countywide funding will be necessary.

Eligible countywide funding sources include Proposition A and C (allocated to the portion of the project not attributed to "new subway"), the General Fund, Transportation Development Act (TDA) funds, and Lease Revenues. The project is supported by \$235,362,170 from the General Fund. The cost increases will resolve all outstanding financial items with the contractor and complete the elements that qualify for transit-related streets and highways funding.

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. Currently, there is limited capacity in the RIP and LPP. The RIP has been allocated to projects submitted in Metro's RTIP, and the next cycle of the LPP (nominations due November 20, 2024) is planned to be used for other purposes. In addition, the Project is not likely eligible for RIP or LPP funding as the cost increase is for the Project closing settlement and the Project has experienced multiple cost increases.

The Project is also funded by the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) through Proposition 1B, with \$135,162,779 in state funding.

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 increased in the 2021 Bipartisan Infrastructure Law (i.e., Infrastructure Investment and Jobs Act), which is a five-year authorization bill. A total of \$64,000,000 from CMAQ and \$1,411,499 from STBG have been allocated to support the Project. Currently, projects seeking CMAQ and STBG must now be nominated by Metro and submitted to SCAG for selection approximately every two years, and the Metro Board and SCAG approvals to use CMAQ and or STBG for the Project cost increase would not be possible within the timeframe funds are needed.

Recommendation

Based on consideration of each of the required steps in the Policy process, and consideration of the availability and eligibility of funds by Metro budget and financial planning staff, Metro staff recommends using \$39,000,000 from TDA Article 4 to fund the proposed \$39,000,000 LOP budget increase. There are sufficient TDA Article 4 funds available for FY 2025. The TDA Article 4 funds are eligible for Metro transit operations.