

## **ATTACHMENT B**

### **Crenshaw/LAX Transit 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 Transit 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 June 2013 at \$2,058,000,000. The Project is subject to the Policy analysis now due to a proposed \$90,000,000 increase to the LOP budget. Funding for the cost increase is needed through FY 2023. This analysis recommends trade-offs required by the Policy to identify the funds necessary to meet the cost increase.

The Project has previously recognized cost increases and the Metro Board implemented the Policy in June 2013 to address a \$160,100,000 cost increase to the base project (excluding a \$135,000,000 increase to the LOP for station improvements that were not considered cost increases). The Board approved funding of the cost increase using \$149,910,000 of the countywide share of Proposition C 25% and \$10,090,000 that was taken from the Wilshire Bus Rapid Transit project.

##### **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 schedule delays and the need for additional Metro project management support services. 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 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 both Measure M and Measure R funding and is currently allocated \$1,207,000,000 of funding that is identified in the Measure R sales tax ordinance Expenditure Plan, less \$131,800,000 that the Board reallocated to the Purple Line Extension project (Board item #2015-1630) to address a Regional Connector cost increase.

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. The Project is primarily in the South Bay (59%) with the remainder in the Central City Area (41%) based on distance. Local funding resources from both the subregions and cities could be considered for the cost increase.

### *Subregional Programs and Local Agency Contributions*

Measure M includes funding for a transit-eligible multi-year subregional program (MSP) for the South Bay and Central City Area subregions. The subregion (represented by its Council of Governments) could allocate a portion of the funding for the Project. Measure R includes funding for a "highway program" in the South Bay. Any use of this funding source would require a transfer to the transit fund and an amendment of the Measure R ordinance so that the funds are eligible for a transit use. The Measure R transfer amendment is in progress and expected to be considered by the Metro Board in June 2020.

In the South Bay, the MSP program with transit funding eligible beginning FY 2018 is the Subregional Equity Program (SEP). South Bay has two highway-eligible MSP but these cannot be used on the Project without an amendment to the Measure M ordinance (which cannot occur, per the Measure M ordinance, until July 2026). Metro has assigned \$130.0 million for the SEP in the Long Range Transportation Plan that would be available to the South Bay subregion, funded from Measure M, beginning in FY 2043. The Board has directed (Motion 36.1 #2019-0598) that the SEP is escalated to the year of expenditure. The escalation increases the SEP to \$287.5 million through FY 2057 (the final year of the Long Range Transportation Plan planning horizon) and \$355.0 million in total through FY 2062, if spent in these years. To utilize this funding for the project, the programming of the funds would need to be accelerated. However, the acceleration of the funds results in a funding shortfall as there is other Metro spending planned and to make capacity for the acceleration Metro must prioritize and reduce

funding for other project or programs, or use additional debt financing. In order to mitigate the impact of accelerating the funds on other Metro projects and programs, the SEP funding could be “discounted” or reduced, resulting in approximately \$90 million available now for the Project.

The Central City Area subregion also has a SEP that is transit-eligible. The Measure M Expenditure Plan includes \$235 million for the Central City Area SEP. With escalation, this increases to \$519.8 million through FY 2059 and \$641.8 million through FY 2062, if spent in these years. If accelerated to fund the Project cost increase, the reduced amount that mitigates the impact on other Metro spending is approximately \$160 million.

Measure R includes funding for the "Interstate 405, I-110, I-105, and SR-91 Ramp and Interchange Improvements (South Bay)," also described as the "South Bay Ramp and Interchange Improvements Project." In order that these funds can be programmed for use on the Project, they would need to be transferred to the Measure R transit fund, in accordance with the provisions of the ordinance. A process to amend the Measure R ordinance is underway and could provide funding for the Project. There is approximately \$500 million of funding (subject to verification from the South Bay COG) that has not already been programmed by Metro or otherwise committed for the existing highway program. This notwithstanding, the South Bay COG has identified alternative uses for the planned transfer of Measure R highway program funds.

#### *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 2021 to FY 2030 that is eligible for transit use and could contribute a portion to the Project (not adjusted for any negative impact to countywide sales tax due to the current global pandemic). However, prior Board actions relating to the Twenty-Eight by '28 Initiative and funding for the cost increase to 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)*

The State has previously granted the 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 Project has experienced multiple cost increases and the design/build contract is already awarded.

#### Value Engineering

The Project cost increase is attributable to schedule delays and the need for additional Metro project management support services. 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, SEP, and Measure R highway program 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, the planned Project station intended to be a gateway to LAX. This project is currently in final design and pending a construction bid in mid-2020 to determine the LOP budget. Funding is not yet available from 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 2023, 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.

The Project is currently allocated (prior to the proposed LOP increase) \$379.1 million in regional Proposition C 25% and \$4.9 million in regional Proposition A 35% 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. There is currently no capacity in the RIP or LPP through FY 2025. The RIP has been allocated to projects submitted in Metro's 2020 RTIP and the next cycle of the LPP is planned to be used on the \$801 million Division 20 project.

Due to the delay in revenue operation, approximately \$16.1 million from the State Low Carbon Transit Operations Program (LCTOP) and \$31.1 million from the federal Congestion Mitigation & Air Quality Program (CMAQ), which were allocated to operating costs of the Project in FY 2021, will no longer be needed for this purpose if the revenue service date is delayed. The LCTOP funds have already been earmarked for bus charging infrastructure, as these funds needed to be allocated to satisfy State requirements. The CMAQ funds in FY 2021 could be used for the cost increase and this would not take away funding from another Metro purpose (procedurally, in order to satisfy grant eligibility requirements, the CMAQ may reimburse previously incurred expenditures). The use of CMAQ is subject to the eligibility requirements related to the existing TIGER grant.

The following table summarizes the potential funding options for the Project cost increase.

**Crenshaw/LAX**  
**Potential Funding Sources/Cost Reductions**  
**(\$ in millions)**

<b>Options</b>	<b>Potential Funding</b>	<b>Year Available</b>
Multi-Year Subregional Programs	not eligible	
Subregional Equity Program-South Bay*	\$ 90.0	2021
Subregional Equity Program-Central City Area*	160.0	2021
Measure R Highway Program**	500.0	2021
Local Return	-	2021
Value Capture Financings	-	2025
Scope Reductions/Value Engineering	-	
CMAQ	33.1	
<b>Total</b>	<b>\$ 783.1</b>	

\* Represents “discounted” value of amount that is currently programmed beginning in FY 2043.

\*\* Requires amendment to Measure R ordinance.