



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

Transmittal 4

DATE: APRIL 11, 2012
TO: BOARD OF HARBOR COMMISSIONERS
FROM: AUDIT COMMITTEE
SUBJECT: APPROVAL OF BASELINE PROJECT BUDGETS

Transmittal herewith is Resolution No. 12-7291 - Approval of Baseline Project Budgets.

DATE: APRIL 11, 2012

FROM: ENGINEERING

SUBJECT: RESOLUTION NO. 12-7291 - APPROVAL OF BASELINE
PROJECT BUDGETS

SUMMARY:

Staff is requesting approval of baseline budgets for the attached Capital Improvement Program (CIP) projects of the City of Los Angeles Harbor Department (Harbor Department). These baseline budgets were approved by the Audit Committee (Audit Committee) of the Board of Harbor Commissioners (Board) on March 15, 2012. Baseline budgets will be used as a benchmark against which to measure project performance. They represent an understanding of the costs of the projects based on its current scope. These budgets provide a basis for financial approval and a reference for managing changes to the cost of the project. Staff believes having the Board formalize the approval of baseline budgets allows greater financial oversight and budget control, especially during early project phases, as noted in the Industrial, Economic and Administrative Survey dated June 2011.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Approve the Baseline Project Budgets for the Capital Improvement Program projects listed in Transmittal 1; and
2. Adopt Resolution No. 12-7291 .

DATE: APRIL 11, 2012

PAGE 2 OF 4

SUBJECT: APPROVAL OF BASELINE PROJECT BUDGETS

DISCUSSION:

Background - The Harbor Department has formalized its project approval process in response to the Industrial, Economic, and Administrative Survey dated June 2011. The survey included two recommendations dealing with project scope and costs:

1. Finding 15: Clearly defining project scope earlier in the project life cycle could help to mitigate cost growth and schedule slippage.
2. Finding 16: Improved Status Reporting could assist the Board in the oversight of capital projects.

The terms project and program are used throughout this report. A project is a term typically used to define a discreet element of work to construct, for example, a wharf, a building, or a rail yard. A project is typically executed under a single construction contract. A program is a term used to describe a collection of related projects accomplishing multiple elements of work. A program is typically executed using multiple construction contracts spanning several years.

Prior to placing projects into the CIP, they must be preliminarily approved for inclusion by the Project Development Committee (PDC). This recommended inclusion in the Harbor Department's CIP Budget is ultimately approved by the Board during the Harbor Department's budget process. The PDC is co-chaired by the Deputy Executive Directors of Development and Business Development and includes participation of the Deputy Directors of Operations, Finance and Administration, and External Relations. The PDC is facilitated by the Planning and Economic Development Division and includes seven additional Divisions involved in the project development process. Information required by the PDC for project approval includes scope, cost, schedule, and other pertinent details deemed necessary to make an informed decision.

The PDC's preliminary project approval is an internal staff recommendation that staff commence development work on the project leading up to later proposals going to the Board for certification of environmental assessments, project approvals, contract approvals and budget approvals. Preliminary design and the environmental review process are initiated once projects are approved through PDC. For smaller, less complex projects, the initial PDC project approval may serve as the approval of the baseline budget. For larger complex projects, the baseline budget will not be set until completion of the environmental review process allowing confirmation of the project scope. These larger projects may entail multiple approvals at various project phases in order to approve expenditures required to evaluate and define the project, and baseline budgets for these projects must be approved by the Audit Committee and the Board.

DATE: APRIL 11, 2012

PAGE 3 OF 4

SUBJECT: APPROVAL OF BASELINE PROJECT BUDGETS

Transmittal 1 lists the proposed baselines for current projects both in design and construction. These items only include projects that have environmental clearances or involve only initial project studies.

Project Baseline Budget - The top ten CIP programs/projects proposed for baseline approval are listed in Transmittal 2. These projects, and the corresponding programs under which they fall, represent a five-year period and over \$998 million of the nearly \$1.2 billion worth of projects listed in Transmittal 1.

Given the complexity of these projects, it is impossible to predict all the variables that may be encountered during the project life cycle. In order to mitigate this variability, a contingency of between 10 and 25 percent is included in the initial project cost estimate. The percentage applied is a function of the project risk and the clarity of the project scope. Even with these contingencies, it is unrealistic to expect baseline budgets will not change during the life of the project. If a project is projected to exceed the approved baseline budget, staff will bring the project back to the Audit Committee and the Board for re-approval. Staff is developing protocols for monitoring and reporting these budgets. Once these protocols are developed, they will be presented to the Audit Committee for approval.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of baseline project budgets for CIP projects. This action does not constitute environmental clearance for any of the listed projects. As an administrative activity, the Director of Environmental Management has determined the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no employment impacts for the five-county region. However, the CIP projects proposed for baseline approval would generate significant economic impacts for the region. When the projects are brought before the Board for approval, at that time, staff will be able to fully evaluate the economic benefits of the projects.

