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**CONSTRUCTION COMMITTEE
APRIL 17, 2014**

SUBJECT: EXPOSITION PHASE 1 PROJECT BUDGET

ACTION: AUTHORIZATION FOR LIFE OF PROJECT BUDGET INCREASE

RECOMMENDATION

Approve an increase to the Exposition Light Rail Phase 1 Life of Project (LOP) budget of \$7.9 million, increasing the project budget from \$971 million to \$978.9 million. This increase should provide sufficient funding to close out the Phase 1 project and will settle all potential claims with the design-build contractor.

ISSUE

Phase 1 of the Expo Line commenced revenue service in April 2012. The Metro Board approved an increase to the LOP budget of \$39 million in September 2013 based upon preliminary estimates to close out the project at that time. Since then, the Authority has participated in several Disputes Review Board (DRB) sessions with the design-build contractor, Flatiron/Fluor/Parsons (FFP), has had several meetings with executives at FFP, and participated in a mediation to close out the project. During these sessions, FFP submitted approximately \$35 million in additional potential change orders to the Authority, increasing the Authority's risk and estimates to close out the project.

DISCUSSION

The Metro Board approved a LOP increase of \$39 million in September 2013 based upon preliminary estimates provided by the Authority to close out the project. The estimates were based upon information known by the Authority at that time and the potential change orders that had been submitted by FFP. The Board report that was approved by the Metro Board in September indicated that the Authority's risk analysis for final project cost exposure ranged from \$31 million to \$47 million. At that time, Authority and Metro staff recommended an LOP increase of \$39 million. The Board report also indicated that the exact final cost to close out the project was dependent upon final contract cost negotiations and resolution of outstanding disputes.

Since that time, the Authority has participated in several DRB sessions regarding potential change orders, has met with executives at FFP and received almost \$35 million in additional potential change orders and claims that had not been submitted or forecast by the Authority. FFPs total potential change orders and claims submitted to the Authority totaled almost \$92 million. The Authority's risked estimate to resolve the change orders and close out the design build contract on the project was approximately \$27 million.

As a result of the significant disparity in amounts, both sides agreed to attend mediation and after several days of meetings and exchanges, the mediator proposed a settlement amount of \$33.5 million to settle all potential change orders and claims pertaining to the design build contract. Both sides concurred with this amount, subject to Board approval.

In addition to the \$33.5 million settlement with FFP, There are other pending commitments to close out the project. These commitments include almost \$12 million for the Washington siding project that Metro is constructing, final real estate acquisitions that are pending in court, third party costs to review and approve as-built drawings as well as miscellaneous other costs. The additional \$7.9 million LOP increase will enable the Authority to execute the settlement with FFP, fully close out Phase 1 and will leave a \$3 million contingency for any unknowns. Since the project is fully constructed and operational, the Authority believes that this LOP increase will be sufficient to close out the project. Since the funding provided by Metro in September was in the middle of the range risked by the Authority, this additional \$7.9 million recommended in this report would still be within the range estimated by the Authority back in September.

FINANCIAL IMPACT

Funding for this action will come from Prop A35%. Funds approved as part of the recommended action will be added to the FY 14 and future budgets under Project 890001, Exposition Light Rail Transit Corridor- Phase 1. Since this is a multi year project, the Expo 1 Project Manager and corresponding Metro cost center managers will be responsible for budgeting requirements for future fiscal year periods.

Impact to Budget

At this time, the Measure R 35% (MR35%) allocation for the EXPO Corridor is under-utilized by \$16.05 million. This is a result of a \$925 million Measure R authorization for the Expo Corridor. Per the last approved funding agreement with EXPO Authority, \$860.325 million of MR 35% was planned for the Expo Authority costs and \$48.625 million of MR35% planned for Metro Project efforts supporting Expo II project. This funding agreement totals to \$908.95 million of planned MR35% use, leaving a balance

of \$16.05 million from the Measure R authorization. Of the \$16.05 million underutilization, \$3.9 million is being requested under a separate April 2014 action for EXPO II betterments. If the separate \$3.9 million betterment action is approved, it will result in \$12.15 million remaining unutilized Measure R 35% funding for the EXPO Corridor.

Referencing the latest Expo II funding agreement, staff will increase the Expo Authority's Measure R 35% allocation from \$860.325 million by \$12.15 million to a revised allocation of \$872.475 million. The increased Measure R 35% allocation for Expo II allows for the exchange of \$12.15 million Prop A 35% originally programmed for Expo II to fund the requested \$7.9 million EXPO I LOP increase under this action. This fund source exchange is consistent per the Measure R Cost Management Process and Policy Evaluation as described in Attachment A. The remaining \$4.25 million balance of Prop A 35% funding will be retained by Metro for rail operations and rail capital project support. Prop A 35% is an eligible funding source for rail operations.

