

Alameda Corridor-East Construction Authority



FY 2007 Budget

(Approved May 22, 2006)

Table of Contents

Budget Message	2
Project Background and Status	3
Background	3
Project Status	4
Project Map	5
Funding Status	6
FY 2006 Budget Status	7
Meeting FY 2006 Goals	10
Goal	12
ACE CONSTRUCTION AUTHORITY FY 2007 GOALS	14
Project Implementation	14
Funding/Financial/Administration	14
Outreach	15
FY 2007 ACE Construction Authority Budget	16
Budget Development	16
FY 2007 Budget	17
Project Financing	21
Budget Amendments And Revisions	22
Board Review And Approval	23
FY 2007 Budget Glossary	24
Indirect Expenses	24
Direct Expenses	25

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Nicolas T. Conway
Executive Director

Budget Message

ACE will be entering the final stages of Phase I as six grade separations will be in construction during FY 2007.

FY 2006 was a busy year for ACE. The Nogales Street grade separation, our first grade separation project, was completed and turned over to the Cities of Industry and West Covina. Construction continued at East End Ave/Reservoir Street, Ramona Boulevard and Temple Avenue. Construction contracts were advertised for the Sunset Avenue and Brea Canyon Road grade separations.

Future funding continues to be a major issue for ACE as the new omnibus transportation bill passed by Congress, SAFETEA-LU, was two years late and contained less funding for the project than hoped for. While this has adversely impacted our ability to start Phase II we continue to pursue other funding options wherever they exist to fully implement the ACE Project as expeditiously as possible.

Rick Richmond

Chief Executive Officer

Project Background and Status

Background

The Alameda Corridor-East (ACE) Construction Authority was created by the San Gabriel Valley Council of Governments (COG) in 1998 to mitigate the effects increasing train traffic would have on congestion, the local environment, and safety in the San Gabriel Valley. Forecasts of increased rail traffic over the next two decades range as high as 160%, along with increases in train length of up to 50%. The Alameda Corridor, between the Long Beach and Los Angeles Ports and the three transcontinental railroad routes starting east of downtown Los Angeles, provided a high capacity, high performance, “environmentally friendly” route capable of supporting a large increase in the volume of freight trains to and from the Ports. East of the terminus of the Alameda Corridor – where 90% of the trains continue their journey – no enhanced infrastructure was provided.

In response, the COG commissioned a feasibility study in the mid-1990s to examine the impact of freight growth and the ACTA project on the San Gabriel Valley. ACE was created in 1998 to implement the recommendations of that study, which included constructing 20 grade separations at the busiest street-railroad crossings and railroad crossing safety improvements wherever needed.

ACE has completed safety improvements at 39 at-grade railroad crossings, completed design on all of the eight grade separations in Phase I, opened the first grade separation at Nogales Street, has construction underway at various stages on six other grade separation locations and completed testing of an advanced traffic signal control system to enable motorist diversion around blocked crossings. In addition, at the request of the Los Angeles County and the City of Industry we completed the design of a ninth grade separation at Nogales Street.

Phase II of the ACE Project includes another 10 grade separations.

Project Status

The following is a summary of the status of each of the Phase I project components:

Railroad Crossing Safety Improvements (39 crossings)

