Office of Inspector General
Audit Report

Follow-up Review on the Progress of the Los Angeles Metro Rail Red Line Project

Federal Transit Administration

Report No. RT-2000-073
Date Issued: March 24, 2000
This review is a follow-up to our June 1998 report of the Los Angeles Metro Rail Red Line Project.\(^1\) In this review, we:

1. examined the project’s cost estimates, construction schedule, and funding,
2. identified emerging issues that could affect the project’s status, and
3. followed up on the implementation of the recommendations contained in our previous report.

**BACKGROUND**

The Los Angeles County Metropolitan Transportation Authority (MTA) is responsible for the design and construction of the Red Line. Originally, the Red Line was to be a 23.3-mile heavy rail system that would cost $5.478 billion (the Federal portion was to be $2.688 billion) and carry 160,000 passengers per day. It was to be built in five segments under the terms of three Full Funding Grant Agreements awarded by the Federal Transit Administration (FTA). See Table 1.

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\(^1\) Mega Project Review of the Los Angeles Metro Rail Red Line Project; Report Number: TR-1998-154; Date Issued: June 12, 1998.
In January 1998, MTA projected shortfalls in both its capital and operating budgets -- $1.3 billion and $643 million, respectively, through Fiscal Year (FY) 2004. In January 1998, in an effort to address the shortfall, MTA suspended work on two Red Line segments (Mid-City and East Side) and the non-federally funded Blue Line to Pasadena. Today, the Red Line consists of three segments (Downtown LA, Wilshire Center, and North Hollywood) and covers 17.4 miles (see Figure 1).

Table 1
Los Angeles Metro Red Line Cost and Status Data

<table>
<thead>
<tr>
<th></th>
<th>Full Funding Grant Awarded</th>
<th>Original Estimated Cost</th>
<th>Estimate Cost To Complete</th>
<th>Budget</th>
<th>Expenditures To Date¹</th>
<th>Length In Miles</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wilshire Center</td>
<td>1990</td>
<td>$1.446 Billion</td>
<td>$1.739 Billion</td>
<td>$1.739 Billion</td>
<td>$1.661 Billion</td>
<td>6.7</td>
<td>Opened June 1999</td>
</tr>
<tr>
<td>North Hollywood ³</td>
<td>1993</td>
<td>$1.311 Billion</td>
<td>$1.311 Billion³</td>
<td>$1.311 Billion³</td>
<td>$1.043 Billion</td>
<td>6.3</td>
<td>Scheduled to Open June 2000</td>
</tr>
<tr>
<td><strong>SUBTOTAL</strong></td>
<td></td>
<td><strong>$4.007 Billion</strong></td>
<td><strong>$4.489 Billion</strong></td>
<td><strong>$4.489 Billion</strong></td>
<td><strong>$4.142 Billion</strong></td>
<td><strong>17.4</strong></td>
<td></td>
</tr>
<tr>
<td>Mid-City</td>
<td>1993</td>
<td>$ 491 Million</td>
<td>NA</td>
<td>NA</td>
<td>$ 13 Million</td>
<td>2.3</td>
<td>Suspended January 1998</td>
</tr>
<tr>
<td>East Side</td>
<td>1993</td>
<td>$ 980 Million</td>
<td>NA</td>
<td>NA</td>
<td>$ 147 Million</td>
<td>3.6</td>
<td>Suspended January 1998</td>
</tr>
<tr>
<td><strong>SUBTOTAL</strong></td>
<td></td>
<td><strong>$1.471 Billion</strong></td>
<td></td>
<td><strong>$ 160 Million</strong></td>
<td><strong>5.9</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>$5.478 Billion</strong></td>
<td></td>
<td><strong>$4.302 Billion</strong></td>
<td><strong>23.3</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Expenditures to date are December 31, 1999 data. Downtown LA, Wilshire Center, and North Hollywood expenditures are for billed expenditures only. Mid-City and East Side expenditures are total expenditures.
2. North Hollywood has an additional reserve fund of $50 million for cost overruns not included in this figure.
3. In 1993, one grant agreement was awarded to cover North Hollywood, Mid-City, and East Side. However, in 1997 the grant agreement was amended to include only North Hollywood.
RESULTS IN BRIEF

The original estimated cost to complete the three segments of the Red Line that are being built was $4.007 billion. This cost has increased to $4.489 billion, $482 million more than originally estimated in the Full Funding Grant Agreements. MTA reports that $4.489 billion in Federal, state, and local funds have been committed to the project. In addition North Hollywood has a rail capital reserve account of $50 million consisting of $10 million cash and $40 million in bonding capacity. This reserve is available to pay for additional costs that might be incurred to complete the North Hollywood segment. (Exhibit A summarizes the cost and funding for the three segments.)
• **Two segments are open**

As we reported in June 1998, the first segment (Downtown LA) began operations in January 1993. The second segment (Wilshire Center) opened June 1999, 9 months behind schedule. When all bills are paid, Wilshire Center will have cost $1.739 billion, $293 million over the original estimate in the Full Funding Grant Agreement. MTA has obtained additional funding commitments from local sources to cover the increase.

• **North Hollywood costs are within the Full Funding Grant Agreement’s budget and its scheduled opening is 6 months early**

The revenue start date for the third segment (North Hollywood) is scheduled for June 2000, 6 months earlier than indicated in the Full Funding Grant Agreement. There is little risk of it not opening on schedule. The projected cost to complete this segment is $1.311 billion, equaling the amount estimated in the Full Funding Grant Agreement. However an additional $24 million in cost outside of the original scope of the project has been identified. These costs are for additional locally funded activities, which may include transit enhancements, new legislative requirements, non-revenue connectors, Metro art program, and other MTA Board or FTA requirements not originally envisioned at project adoption. These costs are managed separately from the original budget.

