

Foothill Gold Line from Glendora to Montclair Project Procurement Update Fact Sheet and Frequently Asked Questions

As the Foothill Gold Line Construction Authority (Construction Authority) was nearing completion on a two-step procurement process to hire the design-build team for the Glendora to Montclair Alignment Contract, the agency learned that the initial bid prices submitted by all four shortlisted teams as part of their proposals reflected a significant unfavorable shift in market conditions since the agency completed the project estimate two years ago. When added with current unknowns and risk within the construction industry locally and nationally, these factors resulted in the eight-year construction project costing hundreds of millions of dollars more than estimated.

In response, the Construction Authority has announced a proposed plan to deliver nearly 70% of the Glendora to Montclair project at least two years ahead of schedule; avoiding tens of millions of dollars annually in market escalation and risk money proposed by the four design-build teams. As part of the proposed plan, the agency is also proposing an increase to the budget for the full 12.3-mile, six-station light rail project of \$570 million, to a total project budget of \$2.1 billion.

The proposed plan, which could be achieved within the ongoing procurement, is subject to environmental review and approval. If approved, and additional funding is secured within two years of the winning design-build team receiving Notice to Proceed, the proposed plan allows the full project to Montclair to be completed within the current procurement.

Questions about the Plan:

- **What is the Construction Authority's plan to deal with the funding shortfall?**
Because of the magnitude of the shortfall, the Construction Authority is proposing to revise the phasing of project construction to deliver the first eight miles of the 12.3-mile light rail extension at least two years ahead of the original schedule, while working to secure the additional funding necessary to complete the project to Montclair as part of the same procurement.

The proposed plan, which is subject to environmental review, would deliver nearly 70% of the light rail extension from Glendora to Montclair and avoid tens of millions of dollars annually in market escalation and risk money proposed by the bidders; and would allow the Construction Authority to complete the full project to Montclair within the current procurement if the necessary funding is secured within two years of the winning design-build team receiving Notice to Proceed.

- **What are the benefits of the proposed plan?**
The benefits of the proposed plan include the following:
 - Completion of the majority of the Glendora to Montclair light rail extension at least two years ahead of the original schedule, including: delivery of three new stations, 65% of the grade crossings, 72% of the structures, and 80% of the freight system relocation.

- Saving tens of millions of dollars annually in escalation being charged at historically high market rates, by eliminating years off the original construction schedule.
 - Isolating costs associated with building the vastly more complicated and risk-burdened eastern portion of the project (La Verne to Montclair) that shares a corridor with Metrolink.
 - Providing the Construction Authority flexibility for procuring the eastern portion of the project (La Verne to Montclair) to ensure the best price, including the potential to complete the full project to Montclair as part of the ongoing procurement and the opportunity to re-procure the eastern portion of the project separately if market conditions improve.
- **What does it mean to have an option in the contract?**
The Construction Authority has always included an option in the contract. Originally, the option was for the extension from Claremont to Montclair and provided two additional years for SBCTA to secure full funding and have the portion of the project from Claremont to Montclair be built as part of the Glendora to Claremont procurement. The proposed plan adjusts the boundary of the contract option further west, to La Verne, to allow more time to secure the additional funding needed to complete the eastern part of the project (from La Verne to Montclair) within the current procurement.
 - **Why shift the option to La Verne?**
The Construction Authority has evaluated how much of the project can be built within the secured funding based on the current economic and market climate (see details below). The agency's team is reasonably confident (although not 100% certain) that the project to La Verne can be completed within the secured funding. This would allow the Construction Authority to complete the majority of the project – including delivery of three new stations, 65% of the grade crossings, 72% of the structures, and 80% of the freight system relocation; while the agency seeks additional funding to complete the full project to Montclair. As always, the Construction Authority is basing the proposal on estimates and will not know the actual cost for the Glendora to La Verne portion until revised bids are received in May 2019.
 - **Does the proposed plan allow for the Construction Authority to build the entire project to Montclair?**
Yes. The foundation of the proposed plan is to allow the Construction Authority to award a contract to build the first eight miles of the project; but also includes an option to build the full 12.3-miles if funding is secured within two years of the winning design-build team receiving Notice to Proceed. Importantly, the proposed plan allows the Construction Authority flexibility for procuring the eastern portion of the project (La Verne to Montclair) to ensure the best price, either as part of the current procurement or as a separate procurement if market conditions improve.

- **Does the proposed plan require environmental approval?**

Yes. The proposed plan is subject to environmental review and approval. It is anticipated that the Construction Authority will prepare a Supplemental Environmental Impact Report, which will review any potential environmental impacts of the proposed plan – specifically any impacts resulting from the La Verne Station becoming a potential temporary terminus.

- **How will the proposed plan impact the overall schedule?**

The proposed plan will require environmental review and approval, as well as adjustments to the engineering and procurement documents. It is anticipated that these steps will result in a six-month delay to the procurement. However, even with a six-month delay to hire the design-build team, the proposed plan assumes completion of the first eight-miles of the project from Glendora to La Verne in 2024, two years ahead of the original schedule. Additionally, if funding is secured within two years of the winning design-build team receiving Notice to Proceed, and the Construction Authority is able to activate the contract option to complete the entire project to Montclair, the Construction Authority anticipates the full project could be completed as early as 2028.

