Linda Bohlinger
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One Gateway Plaza
Los Angeles, CA
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August 1, 1997

TO: **BOARD MEMBERS AND ALTERNATES**

FROM: **LINDA BOHLINGER** L Bohlinger

SUBJECT: **FTA COMMENTS ON RECOVERY PLAN**

Attached is FTA Region IX's August 1, 1997 response to our Recovery Plan. The FTA is still not comfortable with certain aspects of the Plan as reflected in the attached letter. I am disappointed in their response, since we believed that, with the submission of the City of L. A. agreement and the documentation of operating efficiencies with our new labor agreements, we had met all of FTA's requirements for the Recovery Plan.

I will be working with staff and Board members next week to respond to the FTA to resolve these issues.

Attachment

U.S. Department
of Transportation
**Federal Transit
Administration**

REGION IX
California,
Hawaii,
Guam

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Suite 2210
San Francisco, CA 94105
415-744-3133
415-744-2726 (fax)

AUG 01 1997

Ms. Linda Bohlinger
Interim Chief Executive Officer
Los Angeles County Metropolitan Transportation Authority
One Gateway Plaza
Los Angeles, California 90012

Re: Recovery Plan for Metro Red Line
Technical Review and Financial Capacity Analysis

Dear Ms. Bohlinger:

This letter transmits the Federal Transit Administration's (FTA) comments and concerns relative to the LACMTA's development of an acceptable recovery plan for the Red Line project. In a letter dated April 9, 1997 the FTA Administrator provided an analysis of the proposed recovery plan to the Chairman of the LACMTA. That analysis indicated serious deficiencies, both technical and financial, in the proposed Red Line recovery plan. Since that time, numerous meetings have been held and countless documents have been exchanged among and between the FTA and its contractors and the LACMTA. However, as of this time the LACMTA has not produced a recovery plan that is financially and technically responsible from FTA's perspective.

The key summations of our current analysis of the **financial** aspects of the draft recovery plan conclude that:

> "The most recent expression of local consensus on transportation priorities, represented by the MTA's funding agreement with the City of Los Angeles, appears to be held together by aggressive revenue forecasts, optimistic cost assumptions and several contingencies based on federal funding and eligibility decisions which have yet to be made and may be contrary to current policies, statutes and Congressional priorities."

> "...at this stage it is likely that MTA's adopted program of reserves together with the North Hollywood reserve (once verified) will need an additional up-front supplement of approximately $80 million for the East Side and Mid-City extensions as well as net budget adjustments totaling more than $130 million over the next five years to account for the risks and questionable assumptions ..."

Our current analysis of the **technical** aspect of the recovery plan concludes that:

> "... The MTA Board must recognize the need to change the manner in which it addresses its roles and responsibilities relative to its staff as well as the agency's financial and technical capacity."
>
> "...MTA executives must recognize that the East Side Extension project management team is apparently unable to recognize the need to perform fundamental project planning/development tasks in a logical sequence and the attendant risk to the project of failing to do so."

Our concerns regarding the current recovery plan support documents are detailed in the enclosed reports. I would point out that the concerns presented in the reports are not new; they have been discussed with you and your staff over the last few months.

Again, we direct your attention to the task of developing a financially and technically responsible recovery plan that properly and clearly addresses the concerns presented in the enclosed reports. Please also ensure that the plan is submitted as one complete package and is clearly identified as the Revised Recovery Plan. Once we have received an acceptable plan, we expect to coordinate the review of the plan with the General Accounting Office and the Department of Transportation's Office of Inspector General as directed by the House and Senate Committees on Appropriations.

Finally, until we have formally received and approved a recovery plan for the Red Line project the following restriction shall apply:

* No Federal funds shall be drawn down for the East Side Extension project.

* No new contracts shall be awarded for the East Side Extension project.

Once we have received and approved a recovery plan, we can then proceed to develop and execute a revised and restated FFGA for the East Side Extension, as appropriate. Following execution of the revised and restated FFGA for the East Side, we will remove the above stated restrictions.

If you have any questions, please call me or Jim Kenna on (415) 744-3133.

