

**Metro**

Los Angeles County
Metropolitan Transportation Authority

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**PLANNING & PROGRAMMING COMMITTEE
MAY 16, 2012**

**SUBJECT: PUBLIC-PRIVATE PARTNERSHIP PROGRAM
HIGHWAY GOODS MOVEMENT PACKAGE**

ACTION: APPROVE WORK PROGRAM CHANGES

RECOMMENDATION

- A. Authorize the Chief Executive Officer to amend the list of initial recommended projects (Attachment A) to include the Highway Goods Movement Package of projects.
- B. Approve increase in Contract Modification Authority specific to Contract No. PS4370-2316 with InfraConsult, LLC, in the amount of \$300,000.
- C. Execute task orders within Contract Modification Authority to InfraConsult, LLC (Consultant) to conduct strategic assessment (Task 3) and develop the business case (Task 4) for elements of the Highway Goods Movement Program of projects, identified as additional potential Public-Private Partnership (PPP) candidates.

ISSUE

Our PPP program has been focused on identifying projects that could attract private investment capital, allowing for project acceleration and potentially resulting in less expensive project delivery. One of the PPP program criteria for initial projects selected for screening, evaluation and development of business cases has been project readiness. Staff has identified an opportunity to "bundle" some projects in the highway program which are nearing completion of environmental clearance efforts and are nearly fully funded. This grouping of projects presents a potential opportunity to advance delivery of capacity enhancement, closing of gaps in a freeway segment and construction of long-planned soundwalls by way of a PPP model.

DISCUSSION

Several projects have been identified as potential candidates for inclusion in a PPP package based on:

- Status of the environmental clearance;
- Percentage of completed design;
- Programmed funding sources and timing of funds;
- Magnitude of capital cost, and;
- Potential for interest from the PPP market and opportunity for innovation.

The projects under consideration are:

Projects	Construction cost (2012 \$)	Environmental status
I-5 North Capacity Enhancement	\$378M	Cleared
I-5 North Pavement Rehabilitation	\$73M	Cleared
SR-71 Gap: I-10 to Mission Blvd	\$79M	January 2013
SR-71 Gap: Mission Blvd to Rio Rancho Rd	\$150M	January 2013
Soundwall Package 10	\$28M	Cleared
Soundwall Package 11	\$60M	Cleared

The PPP Program is centered on the concept of exploring innovative project delivery methods. By exploring the use of PPP and by considering the approach of bundling projects based on critical criteria, the following benefits may be realized for this project:

- Accelerated delivery to the public;
- Price certainty and fiscal discipline;
- Beneficial risk sharing with private contractors;
- Project lifecycle efficiencies;
- Economies of scale through bundling of smaller projects;
- Potential to better leverage Measure R funding; and
- Enhanced competition by creating optimal market interest in construction and investment opportunity by grouping smaller projects with larger ones.

These potential benefits will be evaluated through the PPP Program’s established approach to determining suitability for private sector involvement. In January 2010 the Board received a list of six initial projects identified as high potential PPP candidates. Staff has identified the above-listed projects as candidates to be advanced as one

“bundled” project, and recommend they be added to the project list. Tasks 3 and 4 of the Consultant’s contract require a vigorous strategic assessment, including examination of risks and potential for risk transfer, lifecycle cost calculations and value for money analysis, and development of a business plan which will profile an appropriate delivery structure. If it is determined that a PPP delivery approach is recommended, the Consultant will also be authorized to commence procurement activities including preparation and delivery of an industry Request for Proposals, and assistance with proposal evaluations and negotiating strategies. Finally, the Consultant will support Metro in early vetting of the project with the California Transportation Commission.

Background

The Board’s 30/10 initiative and America Fast Forward program encourage agencies such as Metro to leverage local tax resources with federal low interest loans and other financing to accelerate construction of transit and highway projects, creating badly needed jobs and rebuilding our infrastructure. The PPP Program enhances this innovative initiative by affording private investors the opportunity to invest early in our infrastructure projects, helping the agencies to level out the “peaks and valleys” of public funding programs and offering another alternative project acceleration vehicle.