Questions about the Bid Prices:

- **Were the bid prices a surprise?**

Yes. The Construction Authority had numerous discussion meetings with all four teams during the procurement process, and no one indicated that the project numbers were off or indicated any large risks being misallocated or any construction efficiencies missing.

Having said that, the Construction Authority always understood that the project estimate was just that – an estimate; and the agency would know the true cost when the bids came in. Additionally, there was a funding gap when the subregion allocated less than the Construction Authority’s requested project amount in the 2015 Measure M request and the project funding agreement between the Construction Authority and LA Metro anticipated the possibility of needing to fill a funding gap. However, the scale of the gap is much larger than contemplated.

- **How far off from the 2016 construction estimate were the bid prices? Can you tell us the bid prices?**

In general, the bid prices were hundreds of millions of dollars higher than the 2016 estimate. Because the Construction Authority is still within an ongoing, active procurement, the agency is not able to provide any specific details on the bid prices.

- **What does the Construction Authority believe has changed that impacted the bid prices?**

During one-on-one meetings before the proposals were due, the design-build teams highlighted concerns about escalation costs and contract duration. These seem to be the main drivers for the significant cost increase; as adding even 1% of escalation over eight-years adds millions of dollars each year to the cost of the project. The Construction Authority estimates that bidders may have added as much as three times the typical

escalation rate used (what was included in the 2016 estimate). This resulted in bidders adding tens of millions of dollars each year, and hundreds of millions of dollars to the project over the eight-year project timeline.

Of course, escalation is built on top of the base project cost, which is also being impacted by the current and anticipated construction market factors, including labor shortages, uncertainties with construction materials costs from tariffs, and high demand for workers and materials due to the amount of construction underway and in the pipeline in the LA region and nationally.

Additionally, the agency believes that the four teams added cost to the baseline project for calculated risk as a result of numerous lawsuits filed over the last few years against the project by corridor cities and concerns with potential delays caused by the complexity of on-going coordination requirements related to the Metrolink corridor.

These market and economic factors compounded each other and resulted in price proposals hundreds of millions of dollars above the project budget and currently secured funding.

- **Did the design-build teams have any significant changes to the proposed project that affected the bid prices?**

No. The Construction Authority reviewed the four proposals to understand if anything big was missing from the scope of the project, or if there were glaring errors; and found none. Additionally, the timeline estimated by the Construction Authority fit within the schedules submitted by all four design-build teams.

- **What is the impact to the project of the bids coming in so high?**

The biggest impact of the bid prices is that the Construction Authority cannot build the full 12.3-mile Glendora to Montclair project within the currently secured funding. The agency estimates that it will need an additional \$570 million to complete the full project to Montclair; increasing the total project budget to \$2.1 billion.

This has led the Construction Authority to announce the proposed plan to deliver what the agency is reasonably confident can be delivered within the currently secured funding. As always, the Construction Authority will not know the actual cost until the revised bids are received.

Additionally, the proposed plan which can be achieved within the ongoing procurement, is subject to environmental review and approval and requires changes to the engineering and procurement documents. It is anticipated that these steps will result in a six-month delay to the procurement and the start of construction. However, even with a six-month delay to hire the design-build team, the proposed plan assumes completion of the first eight miles (Glendora to La Verne) of the project in 2024, two years ahead of the original schedule. And by including the contract option within the current procurement, if the additional funding needed to complete the project to Montclair is secured within two years of the

winning design-build team receiving Notice to Proceed, the Construction Authority anticipates the full project could be completed as early as 2028.

Questions about Funding:

- **What are the potential funding sources to meet the unmet funding needs?**
It is unknown at this time the specific sources of funds that would be used to fill the estimated \$570 million funding gap to complete the project to Montclair, and the Construction Authority anticipates working closely with LA Metro to identify possible sources. However, potential funding sources could include one or more of the following: subregional funds, Metro, financing and State of California.
- **What happens if the Construction Authority does not find the new gap funds within two years of the winning design-build team receiving Notice to Proceed?**
If the Construction Authority cannot fill the funding gap within the current procurement, the agency would continue to seek funds to complete the project as soon as possible within a new procurement. In fact, if market conditions improve in the next several years due to an economic slowdown or other factors, the agency may find that re-procuring the eastern portion of the project (La Verne to Montclair) separately would be better for the project. Because the project is shovel-ready, it is in the best competitive position to vie for any funding source that becomes available moving forward.

Questions About Next Steps:

- **What are the next steps in the process?**
At their November meeting, the Construction Authority board of directors will consider amending the agency financial plan by \$570 million to increase the total project budget to \$2.1 billion. At that same meeting, the board will receive an update on the procurement to hire the design-build team, which will include a timeline for the required environmental review and changes to the engineering and procurement documents needed to achieve the proposed plan.

Additionally, in early November the Construction Authority determined to engage in Discussions with, and request revised proposals from, a competitive range of proposers. The agency determined two of the four teams to be within the competitive range (in alphabetical order):

- AECOM | Stacy and Witbeck JV
- Kiewit-Parsons, a JV

The agency determined that the other two proposers are excluded from the competitive range and are no longer eligible for award of the Alignment Contract.