Sincerely,

F. James Kenna

for Leslie Rogers
Regional Administrator

Enclosures

Jeffrey A. Parker
& Associates, Inc.

LACMTA Financial and Bus Operation Issues Update

We believe that progress has been made in addressing some of the concerns outlined in our report dated April 9, 1997, and that MTA has put forth considerable effort to develop and substantiate bus operations efficiencies for the FY 1997-98 budget. However, our original financial concerns with MTA's January, 1997 Recovery Plan submission have been superseded by a new set of issues contained in the June 13, 1997 Long Range Plan draft figures. We are currently analyzing a subsequent set of figures dated July 3, 1997 and believe our concerns carry through to this LRP draft as well.

From a financial perspective, the funding agreement with the City of Los Angeles (the "City Agreement") together with the latest Long Range Plan draft, can be viewed as the latest version of MTA's "Recovery Plan." The City Agreement establishes milestones for a wide range of MTA commitments including MOS-3, bus purchases and future rail extensions which we view as the latest and most comprehensive expression of local consensus among key interest groups. This consensus appears to be held together by aggressive revenue forecasts, optimistic cost assumptions and several contingencies based on federal funding and eligibility decisions which have yet to be made and may be contrary to current policies and statutes and inconsistent with Congressional priorities. Further, the City's contributions are to a large extent contingent on MTA's achieving the milestones.

We believe it is inevitable that the City Agreement milestones will be missed, precipitating an ongoing set of "crisis negotiations" among bus, rail, highway and community interests. As a result, there is a significant possibility that some City contributions will be deferred and that MTA will be required to repay the City $50 million of its $200 million "commitment."

The following points highlight significant risks inherent in the City Agreement and the June, 1997 Long Range Plan draft:

1. **NORTH HOLLYWOOD PROJECT RESERVES**: The North Hollywood FFGA requires MTA provide a $50 million project specific reserve, of which $10 million is in cash and $40 million is through a debt facility. FTA required this reserve primarily to protect against funding shortfalls in lieu of an agreed agency-wide financial plan so that the North Hollywood FFGA could be approved expeditiously. We have yet to see evidence that these reserves have been established. Moreover, it is unlikely MTA will have the resources to replenish a draw upon these reserves, particularly if caused by lower than anticipated sales tax revenues.

2. **OVERALL PROGRAM RESERVES:** The program of reserves approved by MTA's Board on June 3, 1997 as part of a financial plan option does not provide for an adequate level of protection against the risks inherent in the program. For example, MTA agreed to establish

up-front a reserve for variability in sales tax receipts based on probability distributions provided by its advisors at UCLA. Assuming the midpoint of the 80%-90% statistical confidence level, this requires a reserve of $59 million strictly for sales tax revenue volatility which is not fully reflected in the submissions to date.[1] This reserve must grow as the revenue base increases. We also remain concerned about the achievability of the assumed sales tax revenue growth rate of 7.1% in the plan's initial year. Failure to realize this rate, or future year revenue levels dependent upon it, triggers a domino effect of deferring projects and impacting operations, thereby undermining the City of Los Angeles funding agreement.

3. **REVENUE PROJECTIONS**: MTA's projections for fare revenues and state and federal appropriations have historically proved to be optimistic. The current plan is very likely to continue this trend and offers no protection against potential shortfalls. For example, over the next eight years, the City Agreement requires an additional $100 million of discretionary Federal Section 5309 funds above the prior forecasts in order to accelerate completion of the Mid-City extension by one year to achieve the agreement's milestones. This increase above and beyond earlier projections of $100 million per year exceeds any realistic expectation of Congressional appropriations and makes the City Agreement milestones for Mid-City improbable.

4. **FEDERAL FUNDING**: Based upon emerging appropriation levels in the House and the Senate, there may be a $24 - $49 million shortfall in MTA's FY 1997-98 Feferal funding projections . The House Transportation Appropriations Subcommittee has designated $76 million for MOS-3, with a portion marked for the Eastside extension, while the Senate recommended $51 million for MOS-3. Additionally, both Houses establish several conditions which must be satisfied before funds can be released. MTA's budget anticipated $100 million for MOS-3, $76 million of which would be for North Hollywood.