We identified $1.311 billion in committed funding for North Hollywood plus a $50 million reserve account for cost overruns. This should be more than enough to cover the cost of the original project. We also identified $3 million in funding for the additional locally funded activities.

• **MTA needs to demonstrate its ability to fund the Red Line and at the same time fund operations**

Although the construction of North Hollywood will likely be completed as planned in terms of both cost and available funding, MTA faces significant demands on its resources that could affect its ability to operate the Red Line. Among the demands on MTA’s resources, the following provide the greatest challenges.

First, in September 1994 local citizen groups brought a lawsuit against MTA on behalf of transit dependent bus riders. In October 1996, MTA and the plaintiffs agreed to settle the litigation and a consent decree was approved along with the appointment of a Special Master to oversee and
resolve disputes concerning the decree. Providing funding for operating and purchasing additional buses, as required by a court-ordered consent decree, may require MTA to reallocate funds from its other programs, including funds budgeted for rail transit operations and for building alternatives to the suspended Red Line segments (East Side and Mid-City).

In May 1999 the Special Master ordered MTA to expand its bus service by purchasing 481 additional buses beyond what was called for in the current MTA budget. In September 1999 MTA asked the Court to review the Special Master’s May 1999 order. The Court upheld the May 1999 ruling but told the Special Master to reconsider whether the 71 buses he ordered MTA to purchase as spares were still needed, and to reevaluate the need to purchase 113 buses to meet the 1.25 load factor by June 2000 (see Exhibit B, Table 1 for a summary of the complete ruling). MTA has appealed the September ruling and a stay has been granted.

Because of the September ruling, MTA believes it is responsible for only 297 buses, and not the additional 184 buses that the Special Master is to reconsider (see Exhibit B, Table 2). Consequently, the MTA Board approved the purchase of 297 buses at a cost of $115.8 million. MTA has not yet identified a source of funding for these buses. However, if it turns out that after the Special Master reconsiders his numbers, MTA is still required to purchase 481 buses, we estimate that MTA will need approximately $187.6 million to purchase them, $71.8 million more than currently planned.

Second, $99 million in Federal funds (section 5309—New Starts) have been committed but have not yet been appropriated for North Hollywood. Future appropriations after FY 2000 are subject to congressional approval and available funding. MTA may not get as much annual future Federal funding in FY 2001 and FY 2002 as anticipated.

Finally, MTA has received $76 million in Federal funds that were spent on Mid-City and East Side. Since these two segments are suspended, FTA must decide whether the money should be returned under the terms of the Full Funding Grant Agreement.

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2 See Exhibit B for a summary of the rulings by the Special Master and the Court from March 1999 through November 1999.
3 FTA has requested $50 million in its budget for next year to help MTA to implement the Bus Consent Decree.
Mid-City and East Side were originally part of the third Full Funding Grant Agreement and estimated to cost $1.47 billion, with a Federal commitment of $735.5 million. FTA advised MTA in July 1999 that there was no longer a commitment of Federal funding for the two segments. MTA disagreed with this decision. MTA had planned to use the remaining unspent $659.5 million for these two segments to fund alternative designs for them.  

In October 1999, the FTA Administrator informed MTA that FTA would consider the prior Federal commitment as an “other factor” when MTA submits its request for funding the alternatives to the suspended segments. The “other factor” consideration would help MTA in the rating process if the suspended segments were otherwise rated lower than other competing projects under New Starts criteria, or if funds were limited. The use of the “other factor” consideration is allowable under the criteria for grants and loans for fixed guideway systems found in the Transportation Equity Act for the 21st Century. The “other factor” is considered if the main criteria do not fully account for the benefits of a specific project.

If the above challenges to MTA funding materialize, MTA could be facing problems. MTA should identify alternate means of funding the identified potential shortfalls or look for ways to reduce its costs in the event (1) it is unable to resolve its finance issues pertaining to the Bus Consent Decree; (2) future annual Federal appropriations are less than expected for North Hollywood; and/or (3) FTA requires the return of the $76 million spent on Mid-City and East Side. In our opinion, FTA should not act upon any MTA request for Mid-City and East Side funding from MTA until the funding of bus purchases required by the Bus Consent Decree has been resolved and a financial assessment of its impact on MTA operations has been made.

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4 In February 2000, the MTA Board decided on a light rail transit project for the East Side corridor and approved work on an Environmental Impact Statement/Environmental Impact Report. The Board reviewed 3 alternatives for the Mid-City corridor, which included 2 bus rapid transit proposals and 1 light rail transit, and will meet in March to decide on these proposals.
• **Recommendations from our last report have been addressed, but data discrepancies were found.**

In our prior report on the Red Line Project in June 1998, we reported that MTA lacked an up-to-date, comprehensive finance plan. We recommended that MTA’s finance plan be kept up to date and clearly identify (1) its revenues by source, (2) the specific revenues that are to cover specific costs, and (3) the priority of its various capital and operating costs.

Since our last report, MTA has produced several quarterly finance plans. These reports, however, contained a number of discrepancies in the financial data. The most significant discrepancy related to a $71 million difference between the cost of Wilshire Center shown in the finance plan and its supporting documentation.\(^5\) We discussed these discrepancies with MTA officials who have since provided us documents indicating that they are reconciling the data. Supporting documentation for the Red Line, including the $71 million discrepancy we identified, has now been reconciled to the finance plan.

