

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

MINUTES/PROCEEDINGS

Regular Board Meeting
Board of Directors
District Board Room
425 South Main Street
Los Angeles

July 27, 1989

Called to order at 1:00 p.m. by President Swanson:

Directors Present:

Gordana Swanson, President
Marvin L. Holen, Vice President
Joseph S. Dunning
Larry Gonzalez

Jeff Jenkins
Nick Patsaouras
Charles H. Storing
Kenneth R. Thomas

Directors Absent:

Jan Hall
Jerold F. Milner
Jay B. Price

NOTE: Agenda items were considered in the order indicated.

7. APPROVED agreement between petitioners and the District and adopted resolution ordering change in Benefit Assessment; form of agreement subject to approval of General Counsel.

UNANIMOUS, with 8 Directors present.

1. Certificates of Merit presented by Director Dunning to:
 - a. Information Operator-of-the-Month, Bertha Velazque;
 - b. Maintenance Employee-of-the-Month, Hak Lee; and
 - c. Operator-of-the-Month, David Caudillo.

2. Leilia Bailey, Director of Transportation, introduced Transportation Management Certificate II graduates.

3. Report of the President

President Swanson reported that a letter had been received from the Los Angeles County Transportation Commission (LACTC) requesting an opportunity to appear before the Board to discuss the results of the Deloitte/Kellogg Joint Venture Report on a Review of the Financial Disposition and Schedule of the Metro Rail MOS-1 Project.

Prior to the commencement of the presentation by Mr. Neil Peterson of the LACTC, and members of the Deloitte/Kellogg team, President Swanson reported that she had attended a meeting of the Los Angeles City Transportation Committee chaired by Councilman Nate Holden where he raised many questions concerning this report.

Mr. Charles Ream of Deloitte, Haskins & Sells, Mr. Herb Crasner of Kellogg, and Mr. Rodney Dawson spoke to the report and the recommendations contained therein. Dialogue between the Board members, the LACTC staff and the consultants was extensive and is summarized in the following paragraphs.

President Swanson inquired if the scope of work for the report was outlined by the LACTC staff or the Commission. The response was that the work was the result of a motion passed by the County Board of Supervisors to do a review of MOS-1. The review was in response to that motion. The consultant firms defined the scope of work to the LACTC staff and it was ultimately approved by the Commission. Additionally, because of the gravity of the findings, another review was conducted.

President Swanson also asked about the factors that led the consultants to conclude that the schedule should be slipped to January, 1994 instead of September, 1993. She also asked if they believed the January date is still appropriate now that the RTD's staff position is known. The response was that there is nothing that has caused a change in the projected date as forecast by the consultants.

Also discussed was the estimated cost increase of \$135 million and the consultant's inclusion of a \$61 million contingency factor within that cost increase. During this discussion, it was concluded it would be appropriate to state the projected cost increase is \$135 million, less the \$61 million contingency factor.

A question was asked of the consultants about what, in their opinion, should the contingency factor have been at the beginning of the project. The answer was 10-20%. The complexity of the project would make it toward the high end of the range; i.e., 15-20%.

Also questioned were the items most likely to cause cost overruns, with the response being tunneling, hazardous waste, etc. A follow-on question dealt with the percentage of the project completed and the corresponding percentage of the difficult, potential cost overrun items. The consultants responded that the answer to both is the same; 35% is completed.

Director Holen then commented upon the recommendation contained in the LACTC staff report that the project be transferred to the LACTC policy authority and the management of the Metro Rail construction be transferred to the Rail Construction Department of the LACTC and the inferred question of competence of the SCRTD on this project. He then continued by presenting statistics and charts which disputed the costs projected for the Metro Blue Line, constructed by the LACTC, which call into question the competence of the policy and management of that particular Project. He continued that the charts indicate an 87% cost increase in the Metro Blue Line from the moment of filing the environmental documents which define the scope of the project. He continued that based on these statistics, the Metro Blue Line and all other rail construction projects of the LACTC should be transferred to the policy oversight and management of the RTD. Mr. Peterson countered by speaking to cost projections of both projects at the approval dates of the environmental documents.