5. **BUS OPERATING EFFICIENCIES**: Presumed operating efficiencies have risen dramatically to $871 million between FY 1998 and 2011. Mundle & Associates, FTA's bus operations consultants, have characterized approximately 17% of the projections during FY 1997-98 as "low probability" with this percentage rising over time as uncertainty increases. As a consequence, approximately $125 million in budgeted savings are called into question. We expect to review the impact of MTA's labor agreement on these estimates and will monitor actual performance versus budget to gauge the realization of projected efficiencies. However, failure to realize these operating efficiencies will adversely affect transit operations and construction of the Eastside extension, triggering a default on the City Agreement.

6. **BUS CONSENT DECREE**: Between the January submission and the June financing plan draft, MTA's cost projections for compliance with the Bus Riders Consent Decree increased $250 million. However, accurately projecting these costs remains difficult. Mundle & Associates has indicated that MTA's assumptions that the incremental services will be incurred on a marginal cost basis are unlikely to be realized over the long term given the eventual growth in the overhead cost base in support of service expansion.

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[1] $59 million represents the midpoint between $47 million and $71 million, which corresponds to 80% and 90% statistical confidence levels, respectively.

7. **ONE-TIME BUDGET ADJUSTMENTS**: Projected costs of MTA operations do not include adequate contingencies to reflect the inevitable "one-time" events and budget adjustments which occur annually. Based upon past experiences, these costs may be understated by as much as $25 million per year.

8. **MTA BUS FLEET ASSUMPTIONS:** MTA's bus fleet is aging rapidly with in excess of one third (over 800 buses) more than 12 years old, and another 303 ethanol-powered vehicles likely to be withdrawn from service soon and possibly re-engined. The City Agreement requires $100 million in CMAQ-funded bus purchases over the next year, even though FTA has previously informed MTA that these purchases are not eligible for CMAQ funding. In addition, given the present lack of consensus as to the timing, number and power source (diesel versus alternative fuel) of new bus purchases, we find the financial projections for the bus fleet unrealistic and subject to considerable risk. For example, re-engining the enthanol-powered buses would require unbudgeted capital spending of $20 - 30 milion. To further address these matters, Mundle & Associates recently began investigating bus service performance and fleet management practices.

9. **FTA POLICY DECISIONS**: MTA projections depend on FTA approvals which remain pending. These include the use of $470 million of STP funds for paratransit services over the next 15 years, the use of CMAQ funds for bus acquisition as noted above, and the use of Section 5307 Urban Formula Grants to make future Certificate of Participation ("COP") financing payments on ethanol-powered buses that will likely be removed from service. The latter financing assumption is contrary to FTA statutes, and MTA will have to substitute another source of funds for the financing payments as well as identify funds to cover potential exposure for COP acceleration and possible termination costs from a cross-border lease on the same vehicles.

10. **OTHER MOS-3 CONCERNS**: Attainment of the City Agreement milestones is also contingent upon other questionable assumptions involving the currently projected costs to complete and the revenue operation dates for the Eastside and Mid-City extensions, and the realization of revenues from the benefit assessment district financing for North Hollywood.

In order to further refine these issues, we will be reviewing the latest July 3, 1997 long range financial projections supplied by MTA. However, at this stage it is likely that MTA's adopted program of reserves together with the North Hollywood reserve (once verified) will need an additional up-front supplement of approximately $80 million for the Eastside and Mid-City extensions as well as net budget adjustments totaling more than $120 million over the next five years to account for the risks and questionable assumptions noted above. These adjustments and contingencies are prudent and necessary for an acceptable Recovery Plan and represent a reality check for all parties.

We recognize that such significant near-term adjustments represent serious hurdles for MTA. However, we continue to be concerned that the MTA is making greater commitments in the City of Los Angeles Agreement and the Board-adopted financial plan option than it can realistically fulfill. The City Agreement creates, rather than solves, fiscal problems and simply postpones the inevitable need to restructure MTA's capital and operating programs to reflect a more prudent assessment of revenues, costs and commitments.