Taking advantage of competitive bids in the current market, accelerating projects and exploring economies of scale through bundling of projects has the potential to save Metro funding revenues.

Long Range Transportation Plan

America Fast Forward is intended to accelerate both transit and highway projects. We need to determine the impact to the Measure R Program and the Long Range Transportation Plan of advancing the schedule of these projects. The Consultant will confer with staff to examine this issue and the resultant determination will be taken into consideration before formal procurement actions are initiated.

Value for Money Analysis

The principal basis for the determination of the suitability of a project for development utilizing a PPP delivery model is an analysis referred to as “value for money.” In essence, a value for money calculation brings together a project’s projected capital cost, operations and maintenance costs, costs of utilizing private and/or public equity and debt for leveraging established sources of funds, and the monetization of beneficial risk transfer from the public sector to the private sector. The sources of funds can include proceeds from general taxation and fees (e.g., Measure R, Propositions A and C, etc.), as well as funds generated through project-related user fees (e.g., tolls, advertising revenue, transit-oriented development, etc.)

A successful PPP project generally involves long-term lifecycle involvement from a private sponsor or concessionaire, often referred to colloquially as “skin in the game.” The concessionaire can assume responsibility for long term operation and/or maintenance, and is compensated by means of an “availability payment”, a periodic payment from the public owner for maintaining “state of good repair” of the infrastructure asset and assuring under a long-term contract or concession the availability of the asset for public use.

Preliminary value for money analysis of these elements of the Highway Goods Movement Program demonstrates that a significant savings of Measure R resources is likely to be achieved through undertaking this – and other future projects – as a PPP delivery program. First and foremost, undertaking the “bundling” of several relatively smaller projects and delivering them under a single design-build contract will likely result in a significantly lower composite capital cost. Secondly, delivering the projects much sooner than currently programmed also reduces cost through the inevitable forces of inflation, not to mention the less tangible but clearly beneficial impacts of improved performance of the transportation system at an earlier date. The trade-off, of course, is that leveraging revenue sources requires an additional “cost of money” when the sources tapped provide funds in future years. The value for money analysis demonstrates whether the tangible cost savings and intangible benefits of earlier delivery to the public outweigh the additional costs accruing from increased debt service costs and potential equity returns to project investors.

Caltrans Collaboration

Included in the business plan is the analysis of lifecycle costs, resulting in a value for money assessment used in determining the viability of the PPP project. Lifecycle includes operation and maintenance, and if this is included in this PPP package, Caltrans will likely be requested to participate in the cost of this component, paid to the PPP consortium as an availability payment over the term of the contract. Initial discussions with Caltrans have indicated a tentative willingness to consider this alternative, as opposed to Caltrans providing all operation and maintenance work for these facilities. This results in a more effective PPP contract, handing responsibility for operation and maintenance of the facilities over to the consortium that builds them.

DETERMINATION OF SAFETY IMPACT

The action requested will have no impact on safety, as it is a continuation of Consultant work. If the Consultant’s efforts result in approval of a project, this will significantly enhance the safety of the traveling public by improving freeway connections, providing a separate truck lane on a freeway, and rehabilitating freeway pavement. Further, if operations and maintenance are included in the resultant contract, deferred maintenance will be reduced, as that will be a contractual responsibility of the operating consortium.

FINANCIAL IMPACT

The funding for this contract is included in the FY12 and FY 13 budgets in cost center 2210, New Business Development, under project number 405603, Highway Goods Movement Program.

Impact to Budget

Source of funds is Measure R Highway and Proposition C 25%. Measure R Highway funds will be used for the I-5 North Capacity Enhancement and Soundwall Package components of the work and Proposition C 25% funds will be applied to the balance. These funds are not eligible for bus/rail operating or capital expenses. No other budget sources are impacted by this action.