**RECOMMENDATIONS AND MANAGEMENT POSITION**

**Recommendations**

We recommend that the Acting Federal Transit Administrator:

1. Postpone a decision for a Full Funding Grant Agreement for Mid-City and East Side until the finance issues of the Bus Consent Decree are resolved;
2. Require MTA to document what changes it will make in its finance plan if it must purchase all 481 buses and/or if the financing for the currently planned 297 bus purchase is not identified; and
3. Notify MTA whether the $76 million in Federal funds spent on the suspended segments, East Side and Mid-City, must be returned.

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\(^5\) The finance plan included data on all of MTA’s programs including the Bus Consent Decree, however, for this review only the Red Line data were evaluated.
Management Position

A draft of this report was provided to the Acting FTA Administrator on February 23, 2000. Concerning Recommendation 1, FTA stated that once alternatives for Mid-City and East Side have been selected and discussions on Full Funding Grant Agreements have begun, MTA would be required to submit a revised finance plan that addresses the cost and financial impact of implementing the consent decree. FTA concurred with Recommendation 2. Concerning Recommendation 3, FTA stated that its Region 9 Office is conducting an extensive analysis of all expenses MTA incurred since FTA issued the stop order in August 1997 and will take appropriate action. A draft of this report was also provided to MTA and its comments have been incorporated as appropriate.

Office of Inspector General Response

The actions taken and proposed by the Federal Transit Administration are responsive and satisfy the intent of the recommendations.
PROJECT COSTS, FUNDING, AND SCHEDULES

Downtown Los Angeles and Wilshire Center started operations January 1993 and June 1999, respectively. North Hollywood is on schedule to start service June 2000. The final cost of the Downtown Los Angeles segment was $1.439 billion. At completion, Wilshire Center will cost about $1.739 billion. North Hollywood is currently estimated to cost $1.311 billion.

MTA reports that $4.489 billion in Federal, state, and local funds have been committed to the project. In addition, North Hollywood has a rail capital reserve account of $50 million, consisting of $10 million cash and $40 million in bonding capacity. This reserve is available to pay for additional costs that might be incurred to complete the North Hollywood segment.

Two segments, Mid-City and East Side, remain suspended, and in July 1999 FTA advised MTA that there was no longer a commitment of Federal funding for the two segments. As of December 1999, MTA has spent $160 million on Mid-City and East Side, including $76 million in Federal funds. The MTA Board met February 24, 2000 and decided on possible alternatives for East Side and Mid-City.

Wilshire Center has Outstanding Claims and Uncompleted Tasks

Although Wilshire Center opened for service June 1999, the segment still has some uncompleted tasks and outstanding contractor and subcontractor disputes that must be settled before the segment’s financial records can be closed out. MTA has included in its budget $159.9 million for change orders for this segment. Approved changes to date total $124.3 million, leaving $35.6 million for any future or pending changes. The $35.6 million must also cover any disputes made by contractors and subcontractors or others against the project. Contractors and subcontractors working on this segment have 275 unresolved disputes against MTA, which the contractors and subcontractors estimate to be worth $57.6 million. This is $22 million above what is in the budget to cover future changes and disputes. To the extent settlement of these disputes exceed the $35.6 million, MTA will need to identify additional funds.
North Hollywood

The projected cost to complete this segment is $1.311 billion, equaling the amount estimated in the Full Funding Grant Agreement. However an additional $24 million in cost outside of the original scope of the project has been identified. These costs are for additional locally funded activities, which may include transit enhancements, new legislative requirements, non-revenue connectors, Metro art program, and other MTA Board or FTA requirements not originally envisioned at project adoption. These costs are managed separately from the original budget. As of December 31, 1999, MTA had spent about $1.043 billion on North Hollywood, although it had collected only $1.039 billion (see Table 2). Expenditures exceed the funds collected because monies have to be spent before they can be billed to a funding source.

We identified $1.311 billion in committed funding for North Hollywood plus a $50 million reserve account for cost overruns. This should be more than enough to cover the cost of the original project. We also identified $3 million in funding for the additional locally funded activities. MTA has already collected $709 million in Federal money and $330 million in state and local money for this segment. MTA expects to receive an additional $227 million in Federal funds and $45 million in state and local funds.

MTA has a change order allowance of $128.7 million included in its budget for this segment. MTA has already approved $104.6 million in changes. The remaining $24.1 million must cover any future changes as well as any disputes made against the project. Contractors and subcontractors working on this segment have alleged that they are owed $48.3 million for 150 unresolved disputes, $24.2 million over the remaining amount left for future changes. If MTA settles the unresolved disputes for the amounts the contractors/subcontractors estimate, then MTA would be $24.2 million above what is in the budget to cover future changes and disputes. Nevertheless, it has the $50 million reserve it can tap to cover this potential cost.

MTA plans to start service on the North Hollywood segment by June 2000, 6 months earlier than the December 2000 date agreed to in the funding grant agreement. The project is now 87 percent complete, and MTA will likely meet the opening schedule in the grant agreement.

