



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

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**JAN 4 2011**

Mr. Arthur T. Leahy  
Chief Executive Officer  
Los Angeles County Metropolitan Transportation Authority  
One Gateway Plaza  
Los Angeles, CA 90012

Re: Preliminary Engineering Approval for the Regional Connector Transit Corridor Project

Dear Mr. Leahy: <sup>ADT</sup>

The Federal Transit Administration (FTA) is pleased to inform you that the Los Angeles County Metropolitan Transportation Authority's (LACMTA) Regional Connector Transit Corridor light rail transit project has been approved into preliminary engineering (PE). This approval of the initiation of PE is a requirement of Federal transit laws governing the New Starts program (49 U.S.C. Section 5309(d)(5)).

With this approval, LACMTA has pre-award authority to incur costs for the PE activities discussed below prior to grant approval while retaining eligibility for future FTA grant assistance for the incurred costs. This pre-award authority does not constitute an FTA commitment that future Federal funds will be approved for the project. As with all pre-award authority, all Federal requirements must be met prior to incurring costs in order to retain eligibility of the costs for future FTA grant assistance. FTA's approval to initiate PE is not a commitment to approve or fund any final design or construction activities. Such a decision must await the outcome of the analyses to be performed during PE, including completion of the environmental review process.

FTA is required by law to evaluate a proposed project against a number of New Starts criteria and ensure that prospective grant recipients demonstrate the technical, legal, and financial capability to implement the project. As a result of FTA's evaluation, the Regional Connector Transit Corridor project has received an overall rating of *Medium-High* under the New Starts criteria. The project's current total capital cost estimate is \$1,366.97 million in year-of-expenditure (YOE) dollars. Of this amount, LACMTA is seeking \$819.60 million (60 percent) in Section 5309 New Starts funds.

The Regional Connector Transit Corridor project, for which this PE approval is granted, is a below-grade light rail transit (LRT) line of 1.9-double-tracked miles, extending through the central business district of the City of Los Angeles from the Blue Line terminus at the Metro/7<sup>th</sup> Street station to the Gold Line station in Little Tokyo. The light rail line will operate under City of Los Angeles streets and privately held parcels. The scope of the project includes the purchase of four new light rail vehicles that are compatible with the existing LRT system. The project scope also

includes the construction of three stations at the following locations: 2<sup>nd</sup>/Hope; 2<sup>nd</sup>/Broadway; and 2<sup>nd</sup>/Central. The project will connect the existing Gold, Blue, and future Exposition light rail lines, which are four distinct travel corridors that stretch 80 miles throughout Los Angeles County. When completed, the Regional Connector Transit Corridor project will be part of a regional light rail system connecting the City of Long Beach to the cities of Pasadena and Azusa, and East Los Angeles to the City of Santa Monica.

In August 2010, FTA initiated an assessment of scope, schedule and costs for the Regional Connector Transit Corridor project. In addition, a pre-PE risk assessment workshop was conducted in October 2010, to help LACMTA to identify the uncertainties, including risk management deliverables, associated with the project. A risk mitigation framework was prepared by FTA's Project Management Oversight Contractor (PMOC) to identify issues related to project risks that should be addressed during PE. The review was completed in November 2010. Based on the findings, below is a list of major actions that should be addressed by LACMTA during PE:

#### ***Project Scope***

- Within 90 days of PE approval, develop an operations plan and complete all transit capacity analyses.
- Conduct a robust value engineering effort during PE to realize potential project cost savings, including an examination of a raised underground profile. Develop detailed construction staging and sequencing plans throughout the alignment and conduct extensive public outreach to obtain public acceptance. Assess the costs and risks of constructing the 2<sup>nd</sup>/Hope station via a mined construction methodology versus a two-stage shoring system which requires moving the station.

#### ***Project Schedule***

- Based on the preliminary results of FTA's pre-PE risk assessment, the schedule for the project appears aggressive. During PE, LACMTA should update the project schedule to reflect an additional two years for project implementation.
- Early in PE, develop a real estate acquisition schedule and a project permit schedule. Monitor the status throughout the project, and in particular during preliminary engineering, since it relates to any advanced design-build construction activities.

#### ***Project Cost***

- In conjunction with the cost estimating activities, implement design-to-budget controls and procedures that would require the design team to continually monitor the affect of design development and evolution on the overall project cost. The design team should formally notify LACMTA and request approval of any significant cost or schedule impacts.
- Based on the preliminary results of FTA's pre-PE risk assessment, the capital cost estimate for the project appears to be understated. FTA believes the cost estimate to be more likely in the range of \$1.547 billion to \$2.195 billion (10 to 50 percent probability range). During PE, LACMTA should work with FTA to update the project cost estimate to address the findings of the risk assessment and the risk mitigation workshops.

#### ***Technical Capacity***

- Consider staffing the Executive Officer for Project Management position as a full-time position to oversee both the Regional Connector and Westside Subway Extension projects. Similarly,

staff the Project Director for both of these projects as full-time positions dedicated to each project.

- Consider staffing a Senior Tunneling Engineer position to oversee or supervise the design work of the consultant staff.
- Develop an independent risk team, led by a Risk Manager, to continually manage project risk and control the use of contingency.

