

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 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 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 April 2023 at \$956,749,577. The Project is subject to the Policy analysis now due to a proposed \$99,730,000 (10.4%) 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 funding additional staffing needed to expedite the review and approval of work, as well as replenish contingency funds to address any owner-caused delays resulting from design changes or Metro's operational needs. Any attempt to identify and negotiate agreeable reductions to the scope to offset the cost increase 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 Board has also approved transfers of Measure R from the Crenshaw/LAX project to Westside Subway Extension totaling \$415,391,156. The transfers were made because the Westside Subway Extension is generally not eligible for Proposition A and C funding (because it is “new subway”) and, under certain conditions, the Measure R available for the Westside Subway Extension could be reduced to pay for debt interest (pursuant to the Metro Fiscal Stability Policy). Prior to the proposed LOP increase to the Project, the Board has approved \$4,110,355,492 of Measure R Westside Subway Extension programming for Sections 1, 2, and 3, and for Division 20.

The Project is in the Central City Area but serves the Metro B (Red) and D (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 B (Red) and D (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 the Gold Line Foothill Extension, the South Bay and Central City Area subregions to address a \$90 million cost increase on Crenshaw/LAX Transit (subject to the approval by the subregions), the Central City Area and Westside Cities subregions to address a \$150 million cost increase on Westside Purple Line Extension Section 1 (subject to the approval by the subregions), and Central City Area subregion to address a \$11.9 million cost increase on Eastside Light Rail Access (subject to the approval by the subregions). 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)

Metro was awarded with \$69.2 million of Transit and Intercity Rail Capital Program (TIRCP) state funding for the Project. In addition, the FTA has previously granted the WSE Section 1, 2, and 3 projects \$1.25 billion, \$1.187 billion, and \$1.3 billion respectfully through the New Starts program. The March 2021 federal American Rescue Plan Act increased the New Starts grants on Section 1, 2, and 3 by a combined \$218,284,002.

In addition, through federal budgetary action, FTA provided an additional \$59,583,554 for Section 1 and has accelerated much of all three sections' New Starts funding compared to the scheduled payments in the Full Funding Grant Agreements. Metro used the additional and accelerated New Starts to address \$66,428,844 of a \$150,000,000 cost increase for Section 1 in May 2021, a \$75,000,000 cost increase for Division 20 in February 2022, an \$80,000,000 cost increase for Division 20 in April 2023, and a \$134,000,000 cost increase for Section 2 in July 2023.

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 funding additional staffing needed to expedite the review and approval of work, as well as replenish contingency funds to address any owner-caused delays resulting from design changes or Metro's operational needs. 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 the section "Subregional Programs."

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.

The subregions receive Measure M funding for other transit capital projects - Sepulveda Pass Transit Corridor, Crenshaw Northern Extension, West Santa Ana Branch, Vermont BRT, and Lincoln Blvd BRT. These projects have not been completed or have not completed their respective environmental processes. 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 being programmed for 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 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 approved funding plan, before the current LOP increase, includes \$133.1 million of LPP and no RIP is allocated. 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 it is already in construction and has experienced multiple cost increases.

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. Projects seeking CMAQ and STBG must now be nominated by Metro and submitted to SCAG for selection approximately every two years. Unfortunately, the Project is not eligible for federal funding because it was not environmentally cleared under the National Environmental Policy Act (NEPA).

Recommendation

Based on consideration of each of the required steps in the Policy process, Metro staff recommends using \$99,730,000 from Measure R 35% Transit Capital funds to fund the proposed \$99,730,000 LOP budget increase. The Measure R is designated for the Project in the sales tax ordinance, and there are sufficient funds available.