



COMMONWEALTH of VIRGINIA

Commonwealth Transportation Board

Shannon Valentine
Chairperson

1401 East Broad Street
Richmond, Virginia 23219

(804) 786-2701
Fax: (804) 786-2940

Agenda item # 12

RESOLUTION OF THE COMMONWEALTH TRANSPORTATION BOARD

October 30, 2018

MOTION

Made By: Mr. Kasproicz, Seconded By: Mr. Williams
Action: Motion Carried, Unanimously
Title: SMART SCALE Cost Overrun Policy

WHEREAS, section 33.2-214.1 of the *Code of Virginia*, provides that the Commonwealth Transportation Board (Board) shall develop a statewide prioritization process for certain projects funded by the Board, including those projects allocated funds pursuant to sections 33.2-358, 33.2-370 and 33.2-371 of the *Code of Virginia*, and

WHEREAS, on June 17, 2015 the Board adopted a statewide prioritization policy and process pursuant to section 33.2-214.1 and directed the Commissioner of Highways, the Department of Rail and Public Transportation and the Office of Intermodal Planning and Investment to take all actions necessary to implement and administer the policy and process adopted on June 17, 2015 (collectively the HB2 Prioritization Policy and Process), including but not limited to issuance of a Policy Guide consistent with the intent of the policy and process; and

WHEREAS, on July 28, 2016, the Board rescinded the HB2 Prioritization Policy and Process previously adopted on June 17, 2015 and adopted a revised policy and process to govern screening, scoring and selecting projects for funding pursuant to section 33.2-214.1 (SMART SCALE Prioritization Process); and

WHEREAS, on October 24, 2017, the Board rescinded the SMART SCALE Prioritization Process previously adopted on July 28, 2016 and adopted a revised SMART SCALE Prioritization Process to govern screening, scoring and selecting projects for funding pursuant to section 33.2-214.1; and

WHEREAS, a revised Policy Guide consistent with the SMART SCALE Prioritization Process was issued and posted at SmartScale.org; and

WHEREAS, Item 10 of the Board's SMART SCALE Prioritization Process provides that a project that has been selected for funding must be re-scored and the funding decision re-evaluated if there are significant changes to either the scope or cost of the project, such that the anticipated benefits relative to funding requested would have substantially changed; and

WHEREAS, Item 10.a. of the Board's SMART SCALE Prioritization Process further provides that if an estimate increases prior to project advertisement or contract award that exceeds the following thresholds, and the applicant is not covering the increased cost with other funds, Board action is required to approve the budget increase:

- i. Total Cost Estimate <\$5 million: 20% increase in funding requested
- ii. Total Cost Estimate \$5 million to \$10 million: \$1 million or greater increase in funding requested
- iii. Total Cost Estimate > \$10 million: 10% increase in funding requested; \$5 million maximum increase in funding requested; and

WHEREAS, the Board finds that it is prudent to ensure adequate review and monitoring of SMART SCALE project cost estimates.

NOW THEREFORE BE RESOLVED, by the Commonwealth Transportation Board, that the Virginia Department of Transportation (VDOT) and the Department of Rail and Public Transportation (DRPT) shall establish procedures to ensure the proper review of SMART SCALE project estimates during the validation phase of the SMART SCALE process, prior to the release of project scores.

BE IT FURTHER RESOLVED, that the procedures established by VDOT and DRPT shall, at a minimum require additional review of any project with a SMART SCALE cost in excess of \$50 million and require additional review of any project with a cost determined by VDOT or DRPT to be outside the traditional thresholds for similar projects.

BE IT FURTHER RESOLVED, that VDOT and DRPT shall report quarterly to the Board any projects that have potential risks that could cause cost overruns in excess of the allocation thresholds established in the Board's SMART SCALE policy and the applicant is not funding the increase.

BE IT FURTHER RESOLVED, that in the event that the increase in SMART SCALE cost for a selected SMART SCALE project is determined to be in excess of the allocation thresholds established in Item 10.a. of the Board's SMART SCALE policy, VDOT and DRPT, in consultation with the Office of Intermodal Planning and Investment (OIPI) shall provide the following information for the project and the round of SMART SCALE in which the project was selected to the Board as it considers whether to (i) allocate the additional funds necessary for the project, (ii) cancel the project due the cost increase, or (iii) request additional action (e.g., re-scope the project within the existing budget and re-evaluate):

- a) Revised SMART SCALE score;
- b) List of any SMART SCALE projects in the district that were funded with a lower score;
- c) A revised recommended funding scenario based on the project's new score, including a list of SMART SCALE projects that would have either (i) been funded or (ii) not been funded due to the changes in the project's score and any other information considered when selecting the project for funding;
- d) The amount of unprogrammed and deallocated High Priority Projects Program and Construction District Grant Program funds available;
- e) Expenditures to date;
- f) A list of other SMART SCALE projects known to be at-risk for a SMART SCALE budget increase; and
- g) Any other information deemed appropriate for the Board's consideration by OIPI.