All of the 61 contracts for North Hollywood have been awarded, but one of these contracts will not be completed until after the December 2000 date in the grant agreement. This contract is for site restoration construction around the Universal City Station and will not affect subway access or operations.
Table 2
NORTH HOLLYWOOD STATISTICS BY FUNDING SOURCES
(in millions)

<table>
<thead>
<tr>
<th></th>
<th>Federal</th>
<th>State/Local</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$936*</td>
<td>$399</td>
<td>$1,311</td>
</tr>
<tr>
<td>Committed Funding</td>
<td>$936*</td>
<td>$375</td>
<td>$1,311</td>
</tr>
<tr>
<td>Expenditures as of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, 1999</td>
<td>$709</td>
<td>$334</td>
<td>$1,043</td>
</tr>
<tr>
<td>Future Costs</td>
<td>$227</td>
<td>$41</td>
<td>$267</td>
</tr>
<tr>
<td>Funds Collected As Of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, 1999</td>
<td>$709</td>
<td>$330</td>
<td>$1,039</td>
</tr>
<tr>
<td>Remaining Funding</td>
<td>$227</td>
<td>$45</td>
<td>$272</td>
</tr>
</tbody>
</table>

* $681 million section 5309 funds and $255 million in flexible funds – Congestion Mitigation and Air Quality Improvement Program (CMAQ) and Surface Transportation Program (STP) funds.

The Suspended Segments--Mid-City and East Side

The Mid-City and East Side segments were originally part of the May 1993 Full Funding Grant Agreement that included North Hollywood. The cost of the three segments was originally estimated at $2.45 billion. The agreement was subsequently amended in January 1995 to $2.781 billion with a Federal share of $1.790 billion.

In January 1998, MTA suspended the Mid-City and East Side segments. The two suspended segments were estimated to cost $491 million and $980 million, respectively. The Federal share for the two was $735.5 million, and prior to the suspension, MTA had received and spent $76 million of the Federal share leaving a balance of $659.5 million. The $76 million was spent on preliminary work, such as project design, contract closing, and demolition of structures on acquired real estate. After the suspension, MTA received $7.9 million of New Starts funds for Mid-City and East Side corridor alternative studies, and a $4 million appropriation in FY 2000. MTA is deducting these amounts from the $659.5 million, which leaves a balance of $647.6 million. As of December 1999, MTA has spent $160 million in Federal, state and local funds on these two segments.

MTA believes the remaining $647.6 million in funding that FTA previously agreed to provide for the two suspended segments should be reserved for any future alternative rail service to these areas, and MTA should not have to compete again for the funds. In July 1999, the then FTA Administrator advised MTA that the Federal commitment for funding East Side and Mid-City was no
longer in effect and that only North Hollywood was eligible for funding. In a subsequent letter dated October 28, 1999, the FTA Administrator advised MTA that he had decided to consider the prior Federal commitment as an “other factor” in evaluating future alternatives identified by MTA. However, MTA will still have to compete with other projects for the funds under FTA’s New Starts evaluation process. The “other factor” consideration would come into play only if the suspended segments were rated lower or equal to other competing projects under New Starts criteria or if funds were limited.

The use of the “other factor” consideration is allowable under the criteria for grants and loans for fixed guideway systems found in the Transportation Equity Act for the 21st Century. The “other factor” is considered if the main criteria do not fully account for the benefits of a specific project.

FTA has yet to decide whether $76 million in Federal funds, spent prior to the suspension, should be returned. The language in the Full Funding Grant Agreement states, “The Grantee recognizes that in the event of default, the Government may demand all Federal funds to the Grantee for the Project be returned to the Government.” If FTA decides these funds should be returned, MTA could face a funding shortfall. FTA should notify MTA whether $76 million in Federal funds already spent on the suspended segments must be returned.

The results of alternative studies for Mid-City and East Side were presented to the MTA Board in early February 2000. Later that same month, the MTA Board decided the following alternatives should be carried forward into the Draft Environmental Impact Statement/Environmental Impact Report process. For the East Side corridor, a light rail extension or a bus rapid transit project approximately 7 miles in length, beginning at Union Station and running to Atlantic Avenue. For the Mid-City corridor, a Wilshire Boulevard bus rapid transit project, consisting of exclusive bus lanes on Wilshire for about 14 miles from Wilshire/Vermont to downtown Santa Monica. Also for Mid-City, a bus rapid transit or light rail transit option in the Exposition Boulevard right-of-way is being considered.
Bus Consent Decree

In September 1994, the Community Legal Strategy Center together with the Bus Riders Union, and other community organizations in Los Angeles brought a lawsuit against MTA on behalf of transit dependent bus riders in Los Angeles County. The plaintiffs challenged the allegedly discriminatory and disparate impact of the MTA’s decision to increase bus fares, cut bus passes, and divert funds from the bus system in order to finance and construct a subway and light rail system. After 26 months of discovery, MTA and the plaintiffs agreed to settle the litigation and a consent decree was approved by the United States District Court Central District Western Division in October 1996.

The terms of the Bus Consent Decree directed MTA to establish a plan to reduce overcrowding and expand bus service along its current routes, which include routes in areas that would have been served by the suspended segments of the Red Line. To accomplish this, MTA agreed to a 5-year timetable to reduce the amount of overcrowding on its buses. The 5-year timetable was to be accomplished in the following manner:

- By December 31, 1997 reduce the load factor (the ratio of passengers to seats) to 1.35;
- By June 30, 2000 reduce the load factor to 1.25; and
- By June 30, 2002 reduce the load factor to 1.20.6

In addition, the consent decree provided for the appointment of a Special Master whose role is to oversee the consent decree, and in November 1996 MTA agreed to empower the Special Master to resolve disputes arising out of the decree.

MTA did not meet the first milestone of December 31, 1997, and consequently, in March 1999 the Special Master required MTA to increase bus service by purchasing additional buses beyond what was called for in the current MTA budget. This means MTA must find additional funds for its bus program. The March ruling specified that 532 additional buses had to be purchased and 277 obtained through lease or other means on a temporary basis to meet the 1.35 load factor.

