

**Board Report**

File #: 2018-0187, **File Type:** Policy**Agenda Number:** 22.

**PLANNING AND PROGRAMMING COMMITTEE
JULY 18, 2018****SUBJECT: MEASURE R AND MEASURE M
COST MANAGEMENT POLICY****ACTION: APPROVE RECOMMENDATION****RECOMMENDATION**

ADOPT the revised Measure R and new Measure M Cost Management Policy (Attachment A).

ISSUE

The center of the expenditure plans for both Measure R and Measure M is the significant capital project portfolio. Managing a mix of projects - either several large or "mega" capital projects with multi-year timelines, or a multitude of small capital projects - comes with inherent uncertainties that can affect costs. To effectively manage the complex capital program, the Board adopted a cost management policy for Measure R; with the recent passage of Measure M, an update of the cost management policy is in order.

The revised Measure R and Measure M Cost Management Policy (Policy) updates the original Measure R Cost Management Policy to provide consistency between the existing policy and the Measure M Cost Management Policy in the Measure M Guidelines. The updated Policy also addresses ambiguity in the application of the Policy with projects that are between development phases.

BACKGROUND

The Metro Board adopted the original Measure R Cost Management Policy in 2011 to help document and address potential cost increases for the capital program. The Policy identifies key events in a project's development when costs are to be evaluated and steps to address cost increases, including value engineering, local agency funding, shorter segmentation, cost reductions to other projects, and prioritizing the funding and scheduling of projects.

In 2015, the Metro Board amended the Policy to include regional facilities. Regional facilities are generally defined as airports, seaports, and Union Station. This amendment allowed Metro projects within the boundary of those facilities to be exempted from corridor and subregional cost reduction requirements.

Staff has applied the Policy to a number of potential cost increases since 2011 in both the Measure R highway and transit program. The Policy has been successful in providing clarity and transparency to the Board, Metro staff, and the public.

The Metro Board approved the Measure M Guidelines in 2017, which included a Cost Management Policy for Measure M. However, there has not been a unified cost management policy which applies to both Measure R and Measure M projects. Given the magnitude of investment in the coming years, staff believes it is appropriate to return to the Board to present an updated Policy that can better assist in the management of the capital program.

DISCUSSION

Summary of Revisions

The major focus of the update is to clarify as much as possible how and when the Policy is applied to projects. For example, a definition of “Transit or Highway Corridor” is included that clarifies the subregion where offsetting cost reductions would be evaluated. Additionally, Metro staff has amended the Policy to include both highway and transit projects in all steps.

Another significant change is the addition of a new review milestone. The new milestone requires updates to cost estimates resulting from specific actions (e.g., approved final environmental documents; completion of 30% design cost related to Measure M 3% local agency contribution policy). This will serve to ensure that public reporting and documentation of project specific costs are consistent throughout the life of the project since a number of projects are moving through the planning process. It is critical to maintain a clear and transparent process for documenting cost assumptions and estimates.

Lastly, staff further recommends updates to the Policy to incorporate the cost management policy from the Measure M Guidelines in order to provide consistency and added specificity. Going forward staff believes these additions and clarifications will strengthen the Policy and allow the Board to continue to make informed decisions.

DETERMINATION OF SAFETY IMPACT

Approval of this item will have no impact on safety standards for Metro.

FINANCIAL IMPACT

Adoption of the revised Measure R and Measure M Cost Management Policy is intended to improve Metro’s financial management and cost controls. This update further reinforces tools the Metro Board and staff have to address cost increases.

Impact to Budget

There is no impact to the FY 18 Budget.

ALTERNATIVES CONSIDERED

The Board could elect not to make the recommended revisions to the Policy. Metro staff recommends against this approach as the revised Policy addresses some omissions which limit the ability to manage and control costs. The omissions addressed include clarification on milestones for project evaluation and providing more consistency between the existing policies.

NEXT STEPS

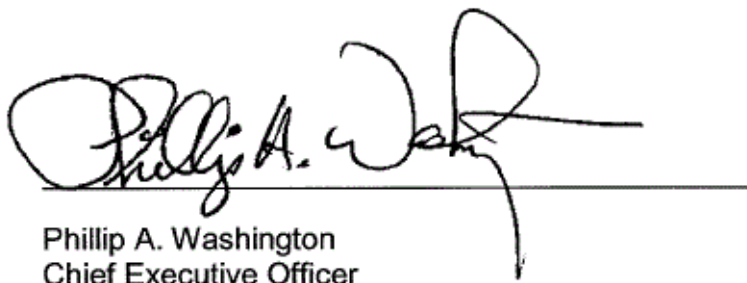
Approval of this item will allow staff to apply the new Policy going forward and will be in place for the update to the Long Range Transportation Plan and other future planning efforts.