Director Patsaouras and Mr. Peterson then shared a dialogue about the cost to extend the Metro Red Line to the San Fernando Valley, the impact of the cost overruns on the various projects and Director Patsaouras' concerns that the shortage of funds to carry the project to the San Fernando Valley will be blamed on the Metro Red Line when it rightfully should be shared by all rail construction projects. Mr. Peterson continued that the cost overrun figures are projected costs and can be turned around with appropriate policy and management oversight.

President Swanson spoke about the increase in projected cost of the Metro Blue Line in the five months since Mr. Peterson's employment with the LACTC and inquired in light of this increase, why he felt the LACTC was qualified to be a better

manager of rail construction projects.

Director Holen commented on the projected \$404 million cost overrun on the Metro Blue Line which will have the same impact on funds available for future rail lines as the Metro Red Line. He continued that the RTD's Metro Red Line Project is overseen by the federal government, the state government, the county government and by the District's internal review process. The LACTC's Metro Blue Line Project is without any oversight whatsoever; not the federal government, not the state government, not the county government, but only by the LACTC itself. He suggested there is only one oversight process left for the LACTC's project; that is the Los Angeles press. Director Holen also made reference to the Cost Reduction Panel alluded to in Mr. Peterson's report and suggested that process be extended to the Metro Blue Line and the Metro Green Line.

Director Jenkins spoke about the limited amount of money to fund rail construction and the need for better management of all projects.

Mr. Rodney Dawson presented the recommendations contained in the Deloitte/Kellogg Joint Venture report; 1) establish a single rail construction agency, 2) eliminate duplicate RTD and construction manager effort, and 3) delegate authority to the field.

Director Holen inquired if the consultant had considered the criteria of competence. In other words, do you take cost overruns against cost overruns on another project, measure those cost overruns and decide who is the most competent and who is the least competent. Mr. Dawson replied that he would not presume to choose the most competent. Mr. Peterson countered it would be an incorrect conclusion that the cost overrun is the only reason he is recommending the Rail Construction Corporation be implemented.

General Manager Pegg spoke about the \$578 million in awarded contracts as stated in the Deloitte/Kellogg report which was represented as a December, 1988 figure while in fact the District's report indicated \$506 in awarded contracts as of June, 1989. He continued that there has been a decided lack of post-audit review and suggested that work be done before the Deloitte/Kellogg report gets any older.

Director Thomas and consultant representatives discussed contract awards, change orders accepted, and potential value of pending claims and the impact of those pending claims upon the contingency value assigned to the project.

Director Jenkins commented that a potential exposure of at

least \$104 million has been identified. What has not been decided, and cannot be decided today, is which agency, new or existing, is going to resolve the problems identified. He indicated that issue will be decided in the political arena sometime hence. Director Jenkins asked Mr. Rhine of the RTD staff if he concurred generally with the recommendations made by the Technical Advisory Group (TAG). Mr. Rhine responded that he has been working every day since he accepted his position to lower the costs of the project, and his staff has been working for some time on a list of cost reduction items. He continued there would be some difficulty in enacting some of the cost reduction suggestions made by the consultants because of the conditions imposed by UMTA, but there is merit in the suggestions from a generic point of view. Mr. Rhine commented on the suggestion to eliminate duplicate RTD and construction management effort by saying that this is an opinion expressed by the consultant but he has not been shown any proof of duplicative effort.

With regard to the recommendation to delegate authority to the field, Director Holen inquired about the dollar levels recommended. Mr. Dawson replied that the current maximum level is \$100,000, and he would recommend that maximum be doubled with as much delegation pushed down to the field as possible. During discussion it was pointed out that under the District's self-certification process, the responsibility for contract administration is clearly separated from program management so that proper checks and balances are maintained. Further, it is the District's policy not to delegate out authority that is subject to audit. Director Holen concluded this element of the dialogue by stating that the Deloitte/Kellogg report has been available for only one day, but it no longer has any credibility.

Mr. Dawson continued his reiteration of the recommendations contained in the Deloitte/Kellogg report: 4) review project schedule, 5) improve bidding climate. He spoke to project savings through acceleration of the schedule and deterioration of the contractor relationships which could have an impact on contract bids in MOS-2 and future rail projects.

Director Patsaouras asked if the consultants had considered the appreciation in land values by \$19 million since the inception of the project, and if this land appreciation figured in their assessment of the competence of the District to manage the project. Mr. Dawson indicated the land appreciation was not addressed in the report.

