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TRANSPORTATION  
COMMISSION

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## *Memorandum*

TO: Partnership Technical Advisory Committee

DATE: October 15, 2007

FR: Ashley Nguyen

W. I.

RE: Cost Review & Risk Assessment Approach

### **Background**

Per SAFETEA, starting December 11, 2007, revenue and cost estimates that support the long-range regional transportation plan (RTPs) must use an inflation rate(s) to reflect “year of expenditure dollars” based on reasonable financial principles and information. In addition, as part of MTC’s federal certification process, Federal Highway and Transit Administrations (FHWA/FTA) requested that we take a more detailed look at the cost estimates to address concerns about financial plans for large-scale transportation projects.

### **Approach**

Starting in March 2008, MTC staff and its consultant will perform a cost review and risk assessment of all operations and expansion projects proposed for consideration in the Transportation 2035 Plan. Projects that are greater than \$300 million (escalated) will be subject to closer review. All cost estimates will be escalated to reflect year of expenditure dollars. Key elements of the cost/risk assessment are below:

- **Collect basic cost and project phase information:** A web-based project submittal form will be available when MTC issues the “call for projects.” Project sponsors will be requested to provide project details, including project type, scope, project begin/end milestones for the various project phases, and total costs (in current dollars), including capital and/or operating and maintenance (if applicable). If estimated, contingencies will be identified. If applicable, escalate rates used by the project sponsor will also be collected.
- **Validate project information and escalate costs:** MTC staff and its consultant will validate project information for completeness and accuracy. We will be applying standard methodology to escalate costs to year of expenditure dollars.
- **Apply risk model to determine appropriate contingency:** MTC staff and its consultant will review project cost and development information to identify the approximate risk level for each project using a probabilistic model. The risk model will identify the lowest and highest risk project. Based on the risk assessment, we will identify the appropriate risk contingency by region, county, and/or program.

MTC and partner agencies will need to determine the appropriate level of risk for the RTP. If we want a greater confidence level that an RTP project/program meets the financially constrained test and can be delivered in the estimated amount, we will need to assume to assume a higher contingency. Additional discussions about RTP risk levels will take place next spring.