ALTERNATIVES CONSIDERED

Alternatives considered were: (1) using existing in-house resources to continue the PPP program; and (2) executing the task orders for a lesser amount. Neither of these alternatives is recommended. We do not have the in-house resources to undertake the complex technical analysis and program management required for the PPP program. Reducing the scale of the task orders will limit the number of projects which could be analyzed for this potential bundle of projects, reducing the advantages of presenting these as a cohesive package.

NEXT STEPS

If approved, Consultant will commence with the strategic analysis and business plan development. It is anticipated the business plan will be available for presentation to the Board in June.

ATTACHMENT

A. List of Initial Recommended Projects

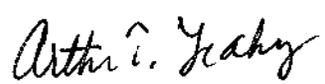
Prepared by: Kathleen Sanchez, Public-Private Partnership Program Manager



Roger S. Moliere
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Douglas R. Failing, P.E.
Executive Director, Highway Program



Arthur T. Leahy
Chief Executive Officer

ATTACHMENT A

LIST OF INITIAL RECOMMENDED PROJECTS

CRENSHAW BOULEVARD TRANSIT CORRIDOR

METRO RED LINE WESTSIDE SUBWAY

(Wilshire/Western Station to Westwood via Wilshire Boulevard Alignment)

REGIONAL DOWNTOWN CONNECTOR

HIGH DESERT CORRIDOR

I-710 SOUTH

(Including I-710 South Early Action Projects)

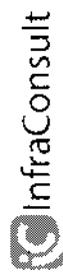
SR-710 NORTH EXTENSION (tunnel)



Highway / Goods Movement Package



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Metro P3 Program Objectives



- Leverage Measure “R” funding
 - Accelerate project delivery
 - Attract private investment and strategic financing
- Reduce current and future project costs
 - Reduce capital construction costs
 - Reduce life-cycle liability for maintenance and operations
- More than \$20 billion in potential P3 procurements in next 3 years



- **InfraConsult LLC**
Program Management / P3 Advisory 

Specialty Consultants

- **KPMG** LLP
Financial Advisory 
- **Sharon Greene + Associates**
Strategic Planning and Funding Advisory 
- **Nossaman LLP**
Legal Advisory 
- **Halcrow Inc. and HDR Inc.**
Engineering and Technical Advisory 

- **Design-Build-Finance (DBF)**
 - Private partner financial participation included in delivery structure