ATTACHMENTS

Attachment A - Revised Unified Cost Management Policy for Measure R and Measure M Projects

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Attachment A
Measure R and Measure M Unified Cost Management Policy

**Unified Cost Management Policy
For Measure R and Measure M Projects
(July 2018)**

Introduction

The ~~MTA~~Los Angeles County Metropolitan Transportation Authority (Metro) will follow a unified cost management ~~process and~~ policy (the "Policy") for the control ~~and minimization~~ of project costs for the Measure R and Measure M transit and highway projects. At the core of the ~~unified cost control management process and policy~~ 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 initial Policy for Measure R was adopted March 2011, and amended January 2015.

The ~~new~~ step-by-step cost management ~~process policy~~ will require the ~~MTA~~Metro Board to review and consider approval of project cost estimates against funding resources at key milestone points throughout the planning, environmental, design, and construction phases of the Measure R and Measure M transit and highway projects: included in the respective ordinance, or replaced, substituted, or added by subsequent Board action. At each milestone, MTA~~Metro~~ staff is directed to: (1) submit a project that is consistent with the ~~budget~~latest cost estimate; (2) identify any issues when a project is not consistent with the ~~budget~~latest cost estimate; and (3) propose corrective actions before the project advances further, if it is not consistent with the ~~budget~~latest cost estimate. The "latest cost estimate" is defined as the total project cost, as identified in documents submitted to the Board. The project costs should include all costs related to the project, including planning, environmental, other project development activities (e.g., project readiness, P3 delivery support), design, engineering, right of way, and construction.

For Measure R and Measure M funds, the total planned ~~funding resources from those resources~~ (including any prior Measure R and Measure M expenditures) shall not exceed the amount ~~shown~~specified in the "New Sales Tax Total" column of the Measure R ~~respective~~ expenditure ~~plan~~ plans and ordinances, as amended.

At each milestone, the latest cost estimate and corresponding planned funding resources shall ~~not exceed~~be compared to the prior amounts shown ~~to the Board~~ (including amounts in the sales tax ordinances and expenditure plans). 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~~ the latest cost estimate occur, the MTA Metro 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 as appropriate:

- 1) ~~Value Engineering and or s~~Scope reductions;
- 2) New local agency funding resources;
- 3) ~~Shorter segmentation;~~ 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.

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

Process and Policy Detail

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

Metro staff will utilize the following policies to manage costs and funding changes over the course of the Measure R and Measure M programs:

- 1) A regional long-range transportation plan (covering at least 2040 years) for Los Angeles County shall be adopted and reflect current project cost estimates at least once every five years. For interim years, staff will prepare an update to the 40-year financial forecast, 10-year short range financial forecast, or otherwise 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, Item #14, January 2007);
- 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)2) Measure R and Measure M transit corridor and highway projects shall be presented separately for approval by the Board in a step-by-step cost control process that will evaluate project ~~cost estimates~~cost estimates against ~~funding resources~~prior amounts presented to the Board resulting from specific actions (e.g. approved final environmental documents; completion of 30% design cost related to Measure M 3% policy) for the ~~at key milestones points throughout the environmental, design, and construction phases of the 30/10 transit projects~~respective programs. This will serve not only to keep the Board apprised of key milestones, and the cost adjustments arising from related analyses— it also will ensure public reporting and documentation of project specific costs are consistent throughout the life of the project.

For Measure R and Measure M funds, the planned ~~funding resources~~expenditure (including any prior Measure R and Measure M expenditures) shall not exceed the amount shown in the "New Sales Tax Total" column of the Measure R expenditure plan or the "Measure M Funding 2015\$" column of the Measure M expenditure plan (adjusted for inflation, if permitted under the ordinance), as amended by the Board. 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)3) At any of the milestones above, the MTA Metro will seek to review and control ~~and minimize~~ Measure R and Measure M transit and highway project costs prior to taking any action necessary to permit the project to move to the next milestone. Cost minimization control efforts will be measured against ~~the 2009 Long Range Transportation Plan as adjusted by subsequent~~previous actions on budget-setting or total project cost estimates taken by the MTA Metro Board. Shortfalls (i.e., cost estimate increases in comparison to prior estimates) will first be addressed at the project level prior to evaluation for any additional resources.