FINANCIAL IMPACT:

Approval of this Board action establishes a reference baseline budget for the CIP projects discussed herein. Establishment of such baseline budgets does not authorize approval or commencement of a project but are intended to represent an understanding of the costs and scope of the projects at a point in time based on current available information. Adoption of the Harbor Department's CIP Budget is undertaken each fiscal year as part of the annual budget adoption process and presented to the Board for

DATE: APRIL 11, 2012

PAGE 4 OF 4

SUBJECT: APPROVAL OF BASELINE PROJECT BUDGETS

approval. The baseline budgets proposed will serve as a reference for managing proposed CIP budget costs and scope when recommending to approve the CIP Budget each fiscal year.

CITY ATTORNEY:

The Office of the City Attorney has reviewed this Board report and finds it raises no legal issues at this time.

TRANSMITTALS:

1. CIP Baseline Budgets, February 2012
2. Top Ten CIP Programs/Projects Proposed for Baseline Approval

FIS Approval: *scj* (initials)CA Approval: *MC* (initials)

ANTONIO V. GIOIELLO
Chief Harbor Engineer

for



MICHAEL R. CHRISTENSEN, P.E.
Deputy Executive Director, Development

AVG:sc
Baseline Budget Approval

APPROVED:



for GERALDINE KNATZ, Ph.D.
Executive Director

Author: Antonio V. Gioiello

Transmittal 2

Top Ten CIP Programs/Projects Proposed for Baseline Approval

The below listed projects are the 10 individual projects with the highest budgeted cost proposed for base lining.

Project	Baseline Budget	Program
1. Channel Deepening Project:	\$171,250,000	Channel Deepening
2. Berth 200 Rail Yard:	\$112,510,000	Transportation
3. B. 145-147 - Wharf Improvements	\$ 88,075,000	TraPac
4. B. 142-145 - Backland Improvements - Phases 2-4	\$ 79,340,000	TraPac
5. South Wilmington Grade Separation:	\$ 84,300,000	Transportation
6. RB 136-139 - Terminal Buildings & Main Gate	\$ 62,500,000	TraPac
7. B. 142-147 – TraPac ICTF & Backland	\$ 40,426,000	TraPac
8. B. 401-406 - Alternative Maritime Power (AMP)	\$ 40,380,000	AMP
9. B. 302-305 - Alternative Maritime Power	\$ 37,500,000	AMP
10. B. 145-147 Backland Improvements - Phase 1C	\$ 26,595,000	TraPac

As the above projects are elements of larger programs, the information below puts these projects into the context of the identified programs. These program costs reflect only the costs of the requested baseline approvals. They do not include entire program costs for projects already completed and closed out.

TraPac Container Terminal Development: \$364,495,525

The TraPac Terminal Expansion Program consists of multiple projects to redevelop approximately 110 acres of existing container terminal property and develop an additional 50 acres of new property. The new terminal will consist of approximately 226 acres. Improvements include the construction of 705 feet of new wharf and upgrade of 1,022 feet of existing wharf at Berths 145-147, new cranes (purchased by TraPac), Alternative Maritime Power (AMP), dredging to -53', new buildings (including Administration Building, Yard Operations, Crane Maintenance/Marine Building, Driver Service Buildings), ILWU parking, new Main Gate (including security, customs and guard booths), Intermodal Container Transfer Facility (ICTF), and general container yard improvements including heavy duty pavement, electrical, lighting, water system, fire protection, sanitary sewer, storm drain, electric rail mounted automated stacking cranes, and demolition of existing buildings and gates. The projects in the program include:

B. 144 & 145-147 - AMP	\$14,500,000
B. 136-139 - Alternative Marine Power	\$12,500,000
*B. 145-147 - Wharf Improvements	\$88,075,000
B. 136 Electrical System Circuit Breaker Upgrade	\$ 140,000
B. 147 Backland Improvements - Phase 1A	\$ 4,215,000
B. 145-147 Backland Improvements - Phase 1B	\$19,870,000
B. 136-147 - Terminal Improvement Project EIR	\$ 5,581,025
*B. 145-147 Backland Improvements - Phase 1C	\$26,595,000
*RB 136-139 - Terminal Buildings & Main Gate	\$62,500,000
*B. 142-147 – TraPac ICTF & Backland	\$40,426,000
*B. 142-145 - Backland Improvements - Phases 2-4	\$79,340,000
B. 134-135 - Backland Expansion (5-acre)	\$10,753,500