ATTACHMENT 1

RECOMMENDED RESERVE STRUCTURE ($mm)

Issue	Ops	Capital	Initial Amount	Year 5 Amount
Revenue-Based				
Sales Tax Variability [a]	√	√	$58	$75
Other Revenue Variability	√	√	$20	$20
Cost-Based Reserves				
Operating Efficiencies	√		$7	$20
Consent Decree Costs	√		$25	$25
Operations	√		$25	$25
Bus Capital Program		√	$10	$20
Other Capital Programs		√	$5	$10
TOTAL RESERVE			$145	$195
Existing Reserve			$65	$182
EXCESS/(SHORTFALL)			($80)	($13)

Note: Amounts shown are ongoing "rolling reserves" that adjust periodically depending on performance. These amounts do not have a budget effect *per se*, although an event precipitating a drawdown will have a budget effect.

(a) Based on 85% statistical confidence level per UCLA.

ATTACHMENT 2

RECOMMENDED FINANCIAL PLAN ADJUSTMENTS ($mm)

Issue	Ops	Capital	FY-98 Adjustment	FY 98-02 Adjustment [a]
New Starts Funding[b]		✓	$0	($70)
City of LA[c]		✓	$0	($50)
RSTP/Paratransit[d]	✓		$?	$?
CMAQ/Bus Purchases[d]		✓	$?	$?
Ethanol Buses/Section 9[d][e]		✓	$?	$?
Eastside/Mid-City Costs/Contingency[f]		✓	$?	$?
Benefit Assessment Districts[g]			$0	($14)
TOTAL ADJUSTMENTS			$0 +	($134) +

NOTES:

(a) Total adjustments during 5-year period.

(b) Affects MOS-3 Mid-City extension. 10-year total adjustment is ($100 million).

(c) Assumes LACMTA is unable to meet milestone targets in the City funding agreement.

(d) FTA policy decision. Budget effect is uncertain.

(e) Assumes buses are removed from service and COPs not accelerated. Budget effect through FY 2004 is ($69 million) and does not include possible breakage costs associated with a cross-border lease on the buses or capital costs for re-engining.

(f) Costs are still uncertain.

(g) Included in the North Hollywood financial plan.

UPDATE ON THE STATUS OF LACMTA'S JANUARY 15, 1997 RECOVERY PLAN

INTRODUCTION

On April 9, 1997, the FTA Administrator issued a letter to the chairman of the LACMTA Board which essentially rejected the subject "Recovery Plan". Additionally, the Administrator directed the LACMTA (MTA) to address a number of issues that identified by FTA staff and its consultants and to submit a revised plan by May 1997.

The MTA has since submitted a number of documentation packages which have primarily focused on the financial aspects of its "Recovery Plan". In fact, MTA has adopted a "Strategic Funding Option" to serve as the basis of a "recovery plan". Although the MTA's efforts have resulted in some progress, no formal comprehensive and viable "Recovery Plan" has been submitted to the FTA.

The following is a general update to the information provided in Hill's April 1997 Technical Review of MTA's January 1997 "Recovery Plan" which was transmitted to the MTA on April 18, 1997.

STATUS OF THE PROJECTS

SEGMENT 2

Construction Status

The overall situation appears to be generally satisfactory and current trends show improvement in most areas. Minor issues exist but these are being worked out.

A major effort has begun on the planning and readiness for the system integration testing for the Vermont/Hollywood leg. The timing of this is well in advance of that accomplished for the Wilshire corridor. This should result in improvements in the actual performance of the testing, as well as the duration required for the testing.

Schedule Status

MTA's latest forecast indicates that project completion is three months behind schedule. The forecast does not consider any mitigation plans which are now being reviewed and implemented. All work which is high risk from a schedule perspective is complete now that the sinkhole has been recovered and associated tunnel work completed. With 18 months to ROD, the Vermont/Hollywood Leg is physically closer to completion than the Wilshire Leg was at this same milestone. Contracts B610, Trackwork and B261, Vermont/Sunset Station, are the major concerns with respect to a potential delay to ROD.

Cost Status

Metro Construction is conducting a thorough review and risk analysis at the individual line item and contract level to determine if the remaining unallocated contingency is adequate. The results of this review are forecast to be available later this month. Our initial assessment is that this may result in an overrun of the current budget by $10-15 million.