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6 A 1.35 load factor would mean that the average number of passengers standing during any 20-minute weekday period would not exceed 15 passengers; a 1.25 load factor would mean no more than 11 standees; and a 1.20 load factor would mean no more than 9 standees.
The March ruling was modified in May 1999 and MTA was required to purchase 481 additional buses, to reduce overcrowding, instead of 532 buses, 248 of which were to be purchased immediately. In addition, MTA was to acquire 248 temporary buses until the new buses were delivered.

In September 1999 MTA asked the Court to review the Special Master’s orders of March and May 1999. The Court upheld the May 1999 ruling but told the Special Master to reconsider whether the buses he ordered MTA to purchase as spares were still needed. The Court also told the Special Master to reevaluate the likelihood of MTA still not meeting the 1.25 load factor by June 2000. In addition, the Court ruled that MTA should, within 30 days, through lease or other means obtain 248 buses on a temporary basis until the 248 new buses required by the May 1999 ruling arrived.

Because of the September ruling, MTA believes it is responsible for only 297 buses (see Exhibit B Table 2). Consequently, the MTA Board approved the purchase of 297 buses at a cost of $115.8 million. MTA will purchase 195 new buses in FY 2001 and 102 more buses in FY 2002. In the interim, instead of leasing, MTA plans to operate 248 older buses (beyond 12 years old) until the new buses arrive. MTA does not yet have a plan for funding the purchase and operation of the 297 buses (see Exhibit B for a summary of the rulings on bus purchases for May and September 1999).

Although MTA believes it is responsible for only 297 buses, the Special Master upon reconsideration of his numbers as ordered in the September ruling could still rule that MTA must purchase all 481 buses. If this should occur, we estimate that the total cost to MTA to purchase all 481 buses would be approximately $187.6 million. This would mean that MTA would have to find $71.8 million more funding to comply with the Special Master’s order.7

In October 1999 MTA asked the Court for a stay of the September ruling but was refused. However, MTA was given until November 1999 to comply with the September ruling.

In November 1999 MTA filed an appeal of the September and October rulings and was granted a stay until a decision is reached by the Court. Opening briefs were presented in December 1999 and answering briefs were made in January 2000.

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7 FTA has requested $50 million in its budget for next year to help MTA to implement the Bus Consent Decree.
MTA NEEDS TO DEMONSTRATE ITS ABILITY TO FUND THE RED LINE AND AT THE SAME TIME FUND OPERATIONS

Although the construction of North Hollywood will likely be completed as planned in terms of both cost and available funding, MTA faces significant demands on its resources that could affect its ability to operate the Red Line. Among the demands on MTA’s resources, the following provide the greatest challenges.

First, providing funding for operating and purchasing additional buses, as required by the Bus Consent Decree, may require MTA to reallocate funds from its other programs, including funds budgeted for rail transit operations and for building alternatives to the suspended segments (East Side and Mid-City). MTA may have to reallocate funds intended for use on the Red Line if:

1. a funding source is not identified for purchasing the 297
2. it must come up with a plan to fund the remaining 184 of the 481 buses; or
3. it is unable to find funds to operate the additional buses.

Second, the funding grant agreement committed $681 million in Federal funds for North Hollywood, however, only $582 million has been appropriated through FY 2000. The remaining $99 million is subject to congressional approval in future years.

Third, MTA has received $76 million in Federal funds that were spent on Mid-City and East Side. Since the two segments are suspended, FTA could ask that the money be returned under the terms of the Full Funding Grant Agreement.

Consequently, MTA should identify alternate means of funding the difference or look for ways to reduce its costs in the event (1) it is unable to resolve its finance issues pertaining to the Bus Consent Decree; (2) future Federal appropriations are less than expected for North Hollywood; and/or (3) FTA requires the return of the $76 million spent on Mid-City and East Side. In our opinion, FTA should not act upon any request for Mid-City and East Side funding from MTA until the disputes related to the Bus Consent Decree have been resolved, and a financial assessment of its impact on MTA operations have been made.
MTA RESPONDED TO OUR PRIOR RECOMMENDATIONS
BUT DEFICIENCIES REMAIN

In our 1998 review on the Red Line Project, we reported that MTA lacked an up-to-date, comprehensive finance plan. Without such a plan, MTA management was unable to recognize in a timely manner the seriousness of its funding shortfalls. We recommended that MTA’s finance plan be kept up-to-date and clearly identify (1) its revenues by source, (2) the specific revenues that are to cover specific costs, and (3) the priority of its various capital and operating costs. FTA concurred with our recommendations. FTA directed MTA to provide reports at quarterly review meetings on the

- Detailed financial status of Wilshire Center and North Hollywood segments;
- Bus Consent Decree compliance;
- Results in achieving cost reductions;
- Progress on devising alternative strategies for serving the transit dependent residents in the East Side and Mid-City corridors; and
- Project management plan for the remainder of the capital work scheduled for Wilshire Center and North Hollywood.

In July 1998, we reported our analysis of MTA’s finance plan, pursuant to requirements of the Conference Report of the Department of Transportation and Related Agencies Appropriations Act for FY 1998. We concluded that the finance plan’s 7-year projections of revenues and costs were supportable and reasonable, but risks remained regarding the plan’s implementation. Two of the major risks identified were the possible overestimation of sales tax revenues and Bus Consent Decree compliance. We have reviewed MTA’s current estimates of sales tax growth rate forecast and have concluded that they are reasonable.

During our current review, we found that MTA has continued to keep its finance plan current with respect to the Red Line project. However, we found discrepancies in MTA’s financial data. Specifically, the finance plan reported costs for Wilshire Center and North Hollywood that did not match the costs reported in the project expenditure plans provided by the construction division.

