



**MEASURE R PROJECT DELIVERY COMMITTEE
CONSTRUCTION COMMITTEE
JANUARY 20, 2011**

**SUBJECT: UNIFIED COST MANAGEMENT PROCESS AND POLICY FOR
MEASURE R TRANSIT PROJECTS AND STRATEGY TO IMPLEMENT
PROJECTS CONSISTENT WITH BOTH THE LRTP AND 30/10
INITIATIVE**

**ACTION: APPROVE A UNIFIED PROCESS AND POLICY FOR EVALUATING
AND ADDRESSING MEASURE R TRANSIT PROJECT COST
MANAGEMENT AND RECEIVE AND FILE REPORT ON THE
STRATEGY TO IMPLEMENT PROJECTS CONSISTENT WITH THE
LRTP WHILE MAKING PROGRESS TOWARD THE 30/10 INITIATIVE**

RECOMMENDATION

- A. Approve a unified process and policy for the management and minimization of project costs of the Measure R transit projects, including a requirement for the prompt development and consideration of lower-cost project alternatives that address the cost-control policy actions of the Board of Directors to date, including, but not limited to, all of those listed in Attachment A to this report;
- B. Approve that for Measure R funds, such unified process and policy shall include a requirement where Measure R funding (including any prior Measure R expenditures) shall not exceed the amount shown in the "New Sales Tax Total" column of the Measure R expenditure plan;
- C. Direct the Chief Executive Officer (CEO) to meet with City and County staff to review how the Project Advisory Committees (PACs) functioned for both entities, and report back within 60 days with a plan to implement PACs for all 12 Measure R transit projects; and,
- D. Receive and file this response, shown in Attachment B, to the Antonovich/Najarian motion from July 2010 that stated, in part, that the CEO should present:

"A comprehensive, integrated, "cradle-to-grave" strategy for using the funding marks contained in the proposed FY 2011 budget to implement MTA's Long Range Transportation Plan (LRTP) projects on both the LRTP schedule and the potential 30/10 schedule."

ISSUE

As it is essential that costs be managed and controlled to ensure delivery on Measure R, the Board of Directors has asked that staff recommend a process and policy to be followed to manage and control costs and cash flow estimates for the Measure R transit projects. The proposed project cost/schedule containment procedures for all projects require that projects will be managed by the project managers to the approved budget and schedule and with necessary Board approvals at key milestones. However, if the project scope has yet to be defined or the project budget is projected to be above the approved Life-of-Project budget, guidelines are needed for the project managers. This recommendation is to seek Board approval to establish such guidelines through a Board-adopted policy.

The Board also asked for “a comprehensive, integrated, “cradle-to-grave” strategy for using the funding marks contained in the proposed FY 2011 budget to implement MTA’s LRTP projects on both the LRTP schedule and the potential 30/10 schedule.” Attachment B of this report is intended to provide a status report on our progress toward implementing the LRTP in the context of both the 30/10 Initiative and Accelerated Highway program efforts. The analysis shows the relationship of the FY 2011 budget to the latest LRTP financial strategies. MTA staff has been seeking to make funding decisions that enable progress on the 30/10 Initiative and Accelerated Highway program, while remaining consistent with the ultimate fallback strategy of the LRTP. This conservative strategy is now, and will continue to be, necessary as long as significant 30/10 and Accelerated Highway program legislative requests remain outstanding.

POLICY IMPLICATIONS

This report pulls together prior Board actions to create a unified cost management process and policy approach to addressing Measure R transit project cost controls. The proposed policy described in detail in Attachment A establishes Measure R transit project funding caps and requires specific Board action at key milestones to control and minimize potential cost increases as early in the process as possible. Cost increases that cannot be addressed at the project level by value engineering or other measures, such as changes in the scope of the project, will be subject to a new evaluation process. The new step-by-step evaluation process will require the Board to approve an evaluation of project cost estimates against funding resources at key milestone points throughout the environmental, design, and construction phases of the Measure R transit projects. If increases in cost estimates occur, the Board must approve a plan of action to address the issue before taking any action necessary to permit the project to move to the next milestone. Increases in cost estimates will be measured against the 2009 LRTP as adjusted by subsequent actions on cost estimates taken by the Board.

