



FEBRUARY 29, 2000

TO: BOARD OF DIRECTORS

FROM: JULIAN BURKE

**SUBJECT: METRO RED LINE, NORTH HOLLYWOOD EXTENSION
(SEGMENT 3) PROJECT BUDGET STATUS**

Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2952

ISSUE

In 1993, the Project budget was established at \$1,310,822,000. Over the last 7 years, the Segment 3 North Hollywood Project Team has controlled project costs and currently forecasts that the project can be completed within the approved budget. It is also forecast that sufficient Project Contingency exists to fund new scope added to the project. However, there is some risk that additional budget may be required in future years related to the work that is yet to be completed and the uncertainty of the outcome of claims and potential litigation.

BACKGROUND

The Board retains sole authority to adjust the Project Budget or the Cost Elements that comprise this Budget. Over the past 7 years, the total Project Budget has not been modified. This budget includes \$69.6 million or approximately 5.3% of the budget for Project Contingency.

Contingency is a project budget line item developed to cover unknown but anticipated changes in the estimated costs for rail construction. Using contingency when changes occur avoids continuous change to the overall project budget. Anticipated but undefined increases in project construction costs may result from: unforeseen site conditions, changes in design specifications, code requirements (i.e. American Disabilities Act and Fire/Life Safety), changes in schedule, and field design changes. Project Contingency is not a discretionary budget item to fund additional requirements added to the project by outside organizations/agencies and third parties.

Project staff are separating and reporting costs associated with the original scope of the project as identified in the Federal Transit Administration Full Funding Grant Agreement (FFGA) and costs for scope added to the Project after the establishment of the Project Scope and Budget in 1993. The added scope is categorized separately in

monthly status reports as Additional Locally Funded Activities (ALFA). The sole reason for establishing two separate cost accounts was to provide accountability for project performance based on the original FFGA scope. The current status of ALFA is:

COST ELEMENT (\$ Millions)	CURRENT BUDGET	CURRENT FORECAST
EARTHQUAKE DAMAGE	\$0.3	\$0.0
STATION ARTWORK	\$2.4	\$1.4
NON-REVENUE CONNECTOR	\$0.3	\$0.1
TOTAL ADDITIONAL LOCALLY FUNDED ACTIVITIES	\$3.0	\$1.5

Current projections indicate that there is approximately \$27.4 million out of the original contingency budget of \$69.6 million that is not currently allocated to FFGA original scope line items. Additionally, in 1997 the Board established an internal Project Reserve to account for scope deletions. This account which is identical to contingency, has \$2.6 million available to fund project costs. Therefore, total unallocated contingency is \$30.0 million.

Commencing in 1995, Project administration costs have increased significantly because of the higher than originally budgeted agency overhead allocation rate being applied by MTA Finance to the rail construction projects. Furthermore, levels of MTA staff assigned to the North Hollywood project have increased in areas such as Procurement and Management Audit Services in order to comply with various new legislative and administrative requirements. The result of these two trends is a substantial impact to the forecasted cost to complete the project.

Since the FTA has determined that the additional Agency overhead is Federally reimbursable, approximately \$20 million of the costs which were initially separated under the ALFA costs will be covered by the original scope unallocated contingency. Therefore, assuming the additional Agency overhead projection remains at approximately \$20 million and there are no other charges to unallocated contingency, the additional Agency overhead can be offset by available contingency which will result in the project completing approximately (using current projections) \$10 million under budget. The current Monthly Project Status Report has been updated to incorporate this revision (Attachment 1).

PROJECT BUDGET RISKS

Although the Project design is 99% complete and construction is approximately 87% complete, there are several areas of risk which remain until Project Close-Out. These areas of risk may require additional budget.

Universal City Surface Restoration Construction: There is approximately \$40 million of approved and budgeted project construction that is just starting at this location. This work

includes bridges over both the 101 Freeway and the L. A. River, a bus plaza and surface parking, and improvements to Lankershim Boulevard. There are cost growth risks inherent with these contracts.