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9 The term finance plan is used interchangeably with recovery plan and restructuring plan. In 1998, MTA referred to its finance plan as the recovery plan. Today it is called the restructuring plan.
The costs, for the two segments in the finance plan, are supposed to be based on data from the project expenditure plans. For example, in the construction expenditure plans reported the expected cost at completion for Wilshire Center as $1.668 billion, while the finance plan reported $1.739 billion. Also, North Hollywood was reported to have an estimated cost to complete of $1.345 billion according to the construction expenditure plans, but the finance plan reported a cost of $1.340 billion. We expressed our concerns about this discrepancy to MTA, and the agency has reconciled the two documents.

FTA’s project management oversight consultant, Hill International, has also noted that MTA has been unable to produce accurate accounting and financial data and analysis. Based on Hill’s observations about MTA’s financial data, FTA has directed MTA to produce quarterly financial statements comparing budgeted and actual expenditures along with an analysis of significant deviations from the budget plan. According to Hill, MTA has developed a remedial plan of action to comply with FTA’s directive and is putting it in place as an ongoing activity. We found no evidence of a written remedial plan of action but MTA has provided us documents indicating that it is reconciling the data.

For our review, we elected to use the cost figures found in the finance plan as opposed to the figures in the construction expenditure plans. These cost figures were supported by data from MTA’s accounting department. Hill also uses the figures in the finance plan for its reports to FTA.

RECOMMENDATIONS AND MANAGEMENT POSITION

Recommendations

We recommend that the Acting Federal Transit Administrator:

1. Postpone a decision for a Full Funding Grant Agreement for Mid-City and East Side until the finance issues of the Bus Consent Decree are resolved;
2. Require MTA to document what changes it will make in its finance plan if it must purchase all 481 buses and/or if the financing for the currently planned 297 bus purchase is not identified; and

---

11 The finance plan we are referring to is the MTA Restructuring Plan Third Quarterly Report (April 1, 1999 to June 30, 1999). The MTA Restructuring Plan Fourth Quarterly Report (July 1, 1999 to September 30, 1999) which was released December 1, 1999 is reconciled to the project expenditure plans.
3. Notify MTA whether the $76 million in Federal funds spent on the suspended segments, East Side and Mid-City, must be returned.

**Management Position**

A draft of this report was provided to the Acting FTA Administrator on February 23, 2000. Concerning Recommendation 1, FTA stated that once alternatives for Mid-City and East Side have been selected and discussions on Full Funding Grant Agreements have begun, MTA would be required to submit a revised finance plan that addresses the cost and financial impact of implementing the consent decree. FTA concurred with Recommendation 2. Concerning Recommendation 3, FTA stated that its Region 9 Office is conducting an extensive analysis of all expenses MTA incurred since FTA issued the stop order in August 1997 and will take appropriate action. A draft of this report was also provided to MTA and its comments have been incorporated as appropriate.

**Office of Inspector General Response**

The actions taken and proposed by the Federal Transit Administration are responsive and satisfy the intent of the recommendations.

**Action Required**

In accordance with Department of Transportation’s Order 8000.1c, please advise our office within 30 days of the date of this report your target dates for completing actions on Recommendations 2 and 3. If I can answer any questions or be of further assistance, please feel free to contact me at (202) 366-1992 or Mark Dayton, Acting Deputy Assistant Inspector General for Competition, Rail, Transit, and Special Programs, at (202) 366-9970.
Red Line Descriptive Statistics

The tables in this exhibit present information for all three ongoing segments of the Red Line plus the suspended segments. Table-1 summarizes Red Line costs by funding source including the $160 million spent on the suspended segments (Mid-City and East Side). Table-2 shows Red Line expenditures. Table-3 presents the anticipated Red Line funding by source. Finally, Table-4 shows Red Line funding collected to date.

<table>
<thead>
<tr>
<th>TABLE-1</th>
<th>RED LINE COSTS BY FUNDING SOURCES (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original Estimated Cost</td>
</tr>
<tr>
<td></td>
<td>Federal</td>
</tr>
<tr>
<td>Downtown Los Angeles</td>
<td>$1,250</td>
</tr>
<tr>
<td>Wilshire Center</td>
<td>$1,446</td>
</tr>
<tr>
<td>North Hollywood</td>
<td>$1,311</td>
</tr>
<tr>
<td><strong>SUBTOTAL</strong></td>
<td><strong>$4,007</strong></td>
</tr>
<tr>
<td>Suspended Segments</td>
<td>$1,471</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$5,478</strong></td>
</tr>
</tbody>
</table>

1 $605 million and $91 million flexible funds.
2 $667 million in section 5309 funds and $52 million in flexible funds.
3 $681 million section 5309 funds and $255 million in flexible funds – Congestion Mitigation and Air Quality Improvement Program (CMAQ) and Surface Transportation Program (STP) funds which have already been awarded by FTA.
4 The suspended segments are Mid-City and East Side. The numbers for the suspended segments are costs to date.

Source: MTA December 1999 Quarterly Project Status Report
### TABLE-2
**RED LINE EXPENDITURES AS OF DECEMBER 31, 1999**  
**THROUGH COMPLETION**  
(millions)

<table>
<thead>
<tr>
<th></th>
<th>Expenditures To Date$</th>
<th>Future Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Federal</td>
<td>State/Local</td>
</tr>
<tr>
<td>Downtown LA</td>
<td>$696</td>
<td>$742</td>
</tr>
<tr>
<td>Wilshire Center</td>
<td>$719</td>
<td>$942</td>
</tr>
<tr>
<td>North Hollywood</td>
<td>$709</td>
<td>$334</td>
</tr>
<tr>
<td>Suspended Segments$</td>
<td>$76</td>
<td>$84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,200</strong></td>
<td><strong>$2,102</strong></td>
</tr>
</tbody>
</table>

1 Expenditures to date exceed funds collected to date (see Table 4) as the money is spent before it can be billed to the funding source.
2 The future costs for this segment are reserved for administrative costs to support inquiries and any audit support which may be required.
3 The suspended segments refer to Mid-City and East Side.