Transit Corridor and Sub-Regional Steps Not Recommended

We carefully considered adding transit corridor and sub-regional steps to the process of identifying possible cost and funding trade-offs for project cost increases or funding shortfalls. In doing so, we kept in mind this main objective: All Measure R projects must be delivered and all must have equal access to receiving their funds in a timely manner consistent with the expenditure plan brought to the voters.

We have concluded that adding transit corridor and sub-regional steps to the process would introduce unproductive complexities and ambiguities to the process of identifying solutions to cost increases or revenue shortfalls. On the surface of it, “transit corridor” and “sub-region” sound simple to define, but on closer examination we find the terms to be too subjective: What if one phase of a transit corridor crosses two or more sub-regions? What if one sub-region is expected to pay for a cost increase on the same transit corridor in another sub-region? The Measure R project delivery and funding equity objectives we are seeking are better achieved without the acrimonious and complex debates that would surely be introduced into the process by attempts to reduce the scope of transit corridors and/or secure funding from other sub-regional projects.

The real mechanisms for achieving the project delivery and equity objectives are already embodied in the staff recommendation, without the transit corridor and sub-regional policy features. For example, the policy establishes a Measure R transit project funding cap, requires a specific Board action to increase budgets, and tracks milestones at which costs have increased in the past in an effort to prevent such increases as early in the process as possible.

OPTIONS

The recommendation would require that staff monitor cost control progress at specific project milestones to insure projects are delivered in the most cost effective manner possible. The recommendation also would require that staff bring the projects to the Board of Directors for approvals at key milestones. The Board could elect to proceed on a case-by-case basis or add to, eliminate, or emphasize the following key milestones:

- 1) Selection of conceptual design alternatives to be studied in the environmental phase;
- 2) Selection of the Locally Preferred Alternative and entrance into the Preliminary Engineering phase;
- 3) Approval of the final environmental document and entrance into the Final Design phase;
- 4) Establishment of a life-of-project budget prior to construction; and,
- 5) Any amendment to the life-of-project budget.

These milestone points have been selected because they are common steps that all major capital projects must pass through and a Board action is necessary anyway, even without the policy. Early consideration of cost increases at the milestone points above will facilitate a review of alternatives to added costs. The addition or elimination of the milestones above is not recommended as those listed are the most relevant points at which cost and schedule can be managed to achieve the policy objective. The policy is very project-sensitive and will require case-by-case evaluations at each of the above steps.

FINANCIAL IMPACT

As this process and policy mostly capture past Board policy actions and staff practices, the financial impact of this policy is unknown. The policy is intended to provide a structured and disciplined approach to cost changes and, as such, may yield cost savings or avoid cost increases that would not otherwise be possible without the policy.

BACKGROUND

State and federal law require that the U.S. Department of Transportation (USDOT), California Transportation Commission (CTC), Southern California Association of Governments (SCAG), and the MTA periodically conduct a multi-modal transportation planning and programming process. That process leads to the USDOT adopting a Federal Transportation Improvement Program (TIP), the CTC adopting a State TIP, SCAG adopting a Regional TIP, and MTA adopting a Los Angeles County TIP. Each of these actions must be constrained to resources reasonably expected to be available. The MTA has established its Long Range Transportation Planning and Programming processes to ensure compliance with the State and Federal TIP requirements. One of the key Guiding Principles that the Board of Directors adopted with the LRTP in October 2009 stated that we would adjust our funding strategy and share risk and potential project delays equitably, if there are any revenue shortfalls or cost increases.

Project development work of the MTA has also included many cost control efforts in the past. For example, those prior efforts have resulted in the MTA Financial Stability Policy. This report captures those elements of the Financial Stability Policy that are project-related and builds on them. Unlike Measure R, Proposition A and Proposition C did not list specific projects, funding, and schedules in the voter-approved ordinance. Listing the projects, funding, and schedules in Measure R have prompted the Board to seek ways to accelerate the scheduled delivery of all the Measure R projects as fast as possible. Faster delivery will necessarily depend upon closer adherence to planned costs, which is always a difficult task, given the preliminary nature of the cost estimates when projects are included in the LRTP.

