

ANALYSIS OF UNIFIED COST MANAGEMENT PROCESS AND POLICY FOR MEASURE R PROJECTS

Introduction

The Measure R Cost Management Process and Policy (the Policy) was adopted by the Metro Board of Directors in March 2011. The Policy caps Measure R project funding at the amounts in the Expenditure Plan approved by voters. The intent of the Policy is to inform the Metro Board of Directors regarding potential cost increases to Measure R-funded projects and the strategies available to close any funding gaps. The Regional Connector project is subject to this policy analysis.

The Regional Connector Project Life-of-Project budget requires an increase in cost from \$1,420.02 million to \$1,551.84 million (Table 1). This analysis recommends trade-offs required by this policy to identify the funds necessary to meet the \$131.82 million multi-year cost increase described below.

Table 1 – Regional Connector Cash Flow Needs (\$ in millions)

Capital Project 860228	Prior	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Total
Total Project Cost (Oct 2015)	414.0	248.3	220.7	156.6	179.9	246.6	66.0	19.7	1,551.8
Original LOP (April 2014 Bd Rept)	372.5	273.1	255.8	242.4	222.5	38.3	15.3	-	1,420.0
2015 Over/(Under) 2014 LOP	41.4	(24.9)	(35.1)	(85.8)	(42.5)	208.3	50.6	19.7	131.8
Cash Flow as of FY2016 Budget	372.5	227.8	301.2	242.4	222.5	38.3	15.3		1,420.0
Oct 2015 Over/(Under) FY2016	41.4	20.5	(80.4)	(85.8)	(42.5)	208.3	50.6	19.7	131.8

To increase the Regional Connector Project Life-of-Project budget, the Board's Policy calls for approval of an action plan to address the increase at the project level, i.e. with value engineering, scope reductions, local contributions, corridor and/or sub-regional contributions, prior to using other countywide resources, as described below.

Measure R Cost Management Policy Summary

The adopted Policy stipulates the following:

If a project increase occurs, the LACMTA 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 the 2009 Long Range Transportation Plan (LRTP) as adjusted by subsequent actions on cost estimates taken by the LACMTA Board of Directors. With certain exceptions, shortfalls will first be addressed at the project level prior to evaluation for any additional resources using these methods in this order:

- 1) Value engineering and/or scope reductions;
- 2) New local agency funding resources;

- 3) Shorter segmentation;
- 4) Other cost reductions within the same transit corridor or highway corridor;
- 5) Other cost reductions within the same sub-region; and finally,
- 6) Countywide transit and highway cost reductions and/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.

Value Engineering and/or Scope Reductions

The Regional Connector Project has undergone several scope reductions, including the removal of the 5th/Flower Street Station. Further reductions in scope would likely substantially delay the project or result in a project not consistent with the Locally Preferred Alternative. As a result, we recommend moving to the next step.

New Local Agency Funding Resources

At this time, there are no new additional funding resources available to this project. At this time, the funding levels from MAP-21 have not been increased. Additionally, the zero fund estimate for the 2016 State Transportation Improvement Program has resulted in no new programming capacity from the state. As we move forward, we can bring new funding opportunities to the Board's attention. Given the lack of new funding resources, we recommend moving to the next step.

Shorter Segmentation

Given that the goal of the Regional Connector project is to provide seamless travel between two points, it is not possible to shorten the project. The two end points of the project (Little Tokyo/Arts District Station and 7th Street/Metro Center Station) are 1.9 miles apart and there is no possible way to shorten the segment between these points which is consistent with the LPA and the operational objectives of the project. We therefore recommend moving to the next step.

Other Cost Reductions within the Same Transit Corridor

As the Regional Connector links several corridors together into one, we looked at possible cost reductions along all connected corridors. The corridors included in this analysis were Exposition Light Rail Transit Phase II, Gold Line Foothill Extension Phase 2A, and the Gold Line Eastside Transit Corridor Extension Phase II.

The Exposition Phase II and Gold Line Foothill Extension Phase 2A project are undergoing pre-revenue service testing. At this time, it is not possible to attain project savings from these projects as there may remain additional closeout costs and claims

which need to be settled. The Gold Line Eastside Extension Phase II project is not funded in the first decade, making it impossible to reduce its scope of work and move funds from that project to the Regional Connector.

Other Cost Reductions within the Same Sub-region

The Regional Connector Project is located within the Central Subregion. Given that this project will create continuous corridors between several subregions (Central, Gateway, San Gabriel Valley, and Westside), we are recommending that the cost increase of the Regional Connector Project be dealt with at the Countywide level.

Countywide Cost Reductions and/or Other Funds

Given the regional nature of this project, we are proposing shifting funds between two other projects and deferring a future transit or highway project as shown in Table 2. This is necessary for two principal reasons: 1) Proposition A and Proposition C funds are restricted to non-subway uses only; and, 2) no additional Measure R Transit Capital subfund can be assigned to this project because the Measure R Expenditure Plan caps the Measure R contribution at \$160 million. Additionally, the lack of additional funding resources from the state and federal level at this time means we may need to defer future projects to maintain the delivery schedule of projects under construction.

To close the Regional Connector Project funding gap, we recommend shifting \$131.82 million in Repayment of Capital Loans Fund 3562 from the Purple Line Extension to the Regional Connector. To replace those funds, we recommend backfilling the Purple Line Extension with Measure R Transit Subfund, previously assigned to the Crenshaw/LAX LRT Project. To then fully restore funding to the Crenshaw/LAX LRT Project, we recommend using Proposition C 25% funds for that project.

Table 2 – Strategy to Address Regional Connector Funding Gap

	Repayment of Capital Loans	Measure R 35%	Proposition C 25%	Total
Regional Connector	\$131.82			\$131.82
Purple Line Extension	(\$131.82)	\$131.82		\$0
Crenshaw/LAX LRT		(\$131.82)	\$131.82	\$0
Additional SRTP Shortfall			(\$131.82)	(\$131.82)
Balance	\$0	\$0	\$0	\$0

To make the Proposition C 25% available, a future highway or transit project that is not yet awarded for construction may need to be deferred. On June 22, 2015, we provided the Board through a Board Box Memo with an illustrative example of projects that may be deferred. This analysis arose out of a request from the Board and the Executive Director, Finance and Budget.