Metro staff will evaluate the possibility of securing the necessary cost savings or revenues for the project. Within the parameters of the Metro 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 using these methods in this order as appropriate:

- a. ~~Value engineering and/or s~~Scope reductions;
- b. New local agency funding resources;
- c. ~~Shorter segmentation;~~Value engineering;
- d. Other cost reductions within the same transit or highway corridor (see Attachment BA);
- e. Other cost reductions within the same sub-region (See Attachment BA); and,
- f. Countywide~~For Measure R projects, countywide~~ transit and highway 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);

- ~~ii.~~ Where applicable, Measure R Highway Capital Subfund Contingency-Escalation Allowance funds (Measure R Expenditure Plan, Page 3 of 4, Line 39); and,

- ~~iii.~~ Where Line 18 ~~or 39~~ is not applicable, the LRTP Near-Term Strategies and Priority Setting Criteria, ~~as amended~~, will be followed (Item 9, as Adopted by the Board of Directors in March 2010-), and available funding will be identified for the cost increase but not change the priority order of other Metro capital projects.

- ~~g.~~ For Measure M projects, countywide transit and highway cost reductions and/or other funds will be sought using pre-established priorities, as follows:

- i. Where applicable, Measure M Transit Contingency Subfund (Measure M ordinance, Page 12, Section 7.b.3.A.);

- ii. Where applicable, M Highway Contingency Subfund (Measure M ordinance, Page 12, Section 7.b.2.A.); and,

- iii. Where use of contingency subfunds is not applicable or sufficient, the LRTP Near-Term Strategies and Priority Setting Criteria, as amended, will be followed, and available funding will be identified for the cost increase but not change the priority order of other Metro capital projects.

h. No project will receive Measure M funds over and above the amount listed in the expenditure plan except under the following circumstances:

- i. The cost is related to inflationary pressures, and meets the requirements for the Inflation related Contingency Fund provisions provided under the Measure M ordinance. These are addressed in the Measure M Contingency Fund Guidelines Section VII of the Measure M Final Guidelines, June 2017 (the “Final Guidelines”).
- ii. Additional Measure M funds are provided for and consistent with amendments in tandem with the Ten-Year Comprehensive Program Assessment permitted under the ordinance. This process is addressed in the Measure M Comprehensive Program Assessment Process & Amendments Section III.
- iii. Redirection of Measure M subregional funds aligned with the project’s location, so long as the project satisfies all subregional program eligibilities and procedures consistent with the Final Guidelines, and with the agreement of jurisdictions otherwise eligible for those subregional funds.

A transit or highway “corridor” is defined here as the “study area” for a particular project or program. In the event a project has alternatives where the alignments are clearly defined or if a LPA has been determined, then the area defined as the Area of Potential Effect in the EIR/EIS will constitute a corridor for the purposes of this Policy.

Each Measure R and Measure M transit or highway 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 MTAMetro Board will be presented with all viable options and will have the sole authority to make any final funding and project delay decisions.

~~6)4)~~ At the time of awarding the construction contract, Measure R and Measure M transit corridor and highway projects shall be presented for approval by the Board for a “life of project” budget. Prior to inclusion in the annual budget, Measure R transit corridor and highway 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 MTAMetro shall compare the ~~sum of the cost~~costs of the Measure R or Measure M transit and highway

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 or Measure M transit and highway 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 Metro staff can approve the life of project budget. If the life-of-project budget exceeds more than the available funds, then MTA Metro staff would not execute a construction contract unless the MTA Metro 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;~~
- ~~d. Other cost reductions within the same transit or highway 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, as follows:~~

~~Where applicable, Measure R Transit Capital Subfund Contingency-Escalation Allowance funds (Measure R Expenditure Plan, Page 2 of 4, Line 18);~~

~~Where applicable R Highway Capital Subfund Contingency-Escalation Allowance funds (Measure R Expenditure Plan, Page 3 of 4, Line 39); and,~~

~~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 or highway 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,~~