Mr. Ream concluded the consultant presentation by expressing his understanding of the sensitivity of the Board; he stated however, he also has no question about the competence of the people who conducted the review. He expressed his belief that

the issues are realistic; i.e., the cost overruns and the schedule slippage. He stated the scope of the project is similar to what is being done on the Metro Blue Line.

Director Jenkins spoke to the fact of a projected cost overrun, be it \$64 million as suggested by the District or \$135 million as suggested by the Deloitte/Kellogg consultant firms. He asked how the District developed its figure and what can be done about it. Mr. Pegg responded that the District conducted a project review and submitted the results of that review to our consultant for further analysis. Upon inquiry, Mr. Pegg reported that the scope of the reviews conducted by the District and Deloitte/Kellogg was substantially similar.

Further, in responding to Director Jenkins' question about where do we go from here, Mr. Pegg stated it is appropriate to speak to what has already been done to control costs. The District staff has a list of some 30-50 items that are being pursued as cost control measures. Director Jenkins asked if Mr. Pegg were confident that the cost escalations can be eliminated, with Mr. Pegg stating staff is continuing to make every effort to minimize the cost of the project.

Mr. Vladimir Khazak presented a brief report on the recommendations of the Technical Advisory Group (TAG). He reported that there was general concurrence among the members of the TAG that the cost overruns were in the range of \$135 million and there was a potential schedule delay in the range of one year. The group developed some general recommendations. He stated the major thrust of the group was based on the expertise of the members of the panel rather than papers and materials available. Mr. Khazak spoke of the project he was working on and answered questions concerning the length of the alignment, the type of project (light rail) and the contingency factor allowed. It was stated the contingency factor for the Seattle Metro Project was 15% for underground work and 10% for above-ground work, with a general contingency factor of 15-17%.

Mr. Khazak also spoke to some of the recommendations contained in the report. 1) the formation of a single agency to manage the design and construction of all rail projects in Los Angeles County, and 2) the establishment of a Quick Response Team (QRT) to resolve quickly any unusual or disputed change orders.

Mr. Khazak also stated his belief that the project could be turned around by Christmas. He expressed his opinion that authority should be delegated downward with authority and responsibility having coinciding weights or levels.

Director Holen inquired of Mr. Peterson the dollar level of change order authority to the project manager for the Metro Blue Line. Mr. Peterson responded the figure was \$200,000. Mr. Peterson concluded the presentation by urging the Board to consider the concept that there is more to lose by keeping the exhaustive set of checks and balances that are currently in place on the Metro Red Line.

Members of the public, J. Walsh, G. Roberts and P. Moser addressed the Board speaking to the audit report, subway systems, buses and overloading on bus lines.

EQUIPMENT & OPERATIONS COMMITTEE

16. AUTHORIZED the renewal of the District's Public Liability/Property Damage Insurance Program with Insurance Co. of Pennsylvania effective August 1, 1989 for an estimated premium of \$1,480,000, plus premium taxes and CIGA assessment, with the self-insured retention to remain at \$4.5 million; form of documents subject to approval of General Counsel.

UNANIMOUS, with 6 Directors present.

17. It was reported the Committee received a verbal status report on Cubic Western Data Farebox procurement. No action required.

4. Report of the General Manager

No report was made.

5. Director Special Items

Director Patsouras requested a report on selling of air rights over the Metro Rail stations. The report should contain information on how this can be accomplished.

Director Storing asked about the Non-Contract pension plan and when it would be back to the Board. Staff said it would be on the next Board agenda.

6. Closed Session to consider labor negotiations, personnel and litigation matters.

No Closed Session was held.

8. Received and filed status report on integrated bus/rail fare implementation.

UNANIMOUS, with 6 Directors present.

CONSENT CALENDAR

Items 9 through 14 on the Consent Calendar were approved unanimously in one motion with six Directors present.

