

To: Commissioner Spering and Steve Kinsey
From: Gwen Litvak, Bay Area Council
Date: May 14, 2021
Re: Network Manager

Thank you for giving us the opportunity to consider additions to the network manager function.

The Bay Area Council supports the short-term priorities for the network manager identified at the April 26, 2021 Blue Ribbon Task Force:

- Fare policy and collection
- Branding, mapping, and wayfinding
- Current service coordination

We would like to have two ideas considered for mid-term roles and responsibilities.

A Bay Area Budget Office for Transportation Projects Modeled off the Congressional Budget Office

The Bay Area regularly underestimates project cost and time. Here are a few examples:

- Bay Bridge: 200% over initial \$2B budget; opened 6 years later than projected
- Transbay Terminal: 50% over initial \$1.6B budget; initially opened 2 years behind schedule and then closed again for repairs
- Benicia-Martinez Bridge: 100% over \$1B budget, driven by value engineering designs that was passed onto the public in increased tolls
- Central subway: original cost, \$600 million; new predicted cost: \$1.6 billion; was expected to open in 2018 and now expected for mid-2022

Underestimating the cost and schedule of a project is problematic for a few reasons. 1) Every change order delays the project, which increases the cost; 2) Voters no longer approve new taxes and fees for projects we do need; 3) the region's congestion rages on and compounds as these projects stay in construction for decades; 4) people must choose between leaving the Bay Area and slogging through an inhumane commute. Reforming project delivery will take many changes but identifying the true cost and schedule of a project is the first step.

In 1974, the Congressional Budget Office was created by Congress to produce independent analyses of budgetary and economic issues. CBO conducts objective, impartial analysis; does not make policy recommendations, and each report and cost estimate CBO produces includes the methodology underlying the analysis. CBO has been successful for exactly this reason- all elected officials rely on the same institution to provide the cost estimate.

This function is different from the LAO, which provides analysis of bills but doesn't provide cost estimates of specific projects. MTC came very close to something like a CBO with cost estimates in this year's Plan Bay Area 2050. The estimates, however, do not include budget runs, or show methodology. It's time for a budget function that produces independent, objective, and impartial analysis for transportation projects. This analysis may be as simple as a cost estimate or may include a cost estimate and an analysis of options. What is necessary is that the analysis remains nonpolitical so that agencies and stakeholders know what went into the final product. Understanding the true cost of a project is the fiscally responsible thing to do and will bring more information to help answer the question of how to prioritize funds.

Revising Procurement

The Network Manager should be able to procure in a way that incents revenue funding, has a robust process, life cycle costs, and selects the best quality proposal. (Please note: This analysis was completed by BCG and ARUP and prepared for FASTER Bay Area, July 2019.)

How can this be done?

1. Restructure traditional procurement selection process so that, along with standard scoring, credit is given for:

- Completing an in-depth risk assessment and including risk-based contingencies in budget and schedule
- Carrying out a full life-cycle costing of the project (including O&M) and considering such costs in the funding, structuring, and procurement of the project (including trade-offs between upfront capital costs and operations)
- Leveraging bankable project-based revenue streams for partial or full funding, including innovative sources such as value capture, over those that rely solely on traditional grants and debt sources
- Engaging stakeholders early and on an on-going basis for meaningful input in development and shaping of the project, and creating a robust plan for stakeholder engagement throughout the project
- Implementing best practice processes and procedures for change management & mitigation

2. Implement a proposal selection process that shifts away from "lowest responsible bidder" in favor of second lowest or other value-based section (will require legislative change)

- Select second lowest bidder, instead of lowest to ensure contractors cannot purposely low bid to win project
- Use pre-qualification for specific projects, where bidding pool is narrowed down based on a set of qualifying criteria, to ensure the chosen contractor is properly qualified for the job
- Use standardized Alternative Technical Concepts (ATC) process to promote innovation and consider bid alternatives

3. Establish a process for how to select optimal project delivery vehicle for projects valued at >\$100M

- Based on international best practice methods, including life-cycle cost and value for money assessment
- Project owner will be tasked with completing analysis and selecting delivery vehicle at start of project
- Must complete a Value-for-Money assessment based on life-cycle cost of the asset (comparing DB, DBB, PPP, etc.)

4. Develop "standing bench" of contractors known to be qualified and good project partners

- Introduce stipends for proposals for these & other contractors to support greater detail & quality in proposal submissions

5. Develop and maintain a pipeline for the funded portfolio that shows the market that there is a predictable, visible, and funded pipeline so that contractors and suppliers gain confidence to invest in a Bay Area presence

Potential Impact

Cost Savings:

- Significant positive impact on construction and lifecycle cost of projects over \$100M in capital cost
- Cost savings in construction cost in the range of 10% to 30% per project depending on project size and complexity

- Potential to leverage new funding sources to complement portfolio and other grant funding on select projects in the range of 5% to 40%+ of project cost for projects that can generate their own revenues or use innovative sources (e.g., value capture) that historically are not developed by public sector project owners

Time Savings:

- Significant positive impact on procurement and construction schedules of projects over \$100M in capital cost
- Estimated 1 to 5+ years improvement per project depending on project size, complexity, and potential for value creation -more improvement for bigger and more complex projects

One take away from the Mineta Institute's paper "Characteristics of Effective Metropolitan Areawide Public Transit: A Comparison of European, Canadian, and Australian Case Studies" is that transportation changes are slow and incremental. We can't let that be the case here. We must make transit competitive with driving or we will never achieve our greenhouse gas emissions goals and lose critical revenue for our transit agencies. Understanding the true cost and time of a project and redoing procurement methods are two key steps to get us there.