



Expo

Exposition Metro Line
Construction Authority

707 Wilshire Boulevard
34th Floor
Los Angeles, CA 90017

213.243.5500
BuildExpo.org

6.a

DATE: JANUARY 11, 2007

TO: BOARD OF DIRECTORS

FROM: RICHARD D. THORPE *RT*
CHIEF EXECUTIVE OFFICER

ACTION: APPROVE PHASE 1 PROJECT BUDGET REVISION

RECOMMENDATION

Approve the Phase 1 Project Budget Revision as shown in Attachment A.

SUMMARY

In October 2006, a Project Budget Status Update was sent to all Board members outlining projected increases/decreases to the Exposition Metro Line Construction Authority (Authority) project budget. Although the overall budget remains \$640 million, significant reductions to the Project Contingency are necessary. Recommended changes would reduce the Project Contingency to \$17.4 million. This results in a very low contingency for this point in the projects development. Authority staff are evaluating possible ways to increase the contingency without impacting the overall project budget of \$640 million.

DISCUSSION

When the Metro Board approved a project budget of \$640 million for the Authority in April 2005, the amount was based on preliminary estimates for construction, real estate, third party review and other costs at that time. Since preliminary engineering was not yet complete and the project was not yet designed, the budget was based on a scope that was not fully developed and general project costs that were not fully defined. It was always the intent to develop a more accurate project budget after a design-build contractor was selected and design was underway.

Preliminary engineering is now complete, the design-build contractor has been selected and design of the project has commenced. As part of the Contractor's 30% design, Authority staff has reviewed current estimates to complete the project. Construction, third party review, real estate and other costs have also been assessed and new estimates have been developed. Many of these costs have risen dramatically since cost estimates were done last year.

In order to fund these increased costs, Project Contingency will need to be transferred to each of these major expenditure categories to cover the additional costs. While the overall project budget remains at \$640 million, there is little project contingency remaining, and there is further risk to the overall project budget if costs continue to rise. The Authority staff will be monitoring the project budget closely and will bring updates to the Board on a regular basis.

Expenditure Categories

Metro developed the overall Authority project budget using six main categories of expenditures. As shown in Attachment A, the categories include the Design-Build Contract, Real Estate/Right-of-Way, Vehicles, Special Conditions, Agency and Professional Services and Contingency. The first column shows the Current Project Budget and total estimated costs for each major category based on March 2006 cost estimates. These numbers served as the baseline for our review.

The overall project budget assessment included a two-step process. The first step was to look at all of the major categories and the individual line items included in each category, to determine whether they were in the appropriate category or should be moved. The second step, after each line item was moved to the appropriate category for tracking, was to determine whether the cost estimate for that line item was accurate.

During the first step of the process, it was determined that many budgeted line items were in the wrong category, which would make it difficult to track expenditures for the Project. The second column, the Current Adjusted Project Budget, shows all of the line items that were transferred to various categories, and the new totals for those categories based on the transfer. The following is a brief description of the line items that were transferred to other categories:

Line Item Transfers

In the original budget, \$15.5 million was included in the Special Conditions category for the purchase of insurance. However, since the design-build contract specified that the design-build contractor would be responsible for procuring the insurance, the \$15.5 million was transferred out of the Special Conditions category and moved to the Design-Build Contract category. This move ensures that we can accurately track all of the design-build contractor's costs.

In the original budget, there were several line items that were included in the Special Conditions category that are more appropriately located in the Agency and Professional Services category. For example, \$2.6 million for Metro review and support staff was included in the Special Conditions category. This \$2.6 million also included costs for legal services through Metro (primarily for Real Estate legal services), and for Fire Life & Safety staff review. It was determined that all staffing and professional services costs for the project should be tracked in the same category, so \$1.6 million for Metro staff and \$1 million for legal counsel and Fire Life & Safety staff review, were moved out of Special Conditions and into the Agency and Professional Services category.