- Completed

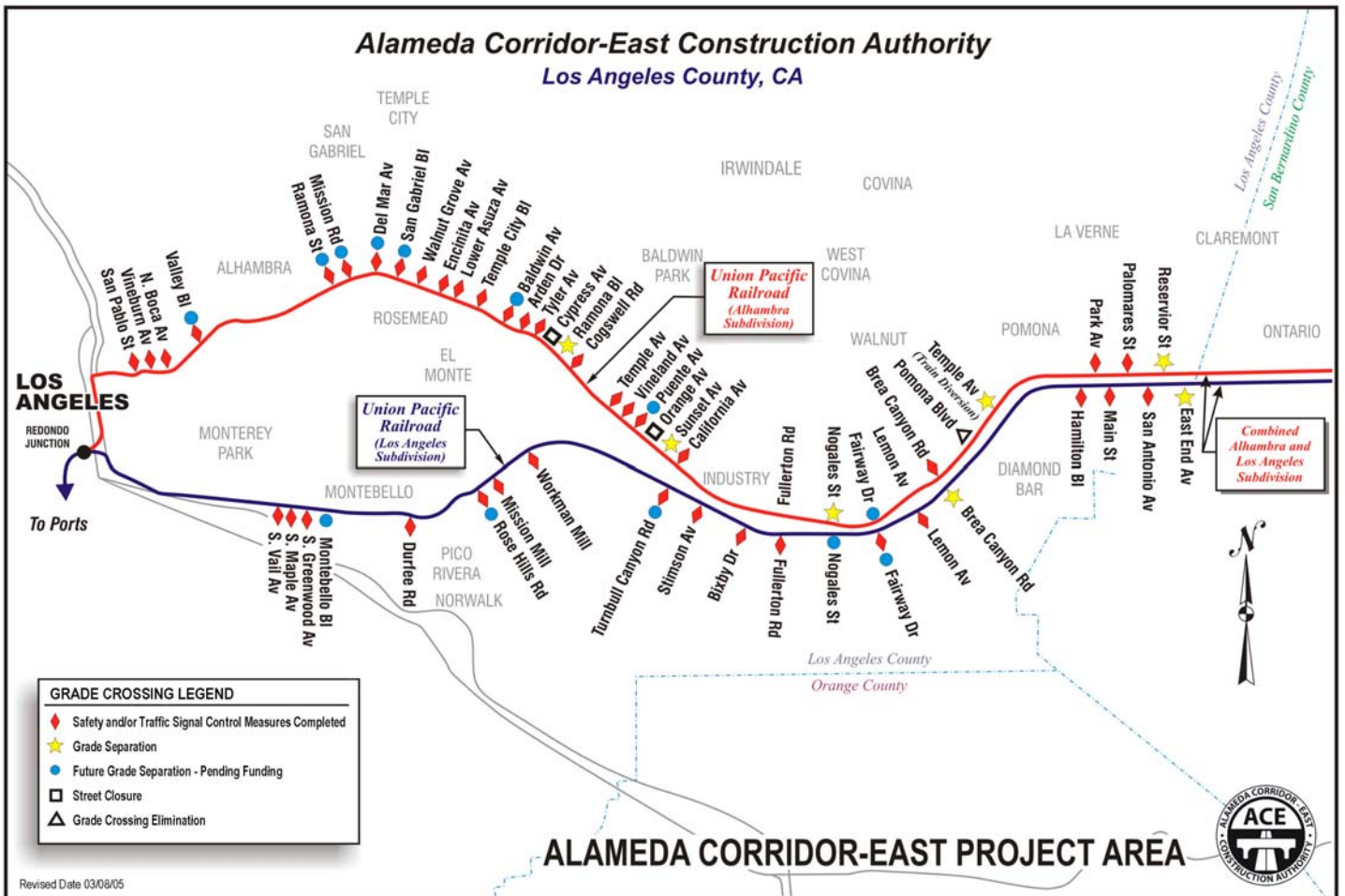
IR/RIS - Intelligent Roadway/Rail Signal System

- Demo system in Pomona through testing and ready for transfer to City.

Grade Separations (10 crossings – 8 managed by ACE)

- Design complete at nine separations.
- One grade separation completed.
- Five grade separations in construction.
- One grade separation advertised for construction.

Project Map



Revised Date 03/08/05

Funding Status

The current estimated cost for Phase I is approximately \$460 million (excluding engineering of the San Gabriel trench project). The following funding has been authorized (though not all of these funds are immediately available):

Federal TEA-21 Demonstration Earmark	\$135.5 million
Federal SAFTEA-LU Demonstration Earmark	73.9
Federal Trade Corridor Grants and Appropriations	19.5
State Highway Funds (ITIP)	38.7
State General Funds (TCRF)	130.3
MTA "Call for Projects"	152.3
UPRR Contribution	<u>12.0</u>
	\$562.2 million

In addition to fully funding Phase I, staff is actively pursuing new or renewed sources of funding for the 10 grade separations remaining in Phase II of the project. Recently authorized State transportation bond funding is one example, but other sources will be necessary and the time it will take to secure this funding will add to the cost of the overall project.

