



MARCH 26, 1996

Los Angeles County
Metropolitan
Transportation
Authority

TO: BOARD OF DIRECTORS
FROM: STANLEY G. PHERNAMBUCO 
SUBJECT: TRACK INSTALLATION STATUS
METRO RED LINE VERMONT/
HOLLYWOOD CORRIDOR

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ISSUE

The Vermont/Hollywood Corridor running rail and third rail will be installed by Morrison Knudsen under MTA Contract No. B610. This contractor has completed installation of rail on the Wilshire Corridor under the same contract. Work on the Vermont/Hollywood Corridor track will commence in June 1996, beginning with contractor remobilization, followed by actual trackwork installation in September 1996.

Morrison Knudsen's financial situation has been widely reported as tenuous, raising concerns within the project team with respect to the contractor's ability to perform. In addition, Morrison Knudsen representatives have, on several occasions, expressed interest in a termination for convenience, citing a desire on the company's part to exit the Southern California construction market. More recent meetings between the MTA's project manager and Morrison Knudsen's Executive Vice President for the Heavy Construction Group, have resulted in a new company commitment to complete the work. The success of the trackwork contract is critical to achieving an on-schedule Revenue Operations Date (ROD) for the Vermont/Hollywood Corridor.

BACKGROUND

Project Office Mitigation Actions

Project staff have undertaken the following actions to: a) enforce contractual responsibilities held by Morrison Knudsen and b) prepare contingency plans in the event Morrison Knudsen defaults.

1. A letter demanding evidence of financial capability with a copy to the surety has been sent to the contractor. The purpose is to more clearly identify the true status of the company's financial condition and to notify the surety of the MTA's concern.

2. Alternative contingency schedules have been developed and are being analyzed to evaluate options which could be pursued in the event that Morrison Knudsen defaults and the surety fails to provide an alternative contractor in a timely fashion. These options include: the use of competitive change orders to existing Vermont/Hollywood Corridor contractors; the development of bid packages in support of a new bid and award process; and resequencing of systems work to delay the start of trackwork with minimal impact to ROD. The result of this analysis, expected within thirty to forty-five days, will result in a recommended action plan, which, if appropriate, will be brought to the Board of Directors for approval.
3. The trackwork west of Hollywood and Vine (Segment 3 area) will be removed from the B610 contract and incorporated into the yet-to-be bid C1610 Segment 3 trackwork contract. This action will reduce risk to both projects.

The future of Morrison Knudsen should be known early this summer, as a required debt-for-equity swap is negotiated with the syndicate of banks currently providing working finance for the company. The project office will carefully watch the progress of these negotiations and continue the implementation of appropriate measures to protect the project schedule.

Prepared by:

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