Costs for inspectors, which are being provided by the Carter-Burgess consultant, were also contained in the Special Conditions category. The \$1.7 million included for this line item was moved to the Agency and Professional Services category, and is reflected in the total amount for the Carter-Burgess contract. These changes will make it easier to track all of our staffing and consultant costs.

Lastly, Metro included some of the integrated project office costs in the Special Conditions category. While staff is tracking them separately, the Authority is paying for all of the office costs for both the Authority and the contractor, so it was determined that all of the office costs should be in the same category. As a result, this line item was transferred to the Agency and Professional Services category.

All of these transfers resulted in some increases/decreases to the various categories; however, these shifts did not result in costs to the project, and had no affect on the overall budget or project contingency.

Updated Cost Estimates

Once all of the line items were transferred to the appropriate categories, each line item was reviewed and updated based on more recent cost estimates, a better-defined scope, and input from the design-build contractor. Using updated assumptions to assess each line item has resulted in several of the line items and their respective categories to increase substantially. Construction costs, third party costs, vehicles and professional services have all increased based on this latest review. The overall project budget is still within the \$640 million budget, but the project contingency has been significantly reduced to cover these increased costs.

Increases to Line Items within the Categories

Design/Build Contract Category

The Board approved a Design-Build contract in March 2006 for \$420 million, which included \$400 million for construction, plus \$20 million in Contingency for change orders. This \$400 million base contract amount was approximately \$17 million higher than earlier cost estimates for the design-build contract. As a result, the \$400 million award approved by the Board, included \$17 million transferred from Project Contingency to the Design-Build contract. This left a Project Contingency amount of \$66 million, as shown in the first column of Attachment A.

During the Authority budget review, it was determined that the \$20 million in Contingency for construction change orders should be moved out of the overall Project Contingency and into the Design-Build Contract category, to show that this amount was reserved and not available for other purposes. This action is reflected in the last column of Attachment A.

There were several other increases to specific line items in the Design-Build Contract category. Construction bonds costs of \$3.7 million were not included in the original estimate and have been added to this category. Also, the Ballona Creek Bridge Widening, which Metro understood would be mostly covered by a City of Los Angeles public works project, turned out to be inaccurate. As a result, \$9 million was added to this category to cover this additional scope. Lastly, in December 2006, the Board approved moving \$450,000 from Contingency to the Design-Build contract, to cover a change order for a portion of the design of the optional Trousdale station. This action is also reflected in Attachment A. Due to these changes, line item increases resulted in a \$33.2 million cost increase in the Design-Build Contract category.

Real Estate/Right-of-Way

This category actually decreased by \$2.3 million. The Authority budgeted \$6.3 million to purchase real estate necessary for the widening of Jefferson Boulevard. However, since the widening of Jefferson Boulevard was only necessary if Division 6 was to be built in that area, and since Metro is still evaluating Division 6 options, it was determined that the Authority did not need to purchase this real estate. If Division 6 remains in the area near Jefferson, Metro will need to include the widening as part of their Division 6 project. This decision resulted in a \$6.3 million savings in this category and helped offset the \$4 million in real estate contingency requested by Metro Real Estate, and included in the Authority's FY07 budget. The contingency was requested as a buffer against rising real estate costs, the high cost of relocation/termination of signboard leases, and relocation costs in general. These changes resulted in a \$2.3 million decrease to the Right-of-Way category.

Vehicles

The cost of vehicles, which according to the current budget will be provided by Metro and paid for out of the project budget, has increased by \$8.3 million since earlier projections. When the line item budget for vehicles was developed, it was anticipated that the Authority would be able to take advantage of the less-expensive option price for the vehicles. However, based on more recent conversations with Metro, the Authority will not be able to take advantage of the less-expensive option price, because Metro is not ordering enough vehicles. As a result, the less-expensive option price is not available to the Authority. Furthermore, the economic price adjustment on the vehicles is much higher than originally anticipated, which has also resulted in a large cost increase for vehicles. These factors have increased the cost of this line item by \$8.3 million.