FY 2006 Budget Status

The Board of Directors adopted the Fiscal Year (FY) 2006 Budget in May 2005.

The attached table (Exhibit I) compares the FY 2006 Budget to the estimated actual expenses as of June 30, 2006.

As in the past, our annual budget is broken down into two categories – indirect project expense and direct project expense.

Indirect Project Expense

Indirect expenses (such as salaries, rent, office supplies, etc.) that cannot easily be charged to specific project activities are billed to grants based on an annual indirect rate plan approved by Caltrans. The rate approved for FY 2006 was 6.3%. ACE anticipates incurring indirect expense in FY 2006 about 2% below budget.

Indirect expenses are expected to overrun in three areas:

- Fringe benefits (\$22,000 or 5.8%) due to underestimated CalPERS contribution percentages;
- Program management (\$56,000 or 3.7%) due to a higher proportion of these expenses being charged to indirect vs. direct than expected;
- UPRR invoice review (\$5,000 or 7.5%) due to a heavier than expected workload reconciling UPRR charges on the crossing safety program; and
- Equipment expenses (\$2,000 or 5.9%) due to slightly higher equipment lease and software costs.

Direct Project Expense

Direct expenses are those that can be readily associated with specific projects such as staff or program management time, engineering, property acquisition, construction, and miscellaneous support costs. As a general rule, overruns in direct annual costs are a

positive sign of faster than assumed progress if total project costs aren't increasing. Conversely, underruns generally mean slower progress and under-collection of indirect costs.

The most significant projected variances are:

- Utility Relocations – Delays in funding for Sunset Avenue and Brea Canyon Road postponed utility relocation
- Railroad – Delays at Sunset Avenue and Brea Canyon Road caused by funding issues in the beginning of the year
- Construction Management – Delays in beginning construction at Temple Avenue caused by UPRR required design changes, and later than expected starts at Sunset Avenue and Brea Canyon Road.

Exhibit I
FY 2006 Budget vs. Est. Actual
(\$ in Thousands)

Expenditures	Yr End Estimate	FY 2006 Budget	Under/ (Over)
Indirect			
Personnel			
Salaries and Wages	\$ 821	\$ 838	\$ 17
Fringe Benefits	379	357	(22)
Board/Employee Expenses			
Travel	40	42	2
Training/Memberships	6	8	2
Board Related Expenses	19	20	1
Professional Services			
Auditing/Accounting	28	30	2
DBE/Labor Compliance	175	219	44
Legal - Agency Support	27	80	53
Program Mgt	1,513	1,457	(56)
State/Federal Advisory Services	240	245	5
Risk Management	55	55	-
UPRR Invoice Review	72	67	(5)
Other	-	10	10
Insurance	405	410	5
Equipment Expense	36	34	(2)
Office Expense	201	201	-
Office Operations	29	54	25
Other	6	8	2
Total Indirect	4,052	4,135	83
Direct			
Salaries	403	340	(63)
Program Management	1,925	2,512	587
Legal	772	540	(232)
Labor Compliance	100	193	93
Design	1,516	893	(623)
ROW Acquisition	3,973	4,250	277
Utility Relocation	2,085	4,657	2,572
Construction Mgt	3,366	5,101	1,735
Railroad	7,026	8,586	1,560
Construction	36,069	34,081	(1,988)
Advertising	21	-	(21)
Total Direct	57,256	61,153	3,897
Total ACE	\$ 61,308	\$ 65,288	\$ 3,980

Meeting FY 2006 Goals

Last fiscal year's budget set forth a number of goals for FY 2006. The following is the anticipated status of each goal as of June 30, 2006:

Project Implementation	
Goal	Progress
➤ Complete construction of Nogales Street grade separation	Accomplished
➤ 65% construction complete on Ramona Boulevard grade separation	Expect to be 60% through construction duration
➤ Start construction on Sunset Avenue grade separation by 12/05	Not met; project being re-bid to reduce cost
➤ Start construction on Brea Canyon Road grade separation by 3/06	Partially met due to UPRR construction and bridge fabrication delays; utility location begun in 3/06; contractor activity started in 5/06
➤ Reservoir Street grade separation open to traffic and East End Avenue construction begun	Not met; goal is to open Reservoir Street and begin East End Avenue by 9/06
➤ 40% construction complete on Temple Avenue train diversion	Accomplished
➤ IRRIS tested and transferred to City of Pomona	Partially met; expect to finish testing and begin hand-off to City of Pomona
➤ Environmental clearance received for San Gabriel trench	Not accomplished