DETERMINATION OF SAFETY IMPACT

There is no safety impact as a result of the recommended action.

ALTERNATIVES CONSIDERED

An alternative is to take no action; however, the Authority will be unable to meet its financial commitments and execute the settlement with FFP to close out Phase 1 of the project.

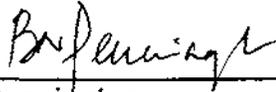
NEXT STEPS

Upon Board approval, Authority staff will execute a settlement with FFP to resolve all potential change orders and close out the contract on Phase 1 as well as proceed to close out all remaining outstanding items on Phase 1 of the Project.

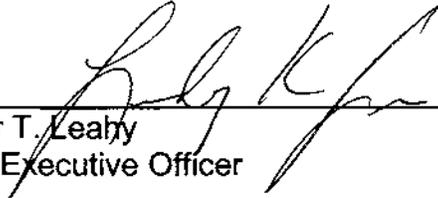
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ATTACHMENT

A. Cost Management Process & Policy Evaluation



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Cost Management Process and Policy Evaluation

Introduction

The Measure R Cost Management Process and Policy (the Policy) was adopted by the LACMTA Board of Directors in March 2011. The intent of the Policy is to inform the LACMTA Board of Directors regarding potential cost increases to Measure R-funded projects and the strategies available to close any funding gaps. LACMTA staff has identified the Exposition Light Rail Line Phase I (Expo Phase I) as a project which warrants such an analysis due to a cost increase. While the Expo Phase I is not a Measure R-funded project, we recommend addressing it in the same manner as Measure R projects for consistency.

The evaluation of the project for compliance with the Measure R policy used the most currently available cost-to-complete estimate. To address the Expo Phase I funding gap of \$7.9 million, we are recommending the following financial strategy. The recommended funding strategy was done in a manner consistent with the Policy and is summarized below.

Measure R Cost Management Policy Summary

The adopted final Measure R Unified Cost Management Process and Policy stipulates the following:

"If increases in cost estimates occur, 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 in cost estimates will be measured against the 2009 Long Range Transportation Plan as adjusted by subsequent actions on cost estimates taken by the LACMTA Board of Directors. 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 cost reductions and/or other funds will be sought using pre-established priorities. "

We followed the six steps prescribed by the policy to address the funding gap:

Value Engineering and/or Scope Reductions

Given that Expo Phase I began full revenue operation on June 20, 2012, there are no value engineering or scope reductions available. The Exposition Construction Authority is responsible for keeping post-operation construction costs to a minimum. The additional \$7.9 million LOP increase will enable the Authority to execute the settlement with FFP, fully close out Phase 1 and leave a \$3 million contingency for any unknowns. The Authority believes that this LOP increase will be sufficient to close out the project.

New Local Agency Funding Resources

At this time, there are no new local agency funding resources available to this project.

Shorter Segmentation

Given that Expo Phase I began full revenue operation on June 20, 2012, shorter segmentation would require that Expo Phase II be shortened, not Expo Phase I. We believe adequate sub-regional trade-offs exist that make it unnecessary to shorten Expo Phase II in favor of cost increases for Expo Phase I. Those trade-offs are described in the sub-regional section below.

Other Cost Reductions within the Same Highway/Transit Corridor

LACMTA staff analyzed the two projects within the same transit corridor: the Expo Phase II Bike Lane and the Exposition Light Rail Line Phase II (Expo Phase II). At the time of this analysis, there are no cost reductions from the Expo Phase II Bike Lane available. However, LACMTA staff recommends transferring \$7.9 million in Proposition A 35% from Expo Phase II to Expo Phase I. This transfer closes the funding gap for Expo Phase I. We also recommend restoring the \$7.9 million to Expo Phase II from sub-regional funds, as discussed in the next step.

Other Cost Reductions within the Same Subregion

As a result of transferring \$7.9 million of Proposition A 35% funds from the Expo Phase II project to the Expo Phase I project, there is a \$7.9 million funding gap for Expo Phase II. Staff recommends the following action to restore funding for Expo Phase II:

Source	Amount
Transfer Measure R 35% from Westside Subregional Equity Funds to Expo Phase II	\$12.15 million

As a result of transferring \$12.15 million of Proposition A 35% funds from the Expo Phase II project to the Expo Phase I project, there is a \$12.15 million funding gap for Expo Phase II. Staff recommends the following action to restore funding for Expo Phase II:

Countywide Transit Cost Reductions and/or Other Funds

Countywide cost reductions or other funds are not required.