Special Conditions

Third Party costs have risen substantially since the original budget was developed. The original budget for Third Party costs was \$11 million. Revised estimates, based on discussions with Third Parties, put the costs closer to \$14.9 million. Some of this cost increase is due to higher salary costs for staff of Third Party agencies than originally projected.

Another increase in this category comes from the addition of utility relocations. There are some utility relocations that will not be performed by the contractor and will be performed by the Third Party agencies themselves. Metro had not developed a specific budget to cover these relocation costs, so funding in the amount of \$3.5 million was added to this category to cover these costs. The increase in Third Party costs and utility relocations have increased the Special Conditions category by \$7.4 million. These increases will require transferring funds from Project Contingency.

Professional Services

While there were several transfers of individual line items into this category from other categories, there were also increases/decreases to the line item as well. Metro staff costs have increased by approximately \$1.8 million based on actual salary and fringe information provided in the FY07 budget, additional staffing needs anticipated over the next four years, as well as overhead and indirect costs that are larger than anticipated, due to Metro providing many of the administrative functions for the Authority. Furthermore, the DMJM consultant contract that was negotiated and brought to the Board for approval, is about \$1.9 million higher than originally anticipated based on increased scope and staffing needs. These increases were somewhat offset by a lower than anticipated Carter-Burgess contract and reduced Authority staffing and administrative costs. The total increase to this category totaled \$2.3 million and requires transferring

funds from Project Contingency into the Agency and Professional Services category.

FINANCIAL IMPACT

Based on increases to the individual line items in several of the categories, the Project Contingency has a remaining balance of only \$17.4 million to cover unanticipated costs over the course of the Project. This is a very tight Project Contingency, which means the overall \$640 million project budget could be at risk. The Authority staff will continue to explore options that would increase the contingency without changing the overall budget. Staff will continue to monitor the budget closely and keep the Board apprised of its status on a regular basis.

NEXT STEPS

The Authority will continue to update the project budget and brief the Board on a regular basis.

ATTACHMENT(S)

A. Proposed Phase 1 Budget Revision

ATTACHMENT A

PROPOSED PHASE 1 BUDGET REVISION

COST SUMMARY

In \$ Million

Description	Current Project Budget (March 2006)	Current Adjusted Project Budget *	Projected Project Budget w/ Line Item Increases/Decreases (August 2006) **
Design-Build Contract Total	400.2	415.7	448.9
Construction Contingency			20.0
Insurance (CCIP)		15.5	
Ballona Creek Bridge/Change Orders			9.0
Construction Bond			3.7
Trousdale Station Design			0.5
Right-of-Way Total	24.5	24.5	22.2
ROW Jefferson Widening			-6.3
Real Estate Contingency			4.0
Vehicles Total	40.4	40.4	48.7
Vehicles			7.5
Spare Parts			0.4
Mgmt/Admin			0.4
Special Conditions Total	42.9	21.2	28.6
Third Party Reviews			3.9
Utility Relocation			3.5
Metro Review & Support		-2.6	
Inspectors		-1.7	
Insurance (CCIP)		-15.5	
Proj. Office Rental		-1.9	
Agency & Professional Services Total	65.7	71.9	74.2
Metro Review & Support		1.6	1.8
DMJM (Support Services)			1.9
Proj. Office Rental		1.9	
Carter-Burgess (Construction Management)		1.7	-0.5
Legal Counsel		0.6	
Fire Life & Safety		0.4	
Expo Construction Authority/Staff			-0.9
Contingency Total	66.3	66.3	17.4
TOTAL	640.0	640.0	640.0

* Current Adjusted Budget includes changes resulting from the transfer of line items from one category to another

** Projected Project Budget includes cost increases/decreases for particular line items within the project budget