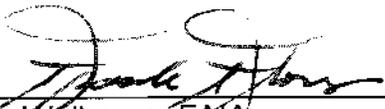
NEXT STEPS

If the Board of Directors approves our recommendation, we will begin implementing the cost control policy with all Board actions scheduled for February 2011 or later.

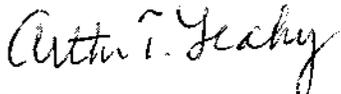
ATTACHMENT(S)

- A. Unified Cost Management Process and Policy for Measure R Transit Projects
- B. Analysis of FY 2011 MTA Budget versus LRTP and 30/10 Initiative Schedules
- C. Policy Implications Discussion

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Unified Cost Management Process and Policy for Measure R Transit Projects

Introduction

The MTA will follow a unified cost management process and policy for the control and minimization of project costs for the Measure R transit projects. At the core of the unified cost control management process and policy is a commitment to follow a new step-by-step evaluation of project costs against possible resources to address project shortfalls. Shortfalls that cannot be addressed at the project level by value engineering or other measures, such as changes in the scope of the project, will be subject to a new stepwise evaluation process.

The new step-by-step cost management process will require the MTA Board to review and consider approval of project cost estimates against funding resources at key milestone points throughout the environmental, design, and construction phases of the Measure R transit projects. At each milestone, MTA staff is directed to: (1) submit a project that is consistent with the budget; (2) identify any issues when a project is not consistent with the budget; and (3) propose corrective actions before the project advances further, if it is not consistent with the budget. For Measure R funds, the planned funding resources (including any prior Measure R expenditures) shall not exceed the amount shown in the "New Sales Tax Total" column of the Measure R expenditure plan. At each milestone, the planned funding resources shall not exceed the amounts shown. These key milestones include the following decision points:

- 1) Selection of conceptual design alternatives to be studied in the environmental phase;
- 2) Selection of the Locally Preferred Alternative and entrance into the Preliminary Engineering phase;
- 3) Approval of the final environmental document and entrance into the final design phase;
- 4) Establishment of a life-of-project budget prior to construction; and,
- 5) Any amendment to the life-of-project budget.

If increases in cost estimates occur, the MTA Board 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 in cost estimates will be measured against the 2009 Long Range Transportation Plan as adjusted by subsequent actions on cost estimates taken by the MTA Board. 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; and,

- 4) Countywide transit cost reductions or other funds will be sought using pre-established priorities.

The objective of the cost management process and policy is to insure the prompt development and consideration of project cost alternatives that genuinely address the cost controls necessary to successfully deliver all 12 Measure R transit corridor projects.

Process and Policy Detail

The unified cost management processes and policies that are proposed controls are as follows:

- 1) A regional long-range transportation plan (covering at least 20 years) for Los Angeles County shall be adopted at least once every five years. For interim years, staff will report on changes affecting the major financial assumptions of the plan and progress toward the implementation of new projects and programs. The plan update report shall also highlight Board approved actions taken during the interim period that affect the plan outcomes or schedules (*from Financial Stability Policy*);
- 2) MTA shall complete projects accelerated through the 30/10 Initiative in the same sequence as the adopted 2009 Long Range Transportation Plan (LRTP) (*from 30/10 Initiative Position Statement*);
- 3) MTA shall only utilize pledged federal assistance from the 30/10 Initiative if the construction and financing costs are less than the available funds (adjusted for inflation) planned in the adopted 2009 LRTP, unless those costs are being adjusted by the minimum necessary to accomplish an operable segment for the corridor (*from 30/10 Initiative Position Statement*);
- 4) Measure R transit corridor projects shall be presented separately for approval by the Board in a step-by-step cost control process that will evaluate project cost estimates against funding resources at key milestones points throughout the environmental, design, and construction phases of the 30/10 transit projects. For Measure R funds, the planned funding resources (including any prior Measure R expenditures) shall not exceed the amount shown in the "New Sales Tax Total" column of the Measure R expenditure plan. These key milestones include the following decision points:
 - a. Selection of conceptual design alternatives to be studied in the environmental phase;
 - b. Selection of the Locally Preferred Alternative and entrance into the Preliminary Engineering phase;
 - c. Approval of the final environmental document and entrance into the Final Design phase;
 - d. Establishment of a life-of-project budget prior to construction; and,
 - e. Any amendment to the life-of-project budget.