### ***Management Plans***

- Within 30 days of PE approval, address all FTA comments and provide an updated Safety and Security Management Plan in compliance with FTA Circular 5800.1. Develop secondary mitigation measures and consider including these mitigation measures in the proposed design-build contract as options.
- Within 60 days of PE approval, update the Risk and Contingency Management Plan to incorporate FTA recommendations at the November 18, 2010 Risk and Contingency Management Workshop.

### ***Other Issues and Concerns***

Under the 30/10 Initiative introduced by City of Los Angeles Mayor Antonio Villaraigosa, LACMTA's Board of Directors propose using Measure R sales tax revenues to build twelve transit projects in ten years rather than the original 30-year timeframe planned for the implementation of the projects. Measure R is a transportation half-cent sales tax approved in November 2008 by Los Angeles County voters. Measure R is expected to generate revenues for the non-Federal share of the project budget over the entire 30-year term of the measure. To accelerate cash flows and thus the schedules of all twelve projects identified in the 30/10 Initiative, LACMTA intends to leverage Measure R funds through debt financing. The project financial plan assumes LACMTA will leverage Measure R revenues using Qualified Transit Improvement Bonds (QTIBs) and a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan.

QTIBs represent a new category of direct subsidy tax-preferred bonds for transit initiatives of national significance and are pending legislative consideration. It is proposed that the Federal interest subsidy should be set at 100 percent of the interest rate on the bonds and the bond principal repayment would be backed by Measure R revenues. QTIBs are proposed to be enacted as part of a pilot program, through which the Secretary of Transportation would select nationally significant projects or program of projects such as the 30/10 Initiative program structure.

FTA's financial review demonstrates that LACMTA has the financial capacity to operate, maintain, and reinvest in its ongoing transit system, equipment and facilities. However, LACMTA's financial plan relies heavily on leveraging Measure R revenues through debt financing using a TIFIA loan and QTIBs that are pending legislative consideration. During PE, LACMTA should continue progress on securing the funding arrangements discussed above, and develop a more robust plan for addressing the cost estimate adjustments discussed earlier and potential cost overruns and funding shortfalls. For entry into PE, FTA does not require that non-New Starts funding be committed, only that a reasonable plan for obtaining the funding be prepared and submitted. The financial plan submitted by LACMTA is considered reasonable for a project early

in project development and has been rated *Medium*. The following actions must be taken as the project progresses through PE in order for the project to continue to advance:

- LACMTA is assuming a 60 percent New Starts share and receipt of very high annual amounts of New Starts funding for the Regional Connector. LACMTA is pursuing the Westside Subway extension project concurrently with the Regional Connector, and has assumed much lower New Starts share for that project, although that project also assumes high annual pay-outs of New Starts funds. During PE, LACMTA must work with FTA to address New Starts funding assumptions for the two projects.

LACMTA is actively pursuing with Congress the legislative initiatives necessary to make the 30/10 plan possible. As the Regional Connector and Westside projects progress through PE, LACMTA must gain commitments of non-New Starts funding sources, including showing progress on the legislative initiatives assumed in the plan. If progress is not demonstrated, FTA will require that the financial plan show how the projects could be implemented using existing funding and loan programs.

LACMTA must work with FTA during PE to address the concerns identified above, along with any others that are identified in FTA's assessment of scope, schedule, and costs as well as any issues that are identified as project development progresses. The objectives are to ensure that:

- All environmental impacts are identified and adequate provisions made for their mitigation in accordance with the requirements of 49 USC 5324(b);
- All major and critical project elements are designed to a level that no significant unknown impacts relative to their costs will result; and
- All cost estimating is complete to the level of confidence necessary for LACMTA to effectively implement the financing strategy including, establishing the maximum dollar amount of the requested New Starts financial contribution needed to implement the Regional Connector Transit Corridor project prior to entry into final design.

These items must be completed while maintaining at least a "*Medium*" overall New Starts rating in order for the project to advance into final design.

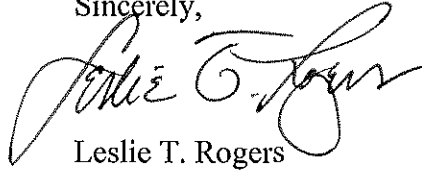
Consistent with FTA's May 2006 Guidance on New Starts Policies and Procedures, LACMTA should submit to FTA all information – including methodologies, assumptions, and results, if not previously submitted, pertaining to the development of the project's: (1) scope; (2) transit service level; (3) capital costs; (4) operating and maintenance costs; and (5) ridership patterns and revenues, within 60 days of this approval. This information will subsequently help inform a Before and After Study, as required by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users. FTA will work with LACMTA to further identify the requisite documentation and other information for the submission.

As PE proceeds, FTA may provide more detail to LACMTA regarding other deliverables that should be completed prior to requesting approval to enter final design.

We look forward to working closely with LACMTA during the development of the Regional Connector Transit Corridor project. We are ready to work with you and your staff in achieving the

necessary milestones for the successful completion of the PE effort. If you have any questions regarding this letter please contact me at (415) 744-3133.

Sincerely,

A handwritten signature in black ink, appearing to read "Leslie T. Rogers", written in a cursive style.

Leslie T. Rogers  
Regional Administrator