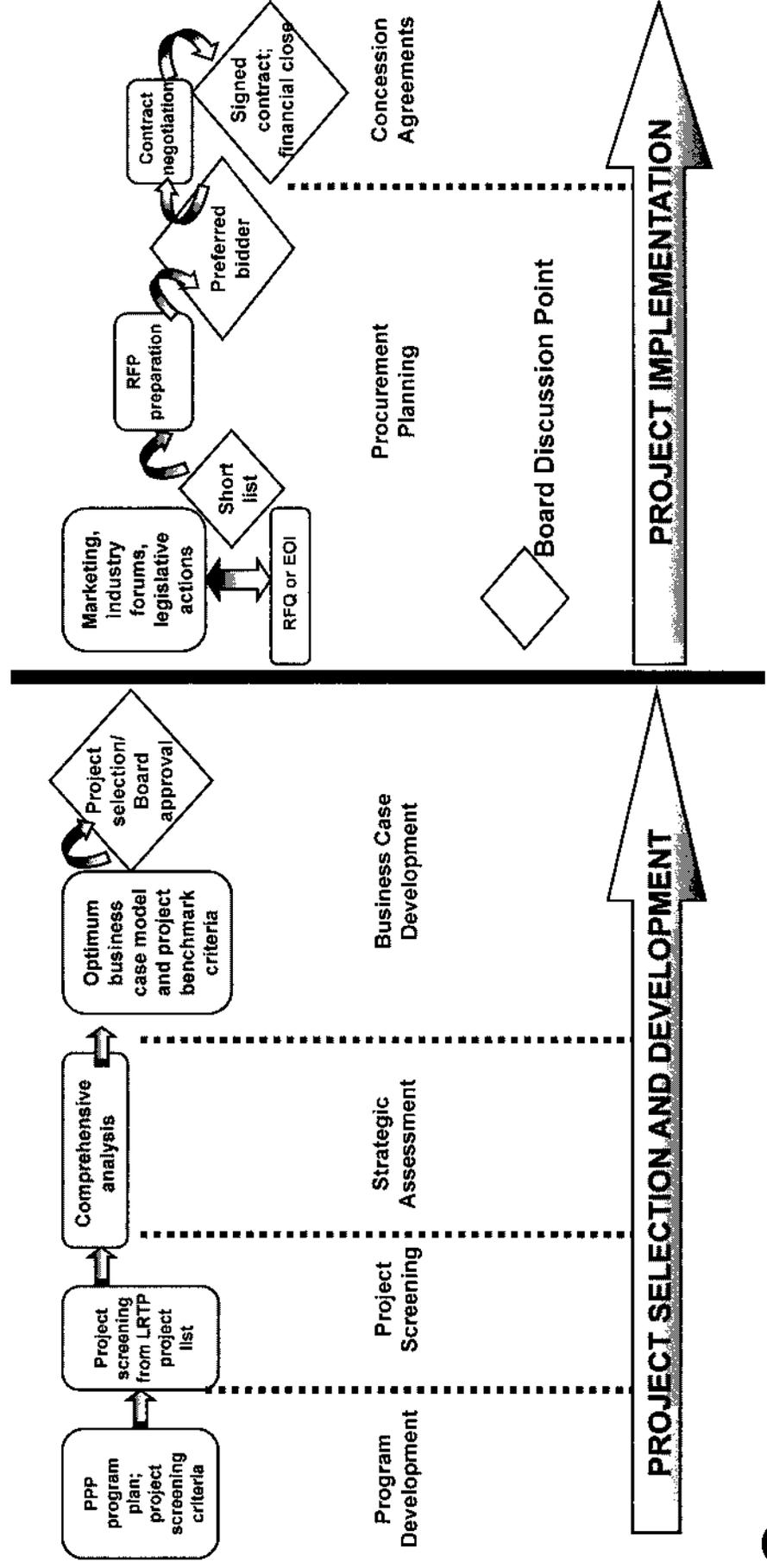
- **Design-Build-Finance-Maintain (DBFM)**
 - Private partner financial participation included in delivery structure
 - *Availability Payment (AP)* structure typically utilized for private partner payments

- **Design-Build-Finance-Operate-Maintain (DBFOM - AP)**
Availability Payment Structure
 - Private partner retains full responsibility for project delivery and project life-cycle
 - Public partner accepts traffic and revenue risk and retains toll revenues
 - *Availability Payment (AP)* structure typically utilized for Private Partner payment

- **Design-Build-Finance-Operate-Maintain (DBFOM – TC)**
Toll Concession Structure
 - Private partner retains full responsibility for project delivery and project life-cycle
 - Private partner accepts full or partial traffic and revenue risk
 - Private partner payments derive directly from toll revenues

- **Achieve accelerated project delivery**
 - Project activities in “parallel”
- **Assure project quality throughout life cycle**
 - Private financial participation (“skin in the game”)
- **Reduce risks**
 - Eliminate/lessen risk of project cost overruns/change orders
 - Reduce public sector risks by strengthening project interfaces
- **Complement federal funding**
- **Achieve cost savings**
 - Operations - performance-related concessions and system availability-based contracting
 - Capital - design and construction efficiencies
- **Enhance cash flows**
 - Private financing mechanisms
 - Leverage Measure R revenues and other public funding sources
- **Utilize new funding sources**
 - Value creation and user revenue streams (e.g., transit-oriented development, road tolls)