- 5) At any of the milestones above, the MTA will seek to control and minimize Measure R transit project costs prior to taking any action necessary to permit the project to move to the next milestone. Cost minimization efforts will be measured against the 2009 Long Range Transportation Plan as adjusted by subsequent actions on cost estimates taken by the MTA Board. Shortfalls will first be addressed at the project level prior to evaluation for any additional resources using these methods in this order:
 - a. Value engineering and/or scope reductions;
 - b. New local agency funding resources;
 - c. Shorter segmentation; and,
 - d. Countywide transit cost reductions and/or other funds will be sought using pre-established priorities, as follows:
 - i. Where applicable, Measure R Transit Capital Subfund Contingency-Escalation Allowance funds (Measure R Expenditure Plan, Page 2 of 4, Line 18); and,
 - ii. Where Line 18 is not applicable, the LRTP Near-Term Strategies and Priority Setting Criteria will be followed (Item 9, as Adopted by the Board of Directors in March 2010).

Each Measure R transit project will be considered on a case-by-case basis at each milestone and a rationale developed if resources from the prior step above are insufficient or not recommended for good reason. The MTA Board will be presented with all viable options and will have the sole authority to make any final funding and project delay decisions.

- 6) Prior to inclusion in the annual budget, Measure R transit corridor projects shall be presented separately for approval by the Board for a life-of-project budget. Subsequently, capital projects with life-of-project budget changes that cause the project to exceed \$1 million or if the change exceeds \$1 million shall be presented to the Board for approval (*from Financial Stability Policy*);
 - a. Prior to life-of-project budget approval, the MTA shall compare the sum of the cost of the Measure R transit projects to date and the proposed life of project budget (as de-escalated) to the most up-to-date LRTP funding forecast for Measure R transit projects. If the life-of-project budget is less than the anticipated funds available as compared to the up-to-date LRTP funding forecast, then MTA can approve the life of project budget. If the life-of-project budget are more than the available funds, then MTA would not execute a construction contract unless the MTA Board approved cost reductions, project delays or other funding to make up the difference (*modifies and would supersede language from the body of 30/10 Initiative Position Statement*);
- 7) Prior to approval of a life-of-project budget that exceeds currently committed revenues and prior to approval of a life-of-project budget cost increase, MTA staff

will evaluate the possibility of securing the necessary cost savings or revenues for the project. Within the parameters of the MTA Board's policy not to seek transit funds from highway resources, or vice-versa, staff will first seek to identify cost and/or additional funds in a step-by-step manner from:

- a. Value engineering and/or scope reductions;
 - b. New local agency funding resources;
 - c. Shorter segmentation; and,
 - d. Countywide transit cost reductions and/or other funds will be sought using pre-established priorities, as follows:
 - i. Where applicable, Measure R Transit Capital Subfund Contingency-Escalation Allowance funds (Measure R Expenditure Plan, Page 2 of 4, Line 18); and,
 - ii. Where Line 18 is not applicable, the LRTP Near-Term Strategies and Priority Setting Criteria will be followed (Item 9, as Adopted by the Board of Directors in March 2010).
- 8) A specific MTA Board action is required to re-program highway capital project funding for use on transit capital projects as a result of 30/10, unless such re-programming does not result in a net decrease to the highway capital project funding (*from 30/10 Initiative Position Statement*);
- 9) Likewise, a specific MTA Board action is required to re-program transit capital project funding for use on highway capital projects as result of 30/10, unless such re-programming does not result in a net decrease to the transit capital project funding (*from 30/10 Initiative Position Statement*); and,
- 10) Any capital project savings above \$200,000 must return to the Board for approval prior to the reprogramming or transfer of funds to other projects or programs (*from Financial Stability Policy*).

Analysis of FY 2011 MTA Budget versus LRTP and 30/10 Initiative Schedules

The MTA Board asked for “a comprehensive, integrated, “cradle-to-grave” strategy for using the funding marks contained in the proposed FY 2011 budget to implement MTA’s Long Range Transportation Plan (LRTP) projects on both the LRTP schedule and the potential 30/10 schedule.” This section of this report is intended to provide a status report on our progress toward both the LRTP and 30/10 Initiative and the relationship of that progress to the FY 2011 budget.

