SACOG Board of Directors

February 12, 2015

Approve Connect Card Contingency Fund Update

Issue: Should SACOG commit $260,500 of the remaining Connect Card budget contingency to six different tasks deemed necessary to successfully deliver the project?

Recommendation: The Transportation Committee recommends that the Board approve moving $260,500 of Connect Card budget contingency into the active budget to fund six outcomes.

Committee Action/Discussion: The Connect Card project is currently completing installation and testing and is preparing for system roll out within the next several months. As the system architecture nears completion and operational planning matures, new or expanded requirements have arisen that require additional budgetary support. These six different tasks or scope modifications are identified as critical to successfully implementing the system. Staff recommends committing $260,500 from budget contingency to ensure completion of the necessary work.

The six items requiring expenditure are:

1. Temporary Staffing for Roll Out ($125,000) – Migrating the transit patrons from current fare systems to the Connect Card will require a short term increase in customer service support and related functions. Temporary employees will assist with order fulfillment, card distribution, record keeping, and general public information. Best practices from other transit fare program roll outs support this strategy. Staff is requesting authorization for an expenditure of $175,000 to complete these tasks, of which $125,000 requires transfer from contingency. The remaining $50,000 is already in the active budget for this purpose. Funds will be transferred to Sacramento Regional Transit District (RT) for this purpose through a subrecipient agreement previously authorized by the Board.

2. Engineering Consulting ($55,000) – The project's consultants from LTK Engineering provide important advice in the areas of technical design, documentation, contractual compliance, testing protocols, and business integration. The need of the consortium partners for advice and guidance in business integration has far exceeded original expectations, depleting the LTK budget. LTK has invaluable experience implementing the business side of electronic fare systems in other regions. Connect Card will transform business practices at participating transit agencies in fundamental ways, including financial reconciliation, relationships with employers who provide transit benefits, and customer service practices. LTK's work in this area is not complete and their assistance is still required for the final testing protocols after system roll out.

3. SCT/LINK Configurations ($37,500) – The South Sacramento transit service, SCT/LINK, joined the Connect Card consortium in late 2014. To incorporate a new transit agency, staff needs to purchase software licenses, engineering expertise, and configurations in the enterprise software package. The addition of SCT/LINK in the back end is not in the primary vendor's (INIT) scope of work and requires a $37,500 change order. Separately, bus and transit yard hardware for SCT/LINK is being funded through a $117,000 Sacramento County grant. The consortium wishes to fund SCT/LINK's share of the centralized infrastructure through existing project funds because they are part of the four-county regional funding authority of SACOG from which most of the project is funded.

4. Finance Database Configuration ($22,000) – Finance staff at RT will manage revenue settlement and other banking services for the consortium. To permit effective financial management of Connect Card revenues, staff proposes modifying RT's existing financial management program to create a new business entity. Performing finance functions with the existing structure at RT is not practical, since it would make achieving transactional transparency challenging and potentially create audit problems. Creating a new business entity in RT's SAP enterprise software package will allow RT Finance to effectively track and account for shared revenue and system costs.

5. Operations/Maintenance Costs ($16,000) – During implementation, normal operations costs for the system are "capitalized" into the project budget. A number of system software licenses are coming up for renewal, including the relatively expensive Oracle Database. After roll out and final acceptance of the vendor contract, software licensing costs will be shared by the transit agency partners through a cost sharing agreement.

6. Computer Hardware ($5,000) – The budget for miscellaneous computer components is expended but system requirements are not complete. Staff needs to replace legacy hardware at several agencies that cannot meet the performance standards of the new system software.

The budget contingency is currently at $463,361. The proposed commitment would leave a balance of $202,861. Anticipated contract credits valued as high as $98,000 may increase the contingency back to $300,861. In May, the Board authorized a reduction of the project contingency down to 2.8 percent of total project budget and 6 percent of unspent budget. With the recommended action, the project contingency would be 1.4 percent of total project budget, but 7.1 percent of unspent budget. With the anticipated contract credits, the contingency would grow back to 2.1 percent and 10.1 percent, respectively. While, as the Committee is aware, the level of contingency for the project always has been less than ideal, financial risk is limited by the late stage in the project cycle and by the fact that most of the budget is locked up in a fixed price contract with INIT. A gradual reduction in the budget contingency over the project cycle is normal and expected, although no good data exist on what might be an optimal level for where Connect Card is today.

Already priced significantly lower than comparable smart card deployments, Connect Card has experienced only a 9.8 percent increase in the contract budget with INIT from the time of contract execution, and most of the increases were due to our decisions to physically expand the system or to proactively mitigate technical risks. As further protection against potential late-state cost overruns, SACOG also is seeking a cost-sharing plan with the consortium partners that can be implemented prior to adoption of the new governance structure.

Approved by:

Mike McKeever
Chief Executive Officer

MM:RM:ds

Key Staff: Kirk Trost, Chief Operating Officer, (916) 340-6210
               Matt Carpenter, Director of Transportation Services, (916) 340-6276
               Robert McCrary, Senior Planner, (916) 340-6228