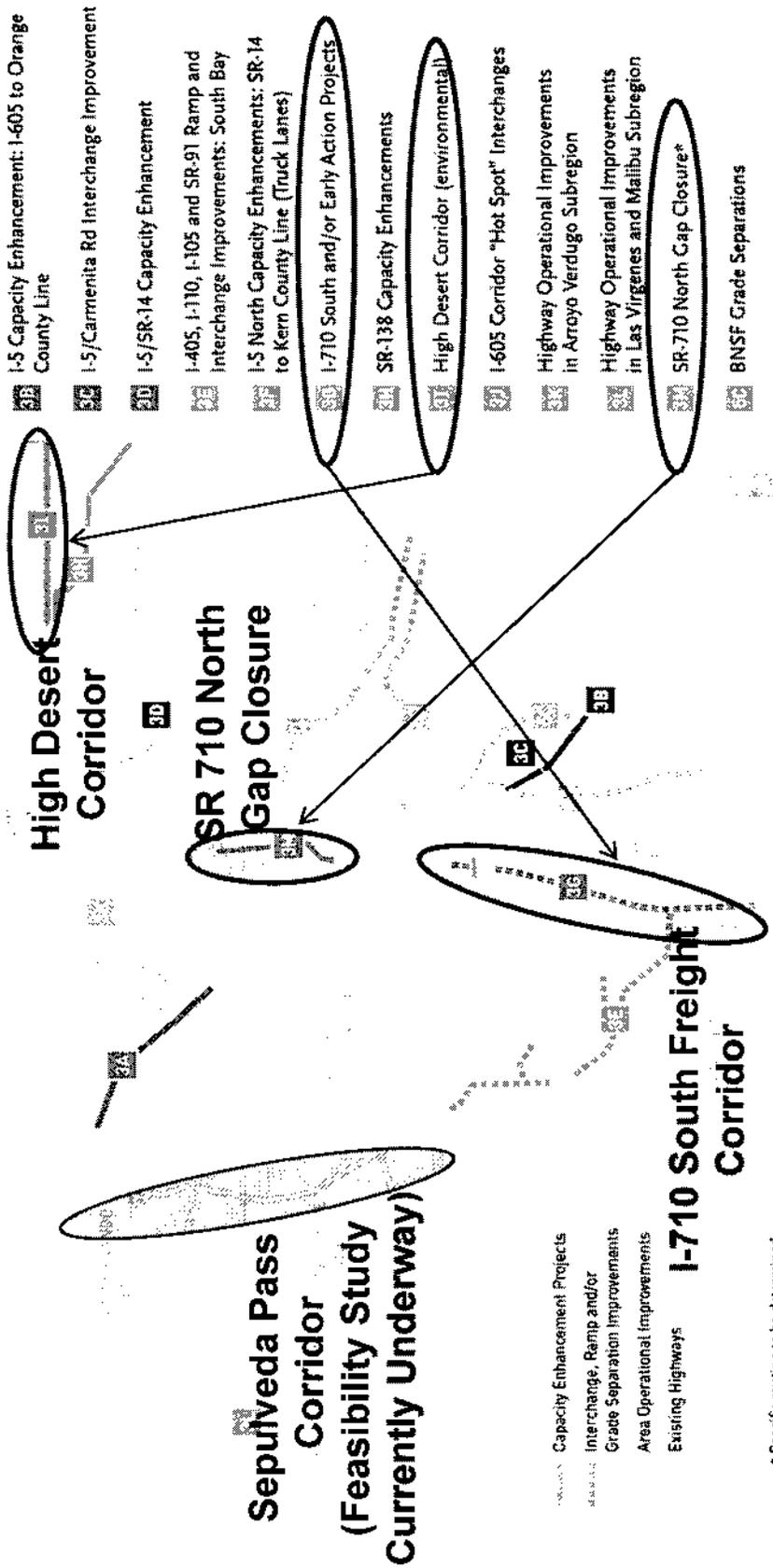
A Programmatic Process for Selection and Implementation of Projects Utilizing a Variety of P3 Models



