



## **AUDIT COMMITTEE**

Report to the  
Board of Harbor Commissioners

**DATE: APRIL 11, 2012**

**TO: BOARD OF HARBOR COMMISSIONERS**

**FROM: AUDIT COMMITTEE**

**SUBJECT: APPROVAL OF BASELINE PROJECT BUDGETS**

Transmittal herewith is Resolution No. \_\_\_\_\_ - Approval of Baseline Project Budgets.



Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE:** APRIL 11, 2012

**FROM:** ENGINEERING

**SUBJECT:** RESOLUTION NO. \_\_\_\_\_ - 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. \_\_\_\_\_ .

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.

**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

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: WJ (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