Channel Deepening Program: \$204,390,000

The objective of the Channel Deepening Program is to dredge existing navigation channels and berthing areas from -45 feet to a depth of -53 feet Mean Lower Low Water (MLLW). Elements of the project include creating 40 acres of land at Berth 306APL's terminal expansion, 43 acres of land at Berth 102 for the China Shipping Terminal expansion, 5 acres of fill at berth 136 for the TraPac terminal expansion, 50 acres of shallow water fill for environmental enhancements, and an 8 acre fill at berths 243-245 as a confined disposal facility for disposal of material unsuitable for ocean disposal. Numerous elements of the Channel Deepening Program have already been completed. Remaining project elements include:

*Channel Deepening Program	\$171,250,000
B. 243-245 - Southwest Marine Dry Dock Demolition and Slip Fill	\$ 19,000,000
Cabrillo Shallow Water Habitat	\$ 14,140,000

Transportation: \$221,860,000

The Transportation program includes various projects to facilitate vehicle, truck, and train movements in and out of the Port complex. Major projects submitted for baseline approval include the Berth 200 Rail Yard and the South Wilmington Grade Separation.

The Berth 200 rail yard project includes rail yard site development and tracks, yard office building and diesel engine service facility, roadway, storage tracks for West Basin Intermodal Container Transfer Facility (ICTF), West Basin East ICTF and West Basin mainline track improvements. This project will be completed in two phases, the Berth 200 Rail Yard and the Berth 200 Rail Yard Track Connections. This new rail yard will replace the existing Pier A rail yard to allow for the construction of the new ICTF for the TraPac Container Terminal.

The South Wilmington Grade Separation will carry vehicular traffic over the main line railroad tracks to Port terminals. This grade separation will serve as the main entrance to the TraPac Terminal and the entire Mormon Island and Wilmington Waterfront areas.

Baseline approval request for the Transportation Program include:

*Berth 200 - Rail Yard	\$112,510,000
Berth 200 - Rail Yard Track Connections	\$ 25,050,000
*South Wilmington Grade Separation:	\$ 84,300,000
Advanced Transportation Management Information System	\$ 2,000,000
Southern California International Gateway (SCIG) - EIR	\$ 8,635,000
Terminal Island Street Improvements	\$ 1,521,240
Navy Way - Traffic Control Devices Study	\$ 32,500

Alternative Maritime Power (AMP) Program: \$113,780,000

The AMP systems in this program are required for Port container terminals to be able to connect vessels to shore power supply and meet the California Air Resource Board (CARB) as well as the Clean Air Action Plan (CAAP) air emissions requirements. AMP projects not included in this program are associated with separate

terminal developments. For example, AMP systems in the TraPac and China Shipping Terminals are included in the program costs of those terminals. AMP projects include:

*B. 401-406 - Alternative Maritime Power	\$40,380,000
*B. 302-305 - Alternative Maritime Power	\$37,500,000
B. 212-216 - Alternative Maritime Power Phase II	\$11,650,000
B. 230-232 - Alternative Maritime Power	\$10,750,000
B. 125-129 - Alternative Maritime Power	\$10,600,000
B. 214-215 - Alternative Marine Power Retrofit	\$ 2,900,000

China Shipping Terminal Development: \$93,505,028

Although the individual projects associated with the China Shipping Terminal Development are not included in the top ten most expensive projects, the program is a major element of the Department's Capital Improvement Program budget. The three-phase program involves construction of a container terminal with 2,500 ft. of wharf, 134 acres of backland, two bridges, and two buildings.

Phase I construction was completed in December of 2003. Work included construction of a 1,200 feet wharf at Berth 100, 75 acres of backland development, and an access Bridge across the Southwest Slip between the China Shipping and Yang Ming terminals. Phase II construction was completed December 2010. This phase included construction of 925 feet of wharf at Berth 102, 18 acres of backland behind Berth 102, and a second access bridge between the China Shipping and Yang Ming Terminals. The remaining elements of the project include the construction of 17 acres of backland, a Marine Operations building, 375' Berth 100 south wharf extension (total wharf length at B100-102 of 2,500 feet), another 10 acres of backland improvements, and a Crane Maintenance Building. Projects included in this program are:

Phase II

B. 100-109 - Marine Operations Building	\$12,000,000
B. 102 - Rear Backland Development	\$25,000,000

Phase III

B. 94-95 - Catalina Express Relocation	\$ 3,875,000
B. 49-50 Lane Victory Relocation	\$ 550,028
B. 100-102 -14 of 24 Acre Backland Development	\$20,900,000
B. 100 - Wharf - South Extension	\$24,700,000
B. 100 - Wharf - South Extension - AMP	\$ 2,700,000
B. 100-109 - Crane Maintenance Building	\$ 3,780,000

*Designates projects included in the top ten highest costs requesting baseline approval