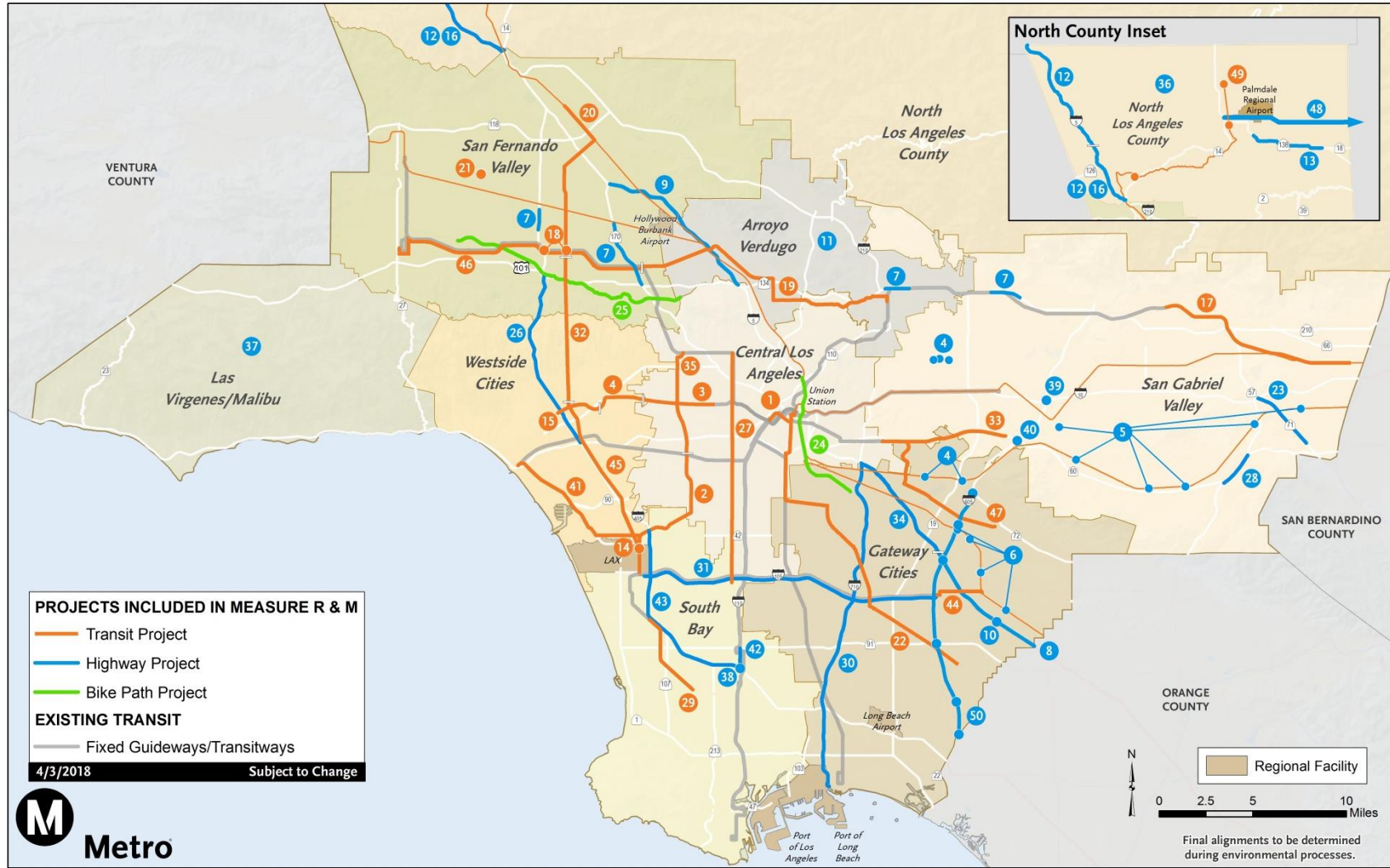
10)5) Any capital project savings above \$200,000 must return to the Metro Board for approval prior to the reprogramming or transfer of funds to other projects or programs (from Financial Stability Policy).

11)6) A Regional Facility Area has been established, separate from subregional planning areas, which include Los Angeles International Airport (LAX), Burbank Bob Hope Airport, Long Beach Airport, Palmdale Regional Airport; the Ports of Long Beach and Los Angeles; and Los Angeles Union Station. Any capital project cost increases to Measure R funded projects within the boundaries of these facilities are exempt from the corridor and subregional cost reduction requirements of 73(ee) and 73(ef) above. Cost increases regarding these projects will be addressed from the regional programs share.

7) System Connectivity Projects have been established in Measure M, separate from subregional planning areas. Any capital project cost increases to Measure M System Connectivity Projects are exempt from the corridor and subregional cost reduction requirements of 3(e) and 3 (f) above.