SEGMENT 3 - NORTH HOLLYWOOD

Design Status

As of May 1997, design progress is reported to be 93.5 percent complete which is generally consistent with the planned progress. Our current assessment is that there are no design issues that should affect the ROD. However, Metro Construction's May 1997 Project Schedule Report (PSR) reflects a significant change with respect to several design issues relating to surface restoration and improvements. Although at this time we do not believe that the subject designs are critical to the ROD, they are being reported by Metro Construction as having the potential to affect the critical path.

Construction Status

Observations of progress in the field do not fully support Metro Construction's estimate of progress. Specifically, progress on the tunnels through the Santa Monica Mountains has been substantially less than planned in the "rebaselined" schedule and anticipated improvements from mitigation plans for the North Hollywood Station contract have not been fully realized. Factors limiting progress on the Santa Monica Mountain tunnels include poor ground conditions, required grouting to limit groundwater inflow and general fatigue of the tunneling equipment resulting in increased maintenance downtime.

Schedule Status

Significant deviations from the original plan for construction progress and Metro Construction's failure to maintain the project schedule in accordance with its policies and procedures resulted in a rebaselined project schedule which was implemented in February 1997. Since the new schedule was implemented, Metro Construction has "estimated" that construction progress was advancing in direct correlation to the new plan. In its May 1997 Monthly Project Status Report (MPSR), Metro Construction reported construction progress as 42 percent complete versus 42 percent planned, with zero float to the critical path.

The contractor, the CM and Metro Construction have managed to implement several schedule mitigation programs which have provided some relief in the schedule. As we have routinely reported, the North Hollywood Schedule will continue to be subject to significant risk until the tunnels through the Santa Monica Mountains have been excavated. ***Now that much of the anticipated risk is being realized, we believe that some delay to the planned ROD of May 2000 is probable. However, barring unforeseen events, the ROD should be achieved by the December 2000 date defined in the "Revised and Restated FFGA".***

Cost Status

According to Metro Construction's May 1997 Monthly Project Status Report (MPSR), the current budget for the North Hollywood Extension remains at $1.313 billion, including $3 million budgeted for non-undertaking (out of FFGA scope) expenditures. The current forecast for the FFGA scope is unchanged and equals the budget value. Since December 1996, Metro Construction has allocated $9.3 million of the "Project Contingency" leaving a balance of $91.1 million. ***We continue to believe that the remaining contingency should be more than adequate to cover the forecast costs for the North Hollywood Extension.***

Segment 3 - East Side Extension

Design Status

The production of the design documentation has suffered due to MTA's failure to:

- adequately complete Preliminary Engineering prior to the start of Final Design
- perform needed geotechnical, seismic and environmental studies in a logical sequence relative to the needs of the design development
- conduct timely constructability reviews and utilize those results to optimize the project planning

We attribute these problems to MTA's failure to provide a strong and stable team for the management of the project. The combination of these factors is now resulting in impacts to the completion/finalization of the design packages, the overall schedule and cost of completing the project.

Indications of elevated levels of groundwater-borne hydrogen sulfide in the area of the tunnel segment between Union Station and Little Tokyo, and the lack of needed environmental information are impacting the completion of the C0502, Little Tokyo Station and Line Section contract package, which is the primary element of the project critical path. The environmental assessment studies, which will provide the needed information, have yet to be commissioned. This situation is apparently the result of the inability of the project team to acquire consensus and timely support from the various internal MTA functional organizations. Metro Construction anticipates that the bid/award cycle for the C0502 contract could slip by several months as a result.

Metro Construction is therefore considering accepting the risk of releasing the current documents without all of the vital environmental information and dealing with the situation either with an addendum to the bid package or via a change order process after the contract has been let. This validates our assessment that inadequate attention was given to geotechnical and environmental issues early in the Final Design effort.

As part of a separate effort relative to the Final Environmental Impact Report (FEIR), the MTA Board is scheduled to consider staff's report recommending approval of the Modified Initial Study/Environmental Assessment at its July 31, 1997 Board meeting. The final document will be an addendum to the FEIR.