Source: MTA December 1999 Quarterly Project Status Report; MTA accounting department; FTA close out documents for Downtown LA.
### TABLE 3
ANTICIPATED RED LINE FUNDING BY SOURCE
AS OF DECEMBER 31, 1999
(millions)

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Approved Budget</th>
<th>Federal</th>
<th>State/Local</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown LA</td>
<td>$1,439</td>
<td>$ 696</td>
<td>$ 743</td>
<td>$1,439</td>
</tr>
<tr>
<td>Wilshire Center</td>
<td>$1,739</td>
<td>$ 719</td>
<td>$1,020</td>
<td>$1,739</td>
</tr>
<tr>
<td>North Hollywood</td>
<td>$1,311</td>
<td>$ 936(^1)</td>
<td>$ 375</td>
<td>$1,311</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$4,489</strong></td>
<td><strong>$2,351</strong></td>
<td><strong>$2,138</strong></td>
<td><strong>$4,489</strong></td>
</tr>
<tr>
<td>Suspended Segments(^2)</td>
<td>$ 160</td>
<td>$ 76</td>
<td>$ 84</td>
<td>$ 160</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,649</strong></td>
<td><strong>$2,427</strong></td>
<td><strong>$2,222</strong></td>
<td><strong>$4,649</strong></td>
</tr>
</tbody>
</table>

\(^1\)$681 million section 5309 funds and $255 million in flexible funds – CMAQ and STP funds (already awarded by FTA).

\(^2\)The suspended segments refer to Mid-City and East Side.

Source: MTA’s Planning and Programming Capital Planning Group provided data for Wilshire Center; data for Downtown LA are from MTA closeout documents and the December 1999 Quarterly Project Status Report; data for North Hollywood are from the December 1999 Quarterly Project Status Report; data for the suspended segments are from December 1999 financial statements from MTA’s accounting department.
### TABLE-4
**SUMMARY OF RED LINE FUNDING COLLECTED¹**
**AS OF DECEMBER 31, 1999**
**AND REMAINING FUNDING TO COMPLETION**
(in millions)

<table>
<thead>
<tr>
<th></th>
<th>Funding Collected To Date</th>
<th>Remaining Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Federal</td>
<td>State/Local</td>
</tr>
<tr>
<td>Downtown LA</td>
<td>$696</td>
<td>$736</td>
</tr>
<tr>
<td>Wilshire Center</td>
<td>$719</td>
<td>$871</td>
</tr>
<tr>
<td>North Hollywood</td>
<td>$709</td>
<td>$330</td>
</tr>
<tr>
<td>Suspended Segments²</td>
<td>$76</td>
<td>$69</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,200</strong></td>
<td><strong>$2,006</strong></td>
</tr>
</tbody>
</table>

¹ The term collected means that the funds have been drawn down.

² The suspended segments refer to Mid-City and East Side.

Source: MTA Accounting – Total Funds Collected by Source as of December 31, 1999.
Summary of Special Master’s and Court’s Rulings

<table>
<thead>
<tr>
<th>Date</th>
<th>MTA Action</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 6, 1999</td>
<td>MTA fails to meet the load factor target of 1.35</td>
<td>MTA is directed by the Special Master to purchase 532 additional buses and obtain through lease or other means 277 buses on a temporary basis to meet the 1.35 load factor target as soon as possible.</td>
</tr>
<tr>
<td>May 14, 1999</td>
<td>Asked for clarification and modification of March 1999 ruling.</td>
<td>The Special Master directed MTA to purchase 481 buses (248 buses as soon as possible) to meet the 1.35 load factor and obtain 248 buses on a temporary basis immediately to use until the 248 purchased buses arrived.</td>
</tr>
<tr>
<td>September 23, 1999</td>
<td>Asked the Court to review the Special Master’s rulings of March and May 1999.</td>
<td>Court upheld the May 1999 ruling but told the Special Master to reconsider some of the numbers that make up the 481. The Court also ruled that MTA should within 30 days obtain 248 buses on a temporary basis until the purchased 248 buses are delivered.</td>
</tr>
<tr>
<td>October 7, 1999</td>
<td>Asked for a stay of the September ruling.</td>
<td>Stay was refused by the Court but MTA was given until November 5, 1999 to comply with the September ruling.</td>
</tr>
<tr>
<td>November 19, 1999</td>
<td>Filed an appeal of the September and October rulings.</td>
<td>Stay was granted until a decision is reached by the Court. Opening briefs were filed in December 1999.</td>
</tr>
</tbody>
</table>

Source: Consent Decree rulings of March, May, September, October, and November 1999.
## TABLE-2
### Number of Buses MTA Believes It Needs to Purchase Under the May and September Rulings

<table>
<thead>
<tr>
<th></th>
<th>May 1999 Ruling of Bus Purchase Requirement</th>
<th>Bus Purchases Approved by MTA Board in September 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.35 Load Factor</td>
<td>248</td>
<td>248</td>
</tr>
<tr>
<td>1.25 Load Factor</td>
<td>113</td>
<td>To Be Reconsidered</td>
</tr>
<tr>
<td>Spare Buses</td>
<td>71</td>
<td>To Be Reconsidered</td>
</tr>
<tr>
<td>Additional New Buses</td>
<td>102</td>
<td>102</td>
</tr>
<tr>
<td>Subtotal</td>
<td>534</td>
<td>350</td>
</tr>
<tr>
<td>Less What is in MTA Plan</td>
<td>(53)</td>
<td>(53)</td>
</tr>
<tr>
<td>Total Additional MTA Obligation</td>
<td>481</td>
<td>297</td>
</tr>
</tbody>
</table>

1 A stay was granted until a decision is reached by the Court. According to MTA, this means that it would not have to purchase the 297 buses yet or put the 248 temporary buses on the street immediately.