MEASURE R Proposed Highway Improvements

Project Name

- 3A** I-5 Capacity Enhancement: SR-134 to SR-170
- 3B** I-5 Capacity Enhancement: I-605 to Orange County Line
- 3C** I-5/Carmenita Rd Interchange Improvement
- 3D** I-5/SR-14 Capacity Enhancement
- 3E** I-405, I-110, I-105 and SR-91 Ramp and Interchange Improvements: South Bay
- 3F** I-5 North Capacity Enhancements: SR-14 to Kern County Line (Truck Lanes)
- 3G** I-710 South and/or Early Action Projects
- 3H** SR-138 Capacity Enhancements
- 3I** High Desert Corridor (environmental)
- 3J** I-605 Corridor "Hot Spot" Interchanges
- 3K** Highway Operational Improvements in Arroyo Verdugo Subregion
- 3L** Highway Operational Improvements in Las Virgenes and Malibu Subregion
- 3M** SR-710 North Cap Closure*
- 3N** BNSF Grade Separations
- 3O** Alameda Corridor East Grade Separations Phase II



High Desert Corridor

SR 710 North Gap Closure

Sepulveda Pass Corridor (Feasibility Study Currently Underway)

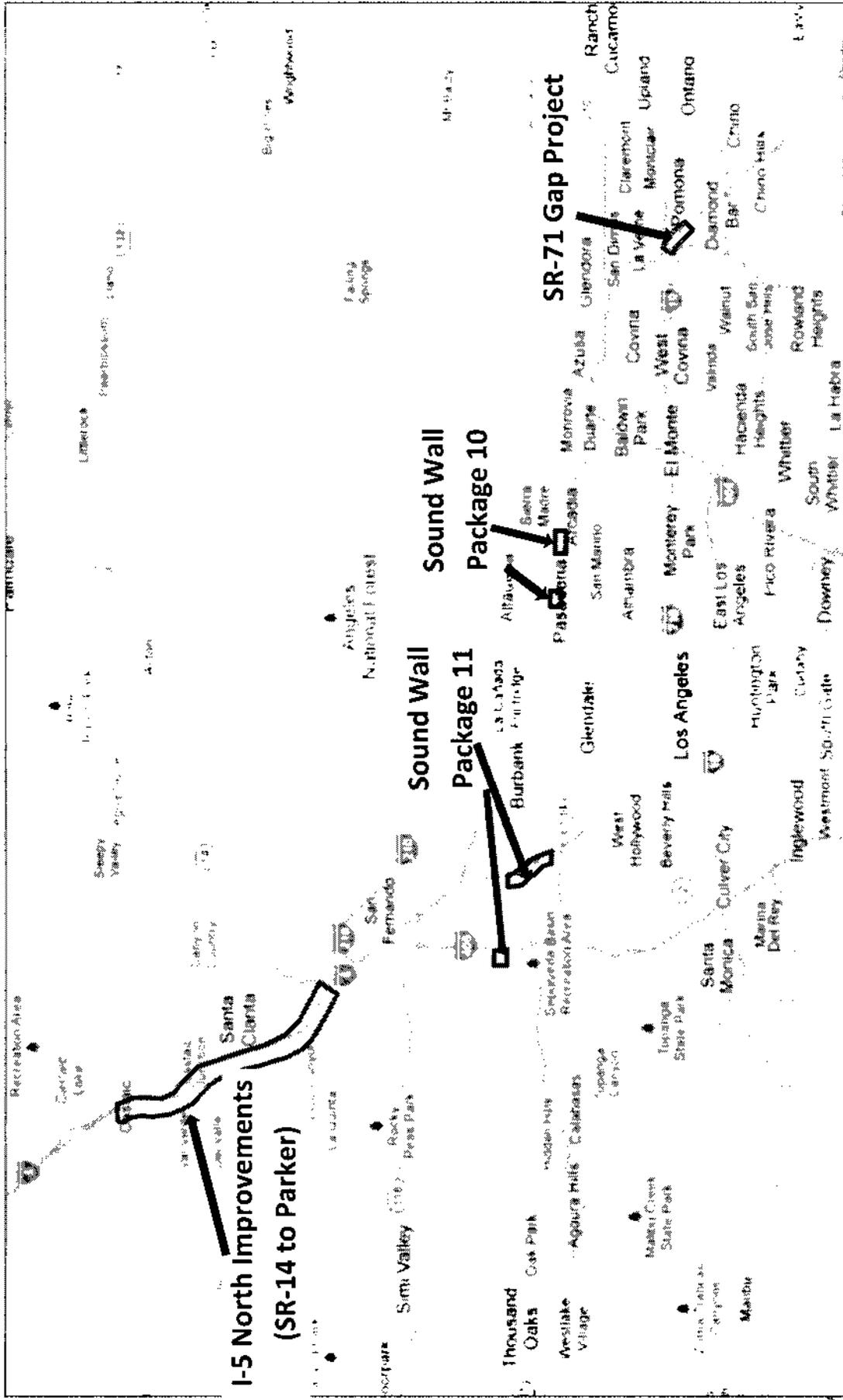
I-710 South Freight Corridor

- Capacity Enhancement Projects