Funding/Financial Administration	
Goal	Progress
➤ Complete Phase I funding	State and local funds secured; construction inflation delaying Phase I completion
➤ Secure TEA-21 authorization earmark	Accomplished
➤ Maintain sound financial and accounting systems and federal/state local audit compliance	Accomplished; "clean" FY '05 audit; Caltrans indirect rate audit completed; findings from MTA contract audits in FY '06 to continue to be less than 1% of total contract value
➤ Obtain new working capital funding	Accomplished

Outreach	
Goal	Progress
➤ Conduct ribbon cutting for Nogales Street grade separation	Accomplished
➤ Conduct public meeting on San Gabriel Trench	Not accomplished due to lack of project funding availability
➤ Conduct groundbreaking for Brea Canyon Road project	Accomplished

Outreach	
Goal	Progress
<ul style="list-style-type: none"> ➤ Implement business support, school safety, and construction outreach programs 	Accomplished

ACE CONSTRUCTION AUTHORITY FY 2007 GOALS

Staff proposes to accomplish the following by June 30, 2007 (unless otherwise noted):

Project Implementation

- Reservoir Street: Open to traffic by November, 2006
- Ramona Boulevard: Construction 90% complete.
- Temple Avenue: Third track right-of-way construction completed; track/signal installation 20% complete

Fourth track right-of-way construction 20% complete
- Brea Canyon Road: Construction 35% complete
- Sunset Avenue: Construction 10% complete
- East End Avenue: Construction 30% complete
- San Gabriel Trench: Complete environmental clearance process
- IRRIS: System under City of Pomona operation

Funding/Financial/Administration

- Secure initial SAFETEA-LU funding
- If State Transportation bond passes, obtain project funding allocation from CTC
- Work with other interested parties to identify permanent goods movement funding source

- Maintain sound financial and accounting systems and state/federal/local audit compliance
- Minimize use of working capital – keep 90-95% of note proceeds invested.

Outreach

- Conduct ribbon-cutting ceremony for Reservoir Street project
- Implement Business Support Program, School Safety Outreach Program and construction outreach activities
- Adapt DBE program to meet anticipated changes in Caltrans regulations.

The above goals do not address the remaining Phase I construction project (Baldwin Avenue) or implementing Phase II projects due to lack of committed funding at this point. Should funding permit, additional project development activities will be picked up in 2007.

FY 2007 ACE Construction Authority Budget

The goal of the ACE management team is to deliver a project that accomplishes its intended purposes as expeditiously as possible and within budget. As an integral part of that goal, we have developed and implemented budgeting, accounting and project control systems that meet generally accepted accounting standards, as well as those of federal, state and local funding authorities.

Budget Development

The budget for FY 2007 (July 1, 2006 through June 30, 2007) was developed in two parts: project direct expense and indirect expense.

The project direct expense was developed using an estimate-at-complete model that time-phases ACE's best estimate of how much each phase of a project will cost over its life. Management reviews the forecast for each project for reasonableness and adjustments are made as necessary. The forecasts are summarized for all projects and the resulting forecast for FY 2007 becomes the basis for the approved budget.

The indirect budget is developed by line item, based on past experience and changed levels of effort in FY 2007. The ratio of indirect costs to direct costs is used to calculate the Indirect Rate Plan that is submitted to Caltrans for approval and becomes the basis for billing indirect costs in FY 2007.

The FY 2007 budget does not request Board approval for new contracts nor amendments to existing contracts. Each contract authorization will be brought to the Board for individual consideration.

It is important to note that the FY 2007 budget provides only for activity for which the Authority has committed funding. Therefore, there is no proposed budget for Baldwin Avenue land acquisition or construction (the one remaining project in Phase I) or budget for Phase II. In the event additional funding becomes available we will amend the FY 2007 budget as necessary.