MTA staff has been seeking to make funding decisions that enable progress on the 30/10 Initiative, while remaining consistent with the ultimate fallback strategy of the LRTP. This conservative strategy is now, and will continue to be, necessary so long as significant aspects of the following 30/10 legislative requests remain outstanding:

- Full Funding Grant Agreements (FFGAs) for the Subway and Regional Connector. Accomplishing 30/10 requires two FFGAs, one for each of these projects. In total, the FFGA’s are assumed to provide \$2.9 billion in 30/10 resources;
- Qualified Transportation Improvement Bonds (QTIBs). The full implementation of the 30/10 Initiative for all 12 transit projects is predicated on the availability of \$5.75 billion in federally subsidized borrowing. The federal subsidy assumed would make this borrowing virtually interest free.
- Transportation Infrastructure Finance and Innovation Act (TIFIA) loans for \$1.7 billion, of which \$545.9 million for the Crenshaw/LAX Transit Corridor project was announced on October 15, 2010.

Our analysis of the FY 2011 budget, the LRTP, and the 30/10 Initiative revealed differences, some of which are to be expected given the dynamic nature of project development and the bifurcated LRTP and 30/10 course we are pursuing. Other differences were unexpected, as we will explain. Overall, Table 1 shows that the budget is substantially less than anticipated in both the LRTP and the combined 30/10 Initiative and Accelerated Highways programs. As explained below, the higher transit budgeting versus the LRTP is cancelled out by the much lower highway budgeting versus the LRTP.

Table 1, “Funding Strategy Differences Among FY 2011 Budget, LRTP, and 30/10”, summarizes the analysis conducted:

Table 1: Funding Strategy Differences Among FY 2011 Budget, LRTP, and 30/10

(\$'s millions)		For comparative purposes, funds and costs not impacting the MTA Budget are excluded from the LRTP and 30/10 data			
Program	FY 2011 MTA Budget	FY 2011 LRTP	FY 2011 30/10 Initiative or Accelerated Highways	Budget Less LRTP	Budget less 30/10 Initiative or Accelerated Highways
Transit	\$ 396.2	\$ 267.4	\$ 501.0	\$ 128.8	(\$ 104.8)
Highway	\$ 347.9	\$ 654.3	\$ 620.9	(\$ 306.4)	(\$ 273.0)
Total	\$ 744.1	\$ 921.7	\$1,121.9	(\$ 177.6)	(\$ 377.8)

Transit Funding Strategy Variances

The \$396.2 million FY 2011 Budget for the transit program reflects, as expected, that the budgeted funding is roughly half way between the LRTP and the 30/10 Initiative effort. The difference from the LRTP properly reflects the action taken by the MTA Board in March 2010 to implement the LRTP and 30/10 priorities through programming decisions in the Los Angeles County Transportation Improvement Program. That action directed staff to accelerate project development efforts while the 30/10 Initiative legislative program was pursued. Table 2 reflects the detailed, project-by-project comparison for each of the 12 transit projects included in both the LRTP and the 30/10 program. Looking down the comparative columns in the detailed transit project attachment, one can see that the Budget is typically over the LRTP amount and under the full 30/10 Initiative amount.

Looking further into the detail, the Regional Connector and the Gold Line Foothill Extension projects, in contrast, show that the budget is under even the LRTP amounts and the Exposition Boulevard Phase II Extension is substantially over the LRTP amount. These variances are due to updated cost and revenue forecasts. For the Regional Connector and Gold Line Foothill Extension, the budget reflects more up-to-date information about actual cash flow needs: The optimal project schedules simply require less than anticipated in the LRTP. For the Exposition Phase II project the amount budgeted is dramatically over (by \$85 million) the amount anticipated in the LRTP. The higher Budget figure reflects the Exposition Authority's estimate of their need for funds in FY 2011. That need increased over the LRTP because it was anticipated that significant right-of-way purchases would be taking place in FY 2011. We are now engaged in discussions with the Exposition Authority on a funding agreement that will establish a process for clarifying their cash flow needs.