- Interchange, Ramp and/or Grade Separation Improvements
- Area Operational Improvements
- Existing Highways

* Specific routing to be determined

- *Objective: Accelerate the delivery of a package of highway projects by “bundling” project costs, funding and delivery*
- *Several projects were selected for inclusion in a potential package for combined and coordinated delivery*
- *Projects include widening, HOV/HOT lane extension, soundwalls, etc.*
- *Projects “cleared” environmentally*
- *Total cost of Highway Improvement Package estimated at \$768 million*





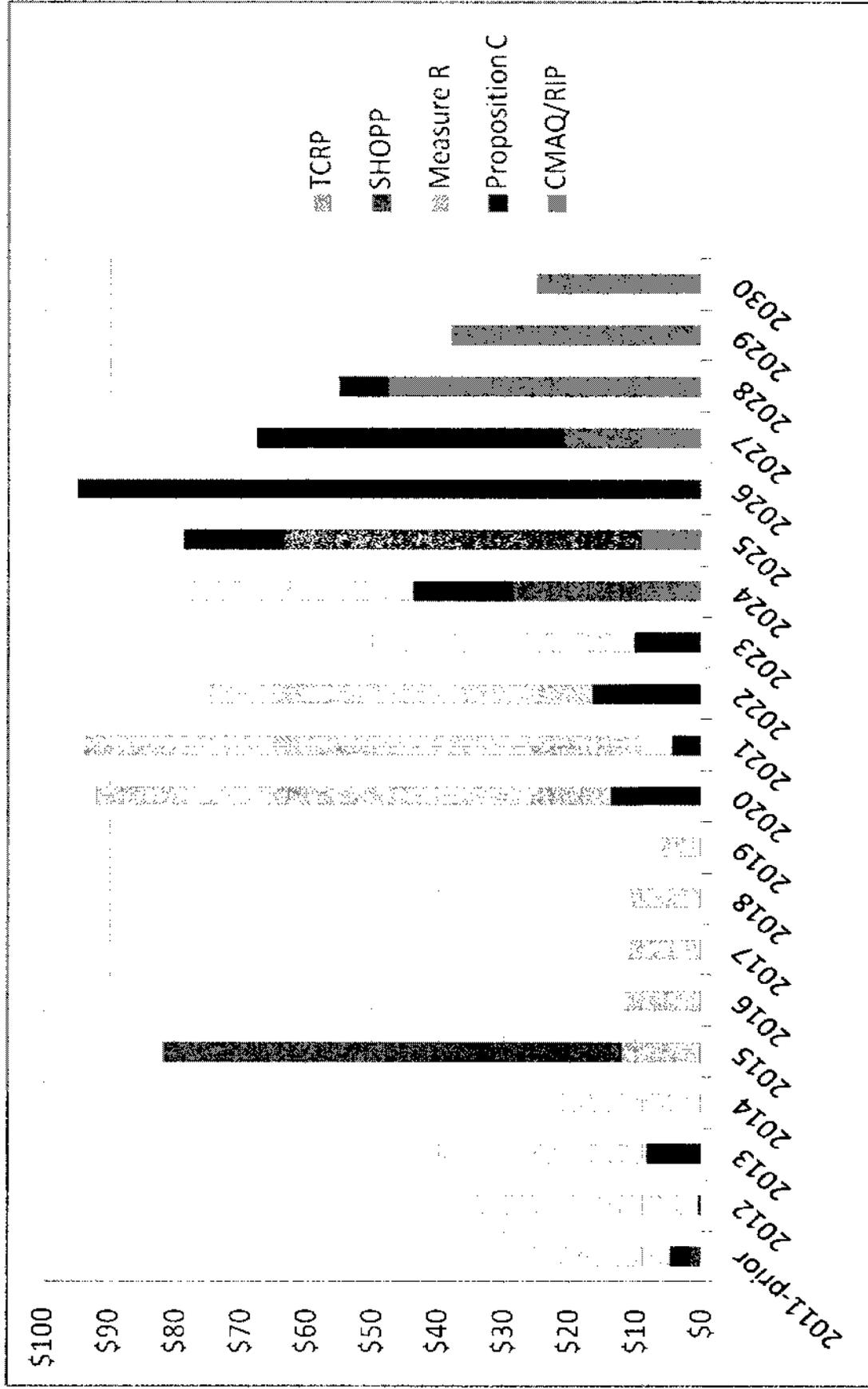
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- Eight projects identified initially
- Table shows projects selected for the *Highway / Goods Movement Package* through screening process. Screening was based upon
 - **Readiness, Risk, Affordability, Interface, Legal, P3 opportunity**
- All projects have either completed environmental clearance process (NEPA/CEQA), or are scheduled for clearance before 2013
- All projects have sources of funding between 2012 and 2030