FY 2007 Budget

The FY 2007 Budget is presented in Exhibit II. Exhibit III compares the estimated actuals for FY 2006 to the Budget for FY 2007.

The following addresses significant line item increases (\$10,000 or more and more than a 10% increase) Approved for FY 2007 compared to the FY 2006 estimated actuals for all "indirect" expenses. Any basis for changes in the construction related line items are a result of our most current projection of construction progress, as described above.

Staff Salaries and Benefits – The FY 2007 budget is based on existing staffing levels and provides for a 5% merit salary adjustment pool to be administered per our adopted salary guidelines.

Auditing/Accounting – The increased cost provides for additional auditing support to review and help prepare financial statements on a quarterly basis during the upcoming fiscal year.

Risk Management – Risk management services are provided by BICEP (a local government JPA) on a monthly retainer basis for a set number of hours. We will need to review our excess construction liability coverages this year and expect to exceed the monthly retainers.

Insurance – As mentioned above, we will be renewing our multi-year excess construction liability coverages and have been given the increased cost by our risk management consultant based on expected market conditions.

Equipment Expense – The increased cost reflects the purchase and installation of a new accounting system which we plan to do in FY '07.

Exhibit II

FY 2007 Approved Budget with Type of Expenditure

(\$ in Thousands)

Expenditures	FY 2007 Approved
Indirect	
Personnel	
Salaries and Wages	\$ 888
Fringe Benefits	417
Board/Employee Expenses	
Travel	42
Training/Memberships	6
Board Related Expenses	20
Professional Services	
Auditing/Accounting	40
DBE/Labor Compliance	190
Legal - Agency Support	29
Program Mgt	1,500
State/Federal Advisory Services	245
Risk Management	65
UPRR Invoice Review	72
Other	5
Insurance	500
Equipment Expense	59
Office Expense	215
Office Operations	29
Other	8
Total Indirect	4,330
Direct	
Salaries	370
Program Management	1,860
Legal	548
Labor Compliance	146
Design	1,242
ROW Acquisition	2,186
Utility Relocation	941
Construction Mgt	3,795
Railroad	10,834
Construction	44,855
Advertising	10
Total Direct	66,787
Total ACE	\$ 71,117

Exhibit III

Comparison - FY 2006 Estimated Actuals vs. FY 2007 Approved

(\$ in Thousands)

Expenditures	FY 2006 Estimated	FY 2007 Approved	Incr/ Decr	(Decr)	%
Indirect					
Personnel					
Salaries and Wages	\$ 821	\$ 888	\$ 67		8%
Fringe Benefits	379	417	38		10%
Board/Employee Expenses					
Travel	40	42	2		6%
Training/Memberships	6	6	-		0%
Board Related Expenses	19	20	1		5%
Professional Services					
Auditing/Accounting	28	40	12		43%
DBE/Labor Compliance	175	190	15		9%
Legal - Agency Support	27	29	2		6%
Program Mgt	1,513	1,500	(13)		-1%
State/Federal Advisory Services	240	245	5		2%
Risk Management	55	65	10		18%
UPRR Invoice Review	72	72	-		0%
Other	-	5	5		n/a
Insurance	405	500	95		23%
Equipment Expense	36	59	23		63%
Office Expense	201	215	14		7%
Office Operations	29	29	-		0%
Other	6	8	2		25%
Total Indirect	4,052	4,330	278		7%
Direct					
Salaries	403	370	(33)		-8%
Program Management	1,925	1,860	(65)		-3%
Legal	772	548	(224)		-29%
Labor Compliance	100	146	46		46%
Design	1,516	1,242	(274)		-18%
ROW Acquisition	3,973	2,186	(1,787)		-45%
Utility Relocation	2,085	941	(1,144)		-55%
Construction Mgt	3,366	3,795	429		13%
Railroad	7,026	10,834	3,808		54%
Construction	36,069	44,855	8,786		24%
Advertising	21	10	(11)		-52%
Total Direct	57,256	66,787	9,531		17%
Total ACE	\$ 61,308	\$ 71,117	\$ 9,809		16%

Project Financing

The San Gabriel Valley Council of Governments (SGVCOG) authorized the issuance of up to \$100 million in tax-exempt Grant Anticipated Notes (GANs) backed by a bank guarantee in FY 2001. There is currently \$100 million outstanding.