All of the anticipated 30/10 Initiative needs exceed the Budget, especially the Regional Connector, the subway extension, and the Crenshaw/LAX transit corridor. In developing the Budget, constraining funding in advance of specific 30/10 Initiative approvals was necessary given that the LRTP might be the actual path forward without those approvals.

Table 2: Transit Projects Assumed in Fiscal Year 2011
(\$ in millions)

Project Description	FY 2011 Only (MTA Budget Funds Only)				Budget less 2009 L RTP	Budget less 30/10 Initiative
	MTA Budget	2009 L RTP*	30/10 Initiative*	Budget less 2009 L RTP		
Regional Connector	19.6	32.0	30.7	(12.4)	(11.1)	
Westside Subway Extension	36.0	17.8	88.9	18.2	(52.9)	
Orange Line Canoga Extension	65.4	14.7	65.5	50.7	(0.1)	
Exposition Blvd. Light Rail Transit	193.1	107.6	196.8	85.5	(3.7)	
Gold Line Foothill Extension	54.1	66.9	66.8	(12.8)	(12.7)	
East San Fernando Valley North-South	2.5	0.8	2.5	1.7	-	
Crenshaw/LAX Transit Corridor	13.3	16.7	37.6	(3.4)	(24.3)	
South Bay Green Line Extension	2.4	5.0	2.4	(2.6)	-	
Gold Line Eastside Extension Phase II	6.9	5.8	6.9	1.1	-	
Green Line Extension to LAX	1.8	0.1	1.8	1.7	-	
West Santa Ana Branch Line	0.1	-	0.1	0.1	-	
San Fernando Valley I-405 Corridor	1.0	-	1.0	1.0	-	
Total	396.2	267.4	501.0	128.8	(104.8)	

*As adjusted by March 2010 action on the priorities for the Los Angeles County Transportation Improvement Program.

Highways Funding Strategy Variances

The highway funding strategy variances revealed by the analysis are not indicative of the expectation that the Budget would be higher than the LRTP and lower than the Accelerated Highway Initiative. In the case of the highway data, we see that the Budget is indeed lower than both the LRTP and the Accelerated Highway Initiative. Overall, the Budget included \$347.9 million for the highway projects listed, while the LRTP had \$654.3 million. Table 3 shows the detailed project-by-project variances for the LRTP highway projects. The difference of \$306.4 million is primarily due to a large variance (\$183.8 million) on the Interstate 405 Northbound Carpool Lane project from Interstate 10 to US 101.

The project cash flow information used in the LRTP included an inordinate portion of the I-405 costs as funded with American Recovery and Reinvestment Act (ARRA) funds in FY 2010. Those funds (\$189 million) are often listed by Caltrans on an encumbrance basis to enable Caltrans to secure the commitment of the federal government to repay advances to the project. In the MTA Budget, the LRTP encumbrance basis is converted to a cash flow basis, resulting in what falsely appears to be a large variance. In other words, the LRTP had a mixture of cash flow data and ARRA encumbrance data, resulting in the variance as compared to the more accurate Budget cash flow data. As of this writing, the other, much smaller differences for the other projects are expected to be smaller scale versions of the same encumbrance versus cash flow variances.

Since the Interstate 405 and other variances for the Accelerated Highway Initiative are for projects that are already on their optimal delivery path, there is no strategic significance in the variances on the highway side. Furthermore, what is strategically important on the highway side would not be revealed by a comparison of Budget funding marks with the LRTP, accelerated or not. This is because much of the Accelerated Highway Initiative is proposed to be funded with public-private partnerships and/or federal funds that would flow directly to highway project sponsors like Caltrans. When this occurs, there is no need to reflect those funding strategies in the MTA Budget, setting aside that the LRTP will often capture those costs on a different basis, as was the case for the ARRA funds above.

