

ATTACHMENT D

Crenshaw/LAX Close Out 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 Crenshaw/LAX Close Out 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 May 2020 at \$30,000,000. The Project is subject to the Policy analysis now due to a proposed \$17,000,000 increase to the LOP budget. Funding for the cost increase is needed through FY 2025. This analysis recommends trade-offs required by the Policy to identify the funds necessary to meet the cost increase.

The LOP budget requires an increase of \$17,000,000 to pay for construction escalation due to market conditions, increased legal services, Metro staff, and professional service contracts to continue management and oversight of the Project.

The original LOP was to provide support to achieve Substantial Completion in December 2020 and revenue service to commence in 2021. The revenue service date for the Project is currently forecasted to be fall 2022.

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. Increases will be measured against subsequent actions on cost estimates taken by the Metro Board of Directors, including the determination of the budget. 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 sub-region; 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 attributable to higher construction costs due to market conditions, increased legal and claim support services, and additional management and oversight. 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 R funding but this is entirely allocated to the Crenshaw/LAX Transit project.

The Project is located in the South Bay and Central City Area subregions (as defined in the Policy, as amended), with station locations in the cities of Los Angeles and Inglewood. Local funding resources from both the subregions and cities could be considered for the cost increase.

Subregional Programs and Local Agency Contributions

Measure R, as amended, includes funding for a "South Bay Transit Investments" program and the South Bay subregion (represented by its Council of Governments) could allocate a portion of the funding for the Project. Metro staff will contact the subregion to determine if it would allocate any funding. However, due to the time constraints of this Board item, this funding is not considered available for the Project cost increase.

Measure M includes funding for a transit-eligible multi-year subregional program (MSP) for the South Bay and Central City Area subregions. The MSP is eligible beginning FY 2018 and entitled the Subregional Equity Program (SEP). However, Motion #2021-0435 amends the Policy to "eliminate the Subregional Equity Program from consideration to address project funding shortfalls during construction" and is not considered available for the Project cost increase.

Local Agency Contributions

The cities with Project stations have agreed to contribute funding to the Project as part of the 3% local agency funding assumption included in the Measure R ordinance. Metro is front-funding the Los Angeles share of \$89.7 million with the city making payments to Metro through FY 2023. Inglewood has agreed to pay \$12 million, with \$6 million in-kind for future first-last-mile improvements, and \$6 million in payments made over 40 years (with no payments or interest accrued for ten years). The cities are generally not responsible for cost increases to the projects and this restriction is included in the local agency contribution agreements between Metro and the cities.

Measure M, as well as Measure R and Propositions A and C, provide "local return" funding to Los Angeles and Inglewood. The cities will receive an estimated \$3.3 billion

of local return (Los Angeles \$3.2 billion, Inglewood \$90 million) over the ten year period FY 2023 to FY 2032 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 Foothill Extension to Pomona, 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 State has previously granted the Crenshaw/LAX Transit project \$129.1 million through Prop 1B grants and the USDOT has provided funding through a \$13.9 million TIGER grant and \$545.9 million TIFIA loan. Additional State or federal discretionary funding (where Metro would compete for the funding) is not probable, given the Crenshaw/LAX Transit project and Crenshaw Close Out Project have experienced multiple cost increases and the design/build contract is almost completed.

Value Engineering

The Project cost increase is attributable to higher construction costs due to market conditions, increased legal and claim support services, and additional management and oversight. 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 spent. The potential use of the MSP and SEP are discussed above in section "New Local Agency Funding Resources."

The cities also 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, and all other projects are moving through their respective development process.

The Project is within the same corridor as the Airport Metro Connector, which is currently in construction with an LOP budget of \$898,581, approved by the Board in April 2021. This project is not yet completed and does not have cost reductions that could be used for the Project.

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 financial forecast, during the timeframe when funds are needed for the Project

cost increase. A reallocation of the funds to the cost increase would divert the funding from other Board-approved uses and or require additional debt financing. Eligible sources of countywide funding include Proposition C 25% (Transit-Related Streets and Highways), Proposition C 40% (Discretionary), and Proposition A 35% (Rail Development).

Through FY 2025, the Proposition C 25% funds are currently planned, from highest to lowest, for debt service on Metro bonds, I-5 South Carpool and Mixed Flow Lanes I-605 to OCL, Freeway Service Patrol, Blue Line Track and System Refurbishment, and the Crenshaw/LAX Locally Funded Activities Project. The Proposition C 40% is planned for Metro bus operations, ADA-paratransit operations, debt service, Metro bus fleet replacement, and the municipal and non-Metro operators. The Proposition A 35% is planned for debt service on Metro bonds, Metro rail operations, Division 20, Heavy Rail Vehicles, and Light Rail Vehicles.

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. There is currently no capacity in the RIP or LPP through FY 2027. The RIP has been allocated to projects submitted in Metro's 2022 RTIP and the next cycle of the LPP is planned to be used on the Division 20 project.

The Crenshaw/LAX Transit project has previously received federal Surface Transportation Block Grant Program (STBG) and Congestion Mitigation & Air Quality Program (CMAQ) funding and these may be eligible for use on the Project to address the cost increase. However, the funding is currently programmed for other uses in the Long Range Transportation Plan Financing Forecast including Crenshaw/LAX Transit and other Metro rail operating expenses, and HOV projects, and any allocation to the Project would reduce the availability for competing uses as is not recommended.

Recommendation

We recommend that the \$17,000,000 cost increase for the Project is funded with available and eligible local funds at time of expenditure (Countywide Other Funds) as the funding (including debt financing). The Policy analysis has looked at potential cost reductions and these are not feasible given the status of the Project and timing of the funding need. The Policy analysis has also considered local funding from the subregions, including Measure R South Bay Transit Investments, the Subregional Equity Program, local return, and the defunding of projects in the Call For Project and or cost savings from other projects and has determined that this funding is not available. State and federal formula funding were also evaluated but these are not available as they are programmed for other uses in Metro's financial forecast.