9. APPROVED a contract with Flexible Corp., Delaware, the lowest responsible bidder under Bid No. 7-8905 covering cap and carrier assembly for an estimated annual cost of \$121,193; form of contract subject to approval of General Counsel.
10. APPROVED Requisition No. 9-9400-210 and exercise of options for one additional year covering brake drum procurement with the following:
 - a. Universal Coach Parts, Des Plaines, IL, covering items 2, 3, 8, 9, 10, 11 and 13 at an estimated annual cost of \$179,978;
 - b. Bethany Industries, Utica, NY, covering items 1, 4, 5, 7 and 12 at an estimated annual cost of \$30,359;form of options subject to approval of General Counsel.
11. APPROVED amendments to the District's Rules and Regulations, Section VIII:
 - a. AUTHORIZED a Division Manager or designee to expend up to \$100 petty cash for items that accomplish the return to service of a revenue unit; and

- b. AUTHORIZED the increase in signature level approval for requisitions signed by department heads or designee to \$10,000;
 - c. AUTHORIZED the increase in signature level approved for requisitions signed by the Executive Staff member up to \$25,000;
 - d. AUTHORIZED Requisitions for purchases over \$25,000 but less than \$100,000 to be signed by the Executive Staff member and approved by the General Manager.
12. Received and filed report of Sale Order and Sales of Surplus, Obsolete, or Used Material, Supplies or Equipment for April 1 through June 30, 1989.
13. Received and filed report of purchases \$25,000 through \$100,000 for June, 1989.
14. Received and filed Metro Red Line Construction Change Order Report for June, 1989.

ADVANCE PLANNING COMMITTEE

15. AUTHORIZED the General Manager to initiate a dialogue between the District, ferry operators in the region, and the Public Utilities Commission, and to negotiate and execute service agreements with ferry operators to Santa Catalina Island for fiscal years 1989 and 1990; form of agreements subject to approval of General Counsel.

UNANIMOUS, with 6 Directors present.

FACILITIES & CONSTRUCTION COMMITTEE

18. ADOPTED the Office Space Program dated May, 1989 prepared by Interior Design, Inc. for the new headquarters building. ADDITIONALLY, included in the plan are the four recommendations as noted in the General Manager's report dated July 19, 1989.

UNANIMOUS, with 6 Directors present.

Staff was instructed to review the issue of child care facilities for the District. The work is to be done in-house and no new positions or personnel are authorized at this time.

GOVERNMENT RELATIONS COMMITTEE

19. Received and filed the State Legislative update.

UNANIMOUS, with 6 Directors present.

RAPID TRANSIT COMMITTEE

20. APPROVED:

- a. Requisition 9-8100-483 and exercise of a one-year option renewing contract A144 with Operations Consultants, Inc. covering the operation and maintenance of Metro Red Line groundwater treatment plant for an estimated cost not to exceed \$1,500,000; form of documents subject to approval of General Counsel.
- b. all contract amendments increasing the aggregate contract price by up to five percent; however, no individual amendment may exceed \$99,999.

This contract funded pursuant to the provisions of UMTA Grant CA-03-0130.

UNANIMOUS, with 6 Directors present.

21. APPROVED contract amendment with Breda Costruzioni Ferroviari, Pistoia, Italy, revising final assembly and shipping requirements contained in contract A650 to achieve a savings of approximately \$500,000 and lifting the bonding requirement if a savings of \$300,000 could be realized; form of documents subject to approval of General Counsel.

UNANIMOUS, with 6 Directors present.

FINANCE & JOINT DEVELOPMENT COMMITTEE

22. APPROVED:

- a. execution of a Memorandum of Understanding with the Los Angeles County Transportation Commission for \$123,028,000 of Proposition A funds in operating revenue for Fiscal Year 1990, and
- b. amendment of the Fiscal Year 1989 claim for Proposition A funds to include:
 1. \$3,208,000 for costs of operating service on Lines 480, 481 and 482 from January 1, 1989 to June 30, 1989; and
 2. \$871,419 for costs associated with implementation of the San Gabriel Valley Transportation Zone.

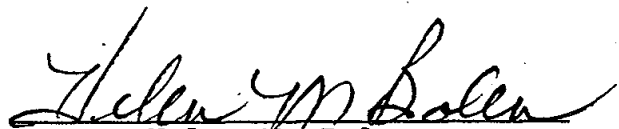
form of documents subject to approval of General Counsel.

UNANIMOUS, with 6 Directors present.

GENERAL ITEMS

23. There were no items arising subsequent to the posting of the agenda.
24. Public Comment

The meeting adjourned at 4:22 p.m.


Helen M. Bolen
District Secretary