Table 3: Highway Projects Assumed in Fiscal Year 2011
(\$ in millions)

	Project Description	FY 2011 Only (MTA Budget Funds Only)				Budget less Accelerated Highway*	Budget less 2009 L RTP	Budget less Accelerated Hwy
		MTA Budget	2009 L RTP*	Accelerated Highway*	2009 L RTP			
Freeway Improvements and Gap Closures	SR-138 Widening (remaining 7 segments)	-	-	-	-	-	-	
	SR-71 Freeway: I-10 to Mission Bl	-	-	-	-	-	-	
Carpool Lanes	SR-71 Freeway: Mission Bl to Rio Rancho Rd	-	-	-	-	-	-	
	I-5 North Capacity Enhancements	8.0	-	8.0	-	8.0	-	
	SR-138 Capacity Enhancements (additional segments)	18.0	10.0	18.0	8.0	8.0	-	
	SR-710 North Extension (tunnel)	3.1	3.1	3.1	-	-	-	
	I-710 Early Action Projects	9.2	12.4	9.2	(3.2)	(3.2)	-	
	I-710 South	8.2	15.0	-	(6.8)	(6.8)	8.2	
	High Desert Corridor (environmental)	13.0	19.4	12.5	(6.4)	0.5	0.5	
	SR-60 Carpool Lanes: I-605 to Brea Canyon Rd	-	2.3	2.3	(2.3)	(2.3)	(2.3)	
	I-405 Carpool Lanes: SR-90 to I-10	-	0.1	0.1	(0.1)	(0.1)	(0.1)	
	I-5 Carpool Lanes: SR-118 to SR-170	-	-	-	-	-	-	
I-5 Carpool Lanes: SR-170 to SR-134	-	5.5	5.5	(5.5)	(5.5)	(5.5)		
I-10 Carpool Lanes: I-605 to Puente Av	-	-	-	-	-	-		
I-405 NB Carpool Lanes: I-10 to US-101	195.3	379.1	379.1	(183.8)	(183.8)	(183.8)		
I-10 Carpool Lanes: Puente Av to Citrus Av	-	-	-	-	-	-		
I-10 Carpool Lanes: Citrus Av to SR-57	-	-	-	-	-	-		
I-5 Carpool Lanes & Mixed Flow Lanes: I-605 to Orange County Line	-	12.0	12.0	(12.0)	(12.0)	(12.0)		
SR-14 Carpool Lanes: Avenue P-8 to Avenue L	-	-	-	-	-	-		
I-5/SR-126 Interchange Reconstruction (Phases I and II)	-	1.0	1.0	(1.0)	(1.0)	(1.0)		
I-5/Carmenita Rd Interchange Improvement	-	37.8	32.8	(37.8)	(37.8)	(37.8)		
SR-57/SR-60 Mixed Flow Interchange	-	-	-	-	-	-		
I-405, I-110, I-105 and SR-91 Ramp and Interchange Improvements in South Bay	2.1	2.0	2.1	0.1	0.1	-		
I-605 Corridor "Hot Spot" Interchanges in Gateway Cities	10.6	10.6	10.6	-	-	-		
I-5/SR-14 Carpool Lane Direct Connector	-	2.0	2.0	(2.0)	(2.0)	(2.0)		
I-5/I-405 Carpool Lane Partial Connector	-	-	-	-	-	-		
Countywide Soundwalls (Metro regional list and Monterey Park/SR-60)	15.8	54.9	23.0	(39.1)	(39.1)	(7.2)		
Highway Operational Improvements in Arroyo Verdugo Subregion	16.5	-	16.5	-	16.5	-		
Highway Operational Improvements in Las Virgenes/Malibu Subregion	17.0	8.1	17.0	8.9	8.9	-		
Alameda Corridor East	31.1	76.1	66.1	(45.0)	(45.0)	(35.0)		
BNSF Grade Separations in Gateway Cities	-	2.9	-	(2.9)	(2.9)	-		
Total		347.9	654.3	620.9	(306.4)	(273.0)		

*As adjusted by March 2010 action on the priorities for the Los Angeles County Transportation Improvement Program.

Policy Implications Discussion

Transportation Revenue Forecasts are Down

Due to the economic downturn, ongoing structural deficit in the State of California budget, and uncertainty regarding the reauthorization of federal surface transportation funding, it is necessary for the Board to adopt priority-setting criteria and priorities for the remaining funding now available to implement projects in the near term of the Long Range Transportation Plan (LRTP). The economic downturn has dramatically reduced the forecast for Measure R sales tax revenues from roughly \$40 billion over the life of the tax to \$36 billion. The State of California is reconsidering the size and pace of its infrastructure bond capacity in light of ongoing budget deficits and the MTA is using its own resources to prevent project delays related to the State's Proposition 1B and Proposition 1A grant funds. Federal reauthorization is similarly delayed due to the lack of political will to address problems related to the flatter-than-inflation growth of the per-gallon federal gas tax.