2 Buses to be ordered immediately for delivery as soon as possible.

3 1.35 load factor means that during any 20-minute weekday peak period the number of passengers standing would not exceed 15 passengers.

4 1.25 load factor means that during any 20-minute weekday peak period the number of passengers standing would not exceed 11 passengers.

5 The Special Master also directed that MTA procure 102 new buses in addition to the new buses to meet the load factor targets. These 102 buses are already purchased and will be delivered by June 30, 2002.

6 The Special Master gave MTA credit for these buses since they were already planned for purchase in MTA’s fleet expansion plan.

SCOPE AND METHODOLOGY

The scope of this review includes a follow-up to the recommendations of the Mega Project Review of the Los Angeles Metro Rail Red Line Project, Report Number: TR-1998-154, Date Issued: June 12, 1998. The scope also includes an update of project costs, funding and schedule information, as well as any emerging issues that impacted the project, such as the Bus Consent Decree.

Our original objectives included a review of the actions MTA has taken to resolve contractor/subcontractor claims. Preliminary results were communicated at a briefing and no further work is planned. We also planned to do a follow-up review to the report Analysis of Los Angeles County Metropolitan Transportation Authority’s Recovery Plan; Report Number: TR – 1998 – 176; Date Issued: July 16, 1998. This follow-up has been deferred until alternative analyses for the suspended segments, Mid-City and East Side, have been finalized, and the latest rulings of the Bus Consent Decree have been resolved.

In assessing the recommendations, cost, funding, and schedule status of the Red Line project, we reviewed and analyzed financial records, engineering estimates, contract documents, project management and oversight reports, construction status reports, and House of Representatives Conference Reports. To assess funding capability, we obtained agreements and memoranda of understanding between the Los Angeles Metropolitan Transportation Authority and its funding sources. We also reviewed financial records for actual funds received to date. To assess the reasonableness of MTA’s sales tax growth rate projections, we performed our own projections of future sales tax revenues using both a time series analysis and an average growth rate analysis. Finally, we interviewed key agency officials at MTA, FTA, and FTA’s project management oversight consultant (Hill International, Inc.).

For cost data verification, we relied, to a large extent, on the prior review, Mega Project Review of the Los Angeles Metro Rail Red Line Project. Data validation was performed during the prior review, and the staff concluded the data were reliable. To verify cost data we: (1) obtained actual and projected expenditure records; (2) reviewed executed change orders that would result in future expenditures; and (3) looked at accounting records that showed actual
expenditures, amounts billed, and amounts collected. We also identified inconsistencies with the reporting of the expenditure data, but after expressing our concerns to agency officials, the data were reconciled to our satisfaction. We conducted this review from May through December 1999 in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.
MAJOR CONTRIBUTORS TO THIS REPORT

The following are the major contributors to this report.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mark Dayton</td>
<td>Acting Deputy Assistant Inspector General for Competition, Rail, Transit, and Special Programs</td>
</tr>
<tr>
<td>Leslie Smith</td>
<td>Program Director</td>
</tr>
<tr>
<td>Sarah Batipps</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Rodolfo Perez</td>
<td>Engineering Consultant</td>
</tr>
<tr>
<td>Richard Hatcher</td>
<td>Auditor</td>
</tr>
</tbody>
</table>
Memorandum

U.S. Department of Transportation
Federal Transit Administration

Subject: INFORMATION: FTA Response to OIG Draft Report on the Progress Of The Los Angeles Metro Rail Red Line Project

Date: FEB 28 2000

From: Derric V. Aldrich
Associate Administrator for Administration

To: Mark Dayton
Acting Deputy Assistant Inspector General for Competition, Rail, Transit and Special Programs


OIG's Recommendation: We recommend that the Acting Federal Transit Administrator: (1) postpone a decision for a Full Funding Grant Agreement for Mid-City and East Side until the finance issues of the Bus Consent Decree are resolved; (2) require MTA to document what changes it will make in its finance plan if it must purchase all 481 buses and/or if the financing for the currently planned 297 bus purchase is not realized; and (3) notify MTA whether the $76 million in Federal funds spent on the suspended segments, East Side and Mid-City, must be returned.

FTA's Response: (1) FTA has been made aware by MTA that their board is reviewing six alternatives for the East Side Corridors. Once alternatives have been selected and discussions on Full Funding Grant Agreement begun, MTA would be required to submit a revised financial plan to include among other things the financial impact/cost of implementing the Consent Decree. (2) FTA concurs with the OIG's second recommendation, (3) FTA's Region 9 Office is conducting an extensive analysis of all expenses incurred by MTA since FTA issued the stop order in August 1997. All ineligible expenditures and or unexpended funds will be re-programmed to the Section 5309 Program.

Please note that FTA has Review Comments that are available to be discussed at your convenience. I would like to thank you for the opportunity to review this OIG "Draft Report" and hope that you find our comments helpful. If you would like to discuss this further, please call me at 366-4007.