Lankershim Boulevard Pedestrian Undercrossing: In accordance with a Memorandum of Understanding (MOU) between the MTA and MCA (now Universal Studios, Inc.), the project is committed to engineer and construct a pedestrian underpass connecting the Universal City station and the Universal Studios property with two entrances. Design was completed and contract bids were received well in excess of the value committed in the MOU. These bids were rejected and project staff are meeting with Universal Studios staff to determine a more cost effective approach that will require a revision to the MOU and approval by the Board.

Construction Contract Closeouts and Claims: Project staff have reviewed the merit and quantification of each existing claim in order to determine the forecast cost at completion. This review of current claims exposure is subject to considerable change since it is extremely difficult to accurately predict the outcome of legal costs and litigation. There is also the possibility of new unanticipated claims being filed on project construction contracts. Therefore, there is risk that forecast final value of project contracts can increase above the current estimate prior to contract closeout.

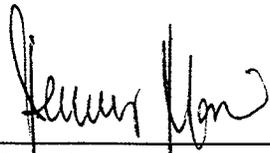
Agency Costs: Further increases to the allocation of agency overhead to the project may require additional budget.

CONCLUSION

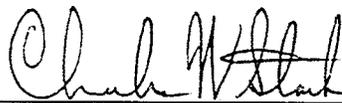
Project staff analyze and prepare monthly forecasts that reflect cost trends at the detailed budget level. The Segment 3 North Hollywood Project Team has controlled project costs and anticipates that Project Contingency which was established to address cost growth associated with the original approved project scope will be sufficient to fund new requirements. The projection of future costs associated with the above risks cannot be accurately quantified and are subject to considerable variation over the next 3 to 5 years required to complete and close out this project. Presently, an increase to the Project Budget is not necessary due to the following:

- Project staff in conjunction with County Counsel are aggressively defending major contract claims.
- Project staff are implementing cost reduction measures for the Lankershim Boulevard pedestrian underpass.

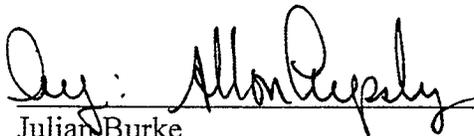
- Project staff are actively mitigating indirect agency cost growth.
- \$10 million remains in unallocated project contingency and project revenue.



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ATTACHMENT 1

METRO RED LINE Segment 3 North Hollywood

Period Ending - January 2000

Original Scope Activities

Budget/Forecast Variance
(S Millions)

COST ELEMENT	CURRENT BUDGET	CURRENT FORECAST	VARIANCE
CONSTRUCTION	\$824.7	\$831.3	\$6.6
PROFESSIONAL SERVICES	\$300.8	\$345.1	\$44.3
REAL ESTATE	\$89.0	\$88.7	(\$0.3)
UTILITY/AGENCY FORCE ACCOUNTS	\$26.3	\$35.7	\$9.4
PROJECT CONTINGENCY	\$69.6	\$7.4	(\$62.2)
PROJECT RESERVE	\$0.4	\$2.6	\$2.2
TOTAL PROJECT	\$1,310.8	\$1,310.8	\$0.0

Additional Locally Funded Activities

Budget/Forecast Variance
(S Millions)

COST ELEMENT	CURRENT BUDGET	CURRENT FORECAST	VARIANCE
CONSTRUCTION	\$1.9	\$0.3	(\$1.6)
PROFESSIONAL SERVICES	\$0.7	\$0.5	(\$0.2)
SPECIAL PROGRAMS	\$0.0	\$0.9	\$0.9
PROJECT CONTINGENCY	\$0.4	\$0.0	(\$0.4)
TOTAL ADDITIONAL LOCALLY FUNDED ACTIVITIES	\$3.0	\$1.7	(\$1.3)