In its response to the Recovery Plan, FTA directed the MTA to review the contract packaging for the East Side Extension. This activity should have been carried out in conjunction with a constructability review of the Preliminary Engineering which MTA initially reported completing in late 1994 (approximately two years prior to the execution of the constructability review on the Preliminary Engineering). Metro Construction reports that the results of the review indicate the potential for meaningful savings by implementing a single tunneling contract. (See also Schedule Status below).

Schedule Status

As of its May 1997 Monthly Project Status Report (MPSR), Metro Construction is forecasting a six month improvement to the Board adopted ROD of November 2004. This places the forecast ROD at May 2004, 18 months later than the FFGA ROD of November 2002. We have not seen a fully developed schedule report which supports the revised ROD.

As noted above, Metro Construction has now completed the review of the East Side Extension contract packaging with support from its PMA and CM. The result of the cost aspects of the review has led Metro Construction to direct the reformulating of the schedule and instruct the design consultant to repackage the tunnel work scope into a single contract. Reportedly, as part of the review exercise, Metro Construction has compared the summary cashflow requirements of the reformulated schedule against its forecast of available funds and determined that there should be no impact from the planned changes.

In our original Technical Capacity report, we stated that a single tunneling contract might provide substantial cost and schedule savings. On July 11, 1997, we learned that Metro Construction had performed a study which, though not complete, showed that a single tunnel contract would provide significant cost savings over the existing packaging format. The project team's delay in studying the potential for optimizing the project schedule means that little if any schedule savings will be realized. Moreover, the full potential of the cost savings will be offset to some extent by unnecessary re-engineering costs. We believe that this situation is attributable to poor decision-making, past and present, which has allowed organizational instability and the limited management capacity of the project team to impact the program.

SEGMENT 3 - MID CITY EXTENSION

The MTA brought a motion before the Board in April 1996 to study a second potential alignment. The motion was approved. Scope, budget and schedule remain undefined for this project.

The currently estimated impact to the project schedule is an additional 12 months for completion of the studies. We basically agree with the schedule status of the SEIS/SEIR phase provided in MTA's May 1997 Monthly Status Report which indicates that completion of the study has slipped eight weeks. The delay in the completion of the document will impact the Board decision on the Locally Preferred Alternative (LPA). The milestone, originally scheduled for August 1997, has recently slipped to October 1997.

COST REDUCTION MEASURES

MTA's letter to the Administrator stated that it was "*...committed to aggressively pursue value engineering and cost reduction programs as part of this recovery plan*".

Our observation is that some of the cost reduction activities suggested for the East Side Project have been performed recently and then reluctantly (i.e. at FTA direction). However, in recent meetings with Metro Construction and the design consultant we have seen evidence that there is a conscientious effort to take advantage of 'Lessons Learned' from prior projects. For example, both Metro Construction and the design consultant have made efforts to review the change control logs from Segments 1, 2 and the North Hollywood portion of Segment 3 and incorporate as many relevant changes as possible during the design process.

We have not seen a concerted effort to implement a formal program that instills cost reduction into the corporate culture. This was emphasized at the May 1997 Quarterly Review Meeting and since then, we have provided senior MTA executives with examples of **Cost Reduction and Design to Cost** programs from the Boston Central Artery project. We have not seen a response to these overtures.

The MTA has only addressed one of the nine suggestions made for cost savings in our Technical Capacity Report (see comments on East Side contract packaging above), and only then after the FTA gave specific direction in the form of an action item. We continue to believe that there are additional cost savings measures that could be pursued, such as:

- the "bridge" value engineering alternative to a second station entrance at Vermont/Sunset
- the implementation of a 'design/build' pilot program for a station on the East Side Extension
- Study measures to offset the impact of the high vehicle spares ratio (as suggested by FTA).