The interest revenue generated from the invested balances at the State of California's Local Agency Investment Fund (LAIF) have been sufficient to cover interest and fees owed on the notes. We believe that the cost of the notes will continue to be self-funding over the life of the project.

Because the ACE Construction Authority continues to have no other sources of revenue other than grants and contributions from funding agencies, ACE staff will make every effort to ensure that all expenditures are reimbursable by federal, state or local grants.

Staff is making every effort it can to operate in this stringent financial environment, but the Board needs to be aware of the practical difficulties of recovering every expense. We use this Budget submittal to annually advise the Board of the cumulative exposure for unreimbursed costs the Authority is incurring. As of this date, we have incurred the following unreimbursed or unreimbursable expenses, dating back to the beginning of the ACE Construction Authority:

FY 1998:	\$71,185	Expenses incurred by SGVCOG prior to 6/30/98 not reimbursed by MTA
FY 2000:	11,298	Net interest cost of loan from City of Industry
FY 2001:	2,738	Net interest cost of loan from City of Industry
	\$85,221	Estimated total – project-life-to-date

Based on experience to date, we expect the net income of our cash flow financing to be sufficient to pay for our cumulative unreimbursed expense.

Budget Amendments And Revisions

Staff will continue to provide the Board with project status and budget updates on a quarterly basis. A mid-year review of the upcoming fiscal year will be done in January and proposed revisions, if any, will be submitted for Board approval at that time.

Board Review And Approval

The proposed budget is presented to the Board and to the public for consideration at the May Board meeting. Any changes will be incorporated into the approved budget and submitted to the San Gabriel Valley Council of Governments for consideration at their June meeting.

FY 2007 Budget Glossary

Indirect Expenses

Personnel

Salaries and Wages	Salaries for employees and temporary help (charged both as indirect and direct expenses).
Fringe Benefits	Paid benefits such as health insurance, life insurance and pension.

Board/Employee Expenses

Travel	Employee travel for business purposes. Includes registration fees and local mileage reimbursement or auto allowance.
Training/Memberships	Authority and professional memberships; ongoing professional training.
Board Related Expenses	Per diem and Board travel.

Professional Services

Auditing/Accounting	Financial auditing and accounting services.
DBE/Labor Compliance	Disadvantaged Business Enterprise program administration and monitoring; supervision of labor compliance monitoring
Legal - Agency Support	General counsel, construction legal and any other legal services that are not directly chargeable to specific construction projects.
Program Management	Contracted project administration support.
State/Federal Advisory Services	State & Federal legislation research, monitoring and funding application services.
Risk Management	Administrative fee for analyzing insurance requirements, reviewing ACE and contractor policies and obtaining insurance.
UPRR Invoice Review	UPRR invoice review services.
Other	Miscellaneous minor professional services.

Insurance	Annual insurance premiums and out-of-pocket losses
Equipment Expense	Purchase/lease and maintenance of office equipment such as copiers, fax machines and computers.
Office Expense	Rent on ACE office space, including maintenance and miscellaneous expense
Office Operations	Office supplies, postage, printing/copying and telephones
Other	General advertising, subscriptions, payroll service fees, etc.
Direct Expenses	
Program Management	The portion of overall program management expenses which can be directly charged to projects; consists primarily of design and utility relocation support, land acquisition related services and office support.
Legal	Legal expenses which can be directly charged to specific projects for land acquisition activities.
Labor Compliance	Field monitoring and reporting of contractor compliance with State and Federal labor laws
Design	Preparation of project plans, specifications and estimates
Right of Way Acquisition	Property acquisition costs, closing costs, appraisals, surveys, miscellaneous acquisition support costs
Utility Relocation	Costs of relocating utilities, including design
Construction Management	Field oversight of construction
Railroad	Railroad (UPRR and Metrolink) charges to projects for project support, design, procurement and

	construction
Construction	Payment to construction contractors
Advertising	Cost of advertising construction contracts