BE IT FURTHER RESOLVED, that in the event that a SMART SCALE budget increase is presented to the Board for consideration, VDOT and DRPT shall provide the Board with an After Action Report, regardless of the decision made by the Board on the project. The report shall be a comprehensive review that, at a minimum, includes the following:

- a) The components of the project to which significant deviation between the project's estimate at selection and the final estimate were attributed;
- b) An analysis as to the potential reasons for such deviation; and,
- c) Recommendations, if deemed appropriate, for potential policy changes to reduce the likelihood of such deviations between estimates at selection and the final estimate in the future.

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CTB Decision Brief SMART SCALE Cost Overrun Policy

Issue: Section 33.2-214.1 of the *Code of Virginia*, provides that the Commonwealth Transportation Board (Board) shall develop a statewide prioritization process for certain projects funded by the Board, including those projects allocated funds pursuant to sections 33.2-358, 33.2-370 and 33.2-371 of the *Code of Virginia*. At the Board's request, a draft policy setting forth a process and requirements for reviewing and monitoring SMART SCALE project cost estimates has been developed and Board approval of said policy is requested.

Facts: Item 10 of the Board's SMART SCALE Prioritization Process provides that a project that has been selected for funding must be re-scored and the funding decision re-evaluated if there are significant changes to either the scope or cost of the project, such that the anticipated benefits relative to funding requested would have substantially changed.

Item 10.a. of the Board's SMART SCALE Prioritization Process further provides that if an estimate increases prior to project advertisement or contract award that exceeds the following thresholds, and the applicant is not covering the increased cost with other funds, Board action is required to approve the budget increase:

- i. Total Cost Estimate <\$5 million: 20% increase in funding requested
- ii. Total Cost Estimate \$5 million to \$10 million: \$1 million or greater increase in funding requested
- iii. Total Cost Estimate > \$10 million: 10% increase in funding requested; \$5 million maximum increase in funding requested.

Recently, one or more projects funded in the Six-Year Improvement Program have experienced unanticipated cost increases that required additional funding consideration and action by the Board. As a result, the Board requested that a draft policy setting forth a process and requirements for reviewing and monitoring SMART SCALE project cost estimates be developed to ensure that unanticipated project cost increases are identified earlier and addressed by means of a consistent policy.

In response, the Virginia Department of Transportation (VDOT) and Office of Intermodal Planning and Investment (OIP) have developed a draft policy for the Board's consideration (SMART SCALE Cost Overrun Policy), the provisions of which are set out below:

1. VDOT and DRPT shall establish procedures to ensure the proper review of SMART SCALE project estimates during the validation phase of the SMART SCALE process, prior to the release of project scores.
2. The procedures established by VDOT and DRPT shall, at a minimum require additional review of any project with a SMART SCALE cost in excess of \$50 million and require additional review of any project with a cost determined by VDOT or DRPT to be outside the traditional thresholds for similar projects.

3. VDOT and DRPT shall report quarterly to the Board any projects that have potential risks that could cause cost overruns in excess of the allocation thresholds established in the Board's SMART SCALE policy and the applicant is not funding the increase.
4. In the event that the estimate for a selected SMART SCALE project is determined to be in excess of the allocation thresholds established in the Board's SMART SCALE policy, VDOT and DRPT, in consultation with the Office of Intermodal Planning and Investment (OIP), shall provide the following information for the project and the round of SMART SCALE in which the project was selected to the Board as it considers whether to either (i) allocate the additional funds necessary for the project, (ii) cancel the project due the cost increase, (iii) or request additional action (e.g., re-scope the project within the existing budget and re-evaluate):
 - a) Revised SMART SCALE score;
 - b) List of any projects in the district that were funded with a lower score;
 - c) A revised recommended funding scenario based on the project's new score, including a list of projects that would have either (i) been funded or (ii) not been funded due to the changes in the project's score and any other information considered when selecting the project for funding;
 - d) The amount of unprogrammed and deallocated High Priority Projects Program and Construction District Grant Program funds available;
 - e) Expenditures to date
 - f) A list of other SMART SCALE projects known to be at-risk for a budget increase
 - g) Any other information deemed appropriate for the Board's consideration by the Office.
5. In the event that a SMART SCALE budget increase is presented to the Board for consideration, VDOT and DRPT shall provide the Board with an After Action Report, regardless of the decision made by the Board on the project. The report shall be a comprehensive review that, at a minimum, includes the following:
 - a) The components of the project to which significant deviation between the project's estimate at selection and the final estimate was attributed;
 - b) An analysis as to the potential reasons for such deviation; and,
 - c) Recommendations, if deemed appropriate, for potential policy changes to reduce the likelihood of such deviations between estimates at selection and the final estimate in the future.

Recommendation: VDOT and OIP recommend that the Board approve and adopt the draft SMART SCALE Cost Overrun Policy.

Action Required by CTB: *The Code of Virginia* requires the Board to adopt any such policy relating to SMART SCALE. A resolution is provided for formal vote.

Result, if Approved: VDOT, DRPT and OIP will implement and administer the SMART SCALE Cost Overrun Policy in accord with the responsibilities assigned therein.

Options: Approve, Deny, or Defer.

Public Comments/Reactions: None