ORGANIZATION AND MANAGEMENT

Frequent and recurring disagreement and lack of consensus at the Board level, coupled with general weaknesses and high turnover in the executive staff ranks, has historically plagued the agency. The Board's perceived "micro management" has undoubtedly limited the MTA's ability to attract and secure the services of a qualified candidate to lead the Agency. In fact, recruiting for project level positions has also been negatively influenced by the public actions of the Board and disrespectful treatment of the Staff in public meetings. A Code of Conduct was adopted by the Board in January 1997 and has succeeded in curbing somewhat the Board's more blatant expressions of disrespect to its staff. Although Staff actions and level of performance have been, in some cases, deserving of criticism, the Board would be well advised to follow the intent of the Code of Conduct.

The MTA's financial capacity has been the subject of a separate review by FTA's Financial Management Oversight Consultant (FMOC). We are aware of several issues that the FMOC has raised that put the agency's awareness of its need for fiscal responsibility into question.

In July 1997, the Mayor of the City of Los Angeles was installed as the Chairman of the MTA Board. Over the past several months, the Mayor has been lobbying for the State legislature to modify the structure of the MTA Board by replacing some elected officials (County Supervisors, City Council Members, etc.) with appointees. Meanwhile, the situation has prompted the State Legislature to consider other versions of legislation designed to restructure the Board.

We therefore believe that the MTA Board must recognize the need to change the manner in which it addresses its roles and responsibilities relative to its staff as well as the agency's financial and technical capacity.

The most recently issued version of the Agency organization chart dated June 1997 reflects 10 executive positions which are vacant or filled by personnel in an acting/interim capacity. On a positive note, the heretofore interim Executive Officer of Construction has recently been confirmed, reducing the number to nine. Recent staff changes have occurred as a result of Metro Construction action to discipline/terminate individuals in key design management roles, the first instance of this kind at this level in the Construction Division.

Training of MTA Staff is being carried out and there is evidence of improved performance in several functional areas, most noticeably in the quality of the engineering product. The Engineering Improvement Program that was instituted as a result of our observations is nearing closure with 60 percent of the actions reported as closed and audited by MTA Internal Audit group. Our sampling of the closure files supports the general status as represented.

We also note however, that there are some functions where training has been carried out and the routine execution of functional process has fallen short of expectations. An example of this is the cost forecasting procedure as it related to MTA internal functions and Professional Services. Our survey of the function indicated that training had been provided to the MTA functional managers which informed them of the Policy requirement and familiarized them with the Procedure for meeting the requirement. Our further investigation revealed that systematic provisions for the submittal of forecast information had not been fully implemented and follow-through on the part of line and functional management was not evident.

A construction management consultant review was conducted in early 1995. MTA reported that all of the 150 recommendations had been completed by late 1996. At that point, the Board requested that the consultant return and confirm the implementation of its recommendations. In its follow-up review completed in April 1997, the consultant sampled the implementation of the recommendations and determined that of the sample population, only 48 percent had been fully implemented, 8 percent were no longer applicable and 44 percent remained in various stages of implementation. In a presentation to the MTA Board, the consultant indicated that, based on its knowledge of the recommendations and their inter-relationships, actual implementation could be as high as 70 percent.

As additional evidence of the high personnel turnover rate experienced in the MTA's management ranks, the consultant noted in its follow-up review that only those executives responsible for implementing 20 percent of the recommendations remained in place during the implementation period.

SUMMARY

In summary;

MTA is making progress in the following areas:

1. A training program is in place and focuses on training individuals to meet performance requirements

2. Metro Construction's management of the quality of the design has shown signs of improving.

3. An individual has been permanently assigned to the position of Executive Officer of Construction. This will help stabilize the organization.

4. We have seen evidence that there is a conscientious effort to take advantage of 'Lessons Learned' from prior projects

MTA has four critical issues/problems that it needs to address:

1. The MTA Board must recognize the need to change the manner in which it addresses its roles and responsibilities relative to its staff as well as the agency's financial and technical

capacity.

2. MTA executives must recognize that the East Side Extension project management team is apparently unable to recognize the need to perform fundamental project planning/development tasks in a logical sequence and the attendant risk to the project of failing to do so.

3. To date, the MTA has failed to establish a cost reduction or value engineering program that would support its commitment to "*aggressively pursue*" either.

4. The apparent lack of motivation and/or recognition on the part of executive management to ensure the implementation of programs which will resolve issues two and three above.