ATTACHMENT B

Westside Purple Line Extension Section 1 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 purpose 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 Westside Purple Line Extension Section 1 Project (the Project) is subject to this policy analysis.

The life of project (LOP) budget for the Project was last approved by the Board on May 20, 2021, at $3,128,879,593. The Project is now subject to the Policy analysis due to a proposed $225,000,000 increase to the LOP budget. Funding for the cost increase is needed through FY 2026. The Project anticipates the revenue service date to extend through the summer of 2025. 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 before 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 scope increases to mitigate unavoidable unforeseen conditions were evaluated and deemed necessary. Delays caused by the mitigation of these anomalies have impacted follow-on construction activities. Due to the delays related to the San Vicente Anomaly which affected the Project's revenue service date (RSD), the Project requires the continuation of engineering, construction, and project management services. In addition, extensions to the existing temporary construction easement (TCE) agreements are also required. These TCE agreements are anticipated to be above and beyond the current real estate budget. As the project is nearing completion, scope reductions were 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 funding and is allocated a portion of the total $4,074,000,000 of funding that is identified for the "Westside Subway Extension" in the Measure R sales tax ordinance Expenditure Plan. The Board has also approved transfers of Measure R to Westside Subway Extension totaling $415,391,156 from the Crenshaw/LAX project. 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 located in the Central City and Westside subregions and has station locations in the cities of Beverly Hills and Los Angeles. Local funding resources from both subregions and the cities could be considered for the cost increase.

Subregional Programs

Measure M has funding for a transit-eligible Subregional Equity Program (SEP) in the Central City Area and Westside Cities subregions. The subregions could allocate a portion of the funding for the Project, which requires notice to and approval by the subregions. Metro staff has previously recommended that the Measure M Subregional Equity Program (SEP) is used to address cost increases in the respective subregion. Staff recommended the South Bay and Central City Area subregions allocate a portion of the SEP to address a $90,000,000 cost increase on the Crenshaw/LAX Transit Project, and the San Gabriel Valley subregion allocates $126,000,000 for Gold Line Foothill 2B. Metro staff has also recommended that the Central City Area and Westside Cities subregions use the SEP to reimburse $84,571,156 for a Westside Extension Section 1 cost increase, and Central City Area utilize SEP funding to address an $11,900,000 shortfall on the Eastside Light Rail Access project (Board item #2020-0931). 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 of Los Angeles and Beverly Hills have Project stations and are expected to contribute funding to the Project as part of the 3% local agency funding assumption included in the Measure R ordinance and is a requirement of the Measure M ordinance. However, the cities are generally not responsible for cost increases to the Project, and 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 and Beverly Hills. Los Angeles will receive an estimated $3.8 billion of local

return over ten years from FY 2023 to FY 2032 while Beverly Hills is expecting $32 million 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 presumed these funds would similarly not be available for the cost increase to the Project.

State and Federal Funding (Discretionary)
The FTA has previously granted the Purple Line Subway Extension Section 1, Section 2, and Section 3 projects $1.25 billion, $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 all three sections by $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 Agreement.

Metro used the additional 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, the $134,000,000 cost increase for Section 2 in July 2023, but no further capacity remains.

Additional State or federal discretionary funding (where Metro would compete for the funding) is not probable, given that the Project has experienced cost increases, and the design/build contract has already been awarded.

<u>Value Engineering</u>
The requested Project cost increases are primarily due to the discovery of unexpected conditions in the path of construction. Value Engineering principles have been utilized to the extent possible to address the problems that were encountered. Efforts were made to select the best value option for each situation that balanced the need for a cost-effective solution while minimizing the potential impacts on project completion dates. If the obstructions had not been discovered and removed before the arrival of the tunnel boring machines (TBMs), the cost of extracting the damaged machines through the street surface above would have been considerably higher. Any attempt to identify and negotiate agreeable value engineering may result in further delays and potential additional costs.

<u>Other Cost Reductions within the Same Transit or Highway Corridor or the Same Sub-region</u>
The city and subregion 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 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. Currently, there is no meaningful amount of de-obligated funds available unless the city chooses 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

Regional or countywide funding could be considered if new local agency resources are not allocated to the Project cost increase. These funds are programmed for other 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, including operations-eligible funds, are limited due to the restriction on using Proposition A and C for the Project and include General Fund and Lease Revenues. To address the restriction on Proposition A and C for the new subway, Metro has previously implemented multi-project funding swaps where Proposition A and or C was programmed on a project and an equal amount of Measure R was then programmed on the subway project with the cost increase. Countywide funds would be considered if new local agency resources are not utilized for the cost increase.

State and Federal Funding (Formula)

Metro receives quasi-formula funding through the Congestion Mitigation & Air Quality Program (CMAQ), Regional Improvement Program (RIP), Local Partnership Program (LPP), and Surface Transportation Block Grant Program (STBGP) (Formerly RSTP). The approved funding plan, before the current LOP increase, includes $12.2 million of CMAQ, but no STBGP, RIP, and LPP are allocated. However, there is currently no capacity in the RIP or LPP. The RIP has been allocated to projects submitted in Metro's RTIP, and the next cycle of the LPP is planned to be used for other purposes. CMAQ and STBGP program guidelines after the 2021 corrective action now require any new project or new project phase funded with CMAQ and/or STBGP funds to be subject to a formal nomination and competitive project selection process. As a result, programming additional CMAQ and STBGP to the Project would be more difficult and require additional time.

Recommendation

Metro staff recommends using $225 million of local Measure R 35% Transit Capital for the proposed LOP budget increase.