Attachment A – Measure R and Measure M Corridor and Subregional Boundaries Map

Map A-1: Measure R and Measure M Highway and Transit Corridor Map



Measure R and Measure M Highway and Transit Corridor Map Code

Highway Projects	
<u>5</u>	<u>Alameda Corridor East Grade Separations Phase II</u>
<u>6</u>	<u>BNSF Grade Separations in Gateway Cities</u>
	<u>Countywide Soundwall Construction (Metro regional list and</u>
<u>7</u>	<u>Monterey Park/SR-60</u>
<u>8</u>	<u>I-5 Capacity Enhancements from I-605 to Orange County Line</u>
<u>9</u>	<u>I-5 Capacity Enhancements from SR-134 to SR-170</u>
<u>10</u>	<u>I-5 Carmenita Road Interchange Improvements</u>
<u>11</u>	<u>Highway Operational Improvements in Arroyo Verdugo</u>
	<u>I-5 North Capacity Enhancements from SR-14 to Kern County</u>
<u>12</u>	<u>Line (Truck Lanes)</u>
<u>13</u>	<u>SR-138 Capacity Enhancements</u>
<u>16</u>	<u>I-5 N Cap. Enhancements (SR-14 to Lake Hughes Rd)</u>
<u>23</u>	<u>SR-71 Gap from I-10 to Rio Rancho Rd</u>
<u>26</u>	<u>Sepulveda Pass Transit Corridor (Ph 1)</u>
<u>28</u>	<u>SR-57/SR-60 Interchange Improvements</u>
<u>30</u>	<u>I-710 South Corridor Project</u>
<u>31</u>	<u>I-105 Express Lane from I-405 to to I-605</u>
<u>34</u>	<u>I-5 Corridor Improvements (I-605 to I-710)</u>
<u>36</u>	<u>North County Transportation Improvements</u>
<u>37</u>	<u>Las Virgenes/Malibu Transportation Improvements</u>
	<u>I-405/I-110 Int. HOV Connect Ramps & Interchange</u>
<u>38</u>	<u>Improvements</u>
<u>39</u>	<u>I-605/I-10 Interchange</u>
<u>40</u>	<u>SR-60/I-605 Interchange HOV Direct Connectors</u>
<u>42</u>	<u>I-110 Express Lane Ext South to I-405/I-110 Interchange</u>
<u>43</u>	<u>I-405 South Bay Curve Improvements</u>
<u>45</u>	<u>Sepulveda Pass Westwood to LAX (Ph 3)</u>
<u>48</u>	<u>High Desert Multi-Purpose Corridor - LA County Segment</u>
<u>50</u>	<u>I-505 Corridor "Hot Spot" Interchange Improvements</u>

Bike Path Projects	
<u>24</u>	<u>LA River Waterway & System Bikepath</u>
<u>25</u>	<u>Complete LA River Bikepath</u>

Transit Projects	
<u>1</u>	<u>Regional Connector</u>
<u>2</u>	<u>Crenshaw Transit Corridor</u>
<u>3</u>	<u>Westside Subway Extension Sec. 1</u>
<u>4</u>	<u>Westside Subway Extension Sec. 2</u>
<u>14</u>	<u>Airport Metro Connect 96th St. Station/Green Line Ext LAX</u>
<u>15</u>	<u>Westside Subway Extension Sec. 3</u>
<u>17</u>	<u>Gold Line Foothill Extension to Claremont</u>
<u>18</u>	<u>Orange Line BRT Improvements</u>
<u>19</u>	<u>BRT Connector Orange/Red Line to Gold Line</u>
<u>20</u>	<u>East SF Valley Transit Corridor Project</u>
<u>21</u>	<u>North SF Valley BRT Improvements</u>
<u>22</u>	<u>West Santa Ana Transit Corridor LRT</u>
<u>27</u>	<u>Vermont Transit Corridor</u>
<u>29</u>	<u>Green Line Extension to Crenshaw Blvd in Torrance</u>
<u>32</u>	<u>Sepulveda Pass Transit Corridor (Ph 2)</u>
<u>33</u>	<u>Gold Line Eastside Extension (One Alignment)</u>
<u>35</u>	<u>Crenshaw Northern Extension</u>
<u>41</u>	<u>Lincoln Blvd BRT</u>
<u>44</u>	<u>Green Line Eastern Extension (Norwalk)</u>
<u>46</u>	<u>Orange Line Conversion to Light Rail</u>
<u>47</u>	<u>Gold Line Eastside Extension (Second Alignment)</u>
<u>49</u>	<u>Regional Commuter Rail (Metrolink and Amtrak) Improvements</u>