Summary of MTA Board Actions

In light of these revenue problems, the Board approved a set of priorities for the purpose of managing any shortfalls on March 25, 2010 and then considered action on a related motion from Director Molina that read:

"I, therefore, move that the Metro Board direct the CEO to establish a policy that funds to cover any cost overruns or judgments resulting from activities of any construction authority are allocated from sources allocated to projects located within the same sub-region."

When the motion was brought back to the Board on April 22, 2010, the Board instead approved a substitute motion that directed "...the Chief Executive Officer to report back within 60 days on cost containment measures on projects going forward."

Summary of June 2010 MTA Staff Report

The MTA staff's June 2010 staff report responding to the board direction which included language that addressed transit corridor and sub-regional cost savings and/or project deferrals as follows:

"If increases in cost estimates occur at any of the milestones above, the MTA will address the issue prior to taking any action necessary to permit the project to move to the next milestone. Increases in cost estimates will be measured against the 2009 Long Range Transportation Plan as adjusted by subsequent

actions on cost estimates taken by the MTA Board. Shortfalls will first be addressed at the project level prior to evaluation for any additional resources using these methods in this order:

- a. Value engineering and/or scope reductions;*
- b. Shorter segmentation;*
- c. New local agency funding resources;*
- d. Other cost reductions within the same transit corridor;*
- e. Other cost reductions within the same sub-region; and,*
- f. Countywide transit cost reductions and/or other funds will be sought using pre-established priorities.*

Each such cost increase situation will be considered on a case-by-case basis and a rationale developed if resources from the prior step above are insufficient or not recommended for any reason. The MTA Board will be presented with all viable options and will have the sole authority to make any final funding and project delay decisions. "

Maps were attached to the report to show the transit corridors themselves and the sub-regional area boundaries. After some discussion by the Board in June 2010, the staff report was again deferred for additional consideration of how transit corridor and sub-regional cost savings and/or project deferrals would be defined and made operational in real cost increase situations.

Measure R Project Funding Cap Policy Recommended

We have now completed our consideration of the definitional and operational issues discussed above and we have concluded that the most direct and precise cost-control mechanism is to cap the amount of Measure R funds to be allocated to each project. Therefore, we recommend that a new funding cap policy be placed on Measure R transit projects as follows:

"For Measure R funds, the planned funding resources (including any prior Measure R expenditures) shall not exceed the amount shown in the "New Sales Tax Total" column of the Measure R expenditure plan."

In our estimation, this new funding cap policy, along with existing Measure R requirements, will adequately ensure that near-term projects do not utilize funds intended for projects scheduled later in the Measure R expenditure plan. Measure R project-specific funds cannot be released for another project without a finding by two-thirds of the Board that the subject Measure R project is complete. Measure R also includes a prohibition against sub-fund transfers in the first ten years. After the first decade, such a transfer would require a two-thirds vote of the Board and can only take place once in any ten year period.

Summary of 30/10 Initiative Highway/Transit Re-Programming Policy

In approving the 30/10 Initiative, the Board stipulated that a specific Board action is required to re-program highway capital project funding for use on transit capital projects as result of the 30/10 Initiative, unless such re-programming does not result in a net decrease to the highway capital project funding. Likewise, a specific Board action is required to re-program transit capital project funding for use on highway capital projects as result of 30/10 Initiative, unless such re-programming does not result in a net decrease to the transit capital project funding. These provisions were made to ensure that the carefully constructed regional balance of funding in Measure R was not impacted by the 30/10 Initiative.

In addition, the Board acted to limit transit project costs to those shown in the adopted 2009 LRTP, as follows:

“MTA shall only utilize pledged federal assistance if the construction and financing costs are less than the available funds (adjusted for inflation) planned in the adopted 2009 LRTP, unless those costs are being adjusted by the minimum necessary to accomplish an operable segment for the corridor”

This report pulls together these Board actions with other pre-existing Financial Stability Policy actions of the Board to create a unified cost management process and policy approach to addressing Measure R transit project cost controls.