Projects	Construction cost (2012 \$)	Environmental status	Programmed Funding YOY \$
I-5 North Capacity Enhancement	\$378MM	Cleared	\$410MM (Measure R)
I-5 North Pavement Rehabilitation	\$73MM	Cleared	[\$70MM] (SHOPP)
SR-71 Gap: I-10 to Mission Blvd	\$79MM	January 2013	\$104MM (Prop C) \$11MM (RIP/TCRP)
SR-71 Gap: Mission Blvd to Rio Rancho Rd	\$150MM	January 2013	\$102MM (Prop C) \$223MM (CMAQ/RIP)
Soundwall Package 10	\$28MM	Cleared	\$131MM (Prop C / Measure R)
Soundwall Package 11	\$60MM	Cleared	





Project Delivery Alternatives Evaluated Using Value-for-Money Assessment

- Conventional approach
 - Projects delivered using traditional *design-bid-build (DBB)* contracting, in accordance with existing schedule for delivery with “pay-as-you-go” project financing
- Accelerated public sector approaches
 - Projects delivered earlier than scheduled using *design-bid-build (DBB)* contracting, with financing advanced by increased borrowing
 - Projects delivered earlier than scheduled using *design-build (DB)* contracting with financing advanced by increased borrowing
- Accelerated public-private partnership approaches
 - *Design-build-finance*: Private partner completes DB contract with deferred payments matching programmed funds.
 - *Availability Payments (30 years)*: Private partner assumes DB contract as well as ongoing routine and capital maintenance, and is paid on a pre-programmed basis using availability payments
 - *Toll concession (50 years)*: Not considered viable, as private partners unlikely to accept traffic and revenue risk on HOT lanes

SUMMARY OF HOV LANE OPTIONS (NPV \$2012 MM - 30 years)

SCENARIO	DESCRIPTION	TOTAL COST OF DELIVERY OPTION*
Option 1 LRTP	Base Case – Conventional Delivery according to Planned Pay-As-You-Go Funding	686**
Option 2 HOV	Conventional Delivery, Accelerated through Unconstrained Allocation of Proceeds from Measure R and Proposition C Bond Financings	1,026
Option 3 HOV	Design-Build Delivery, Accelerated through Unconstrained Allocation of Proceeds from Measure R and Proposition C Bond Financings	900
Option 4 HOV	Single Availability Payment Contract Covering all Elements, with Fixed Payment Obligations	931

* Includes: taxation, fees, cost of debt and returns to equity

** Option 1 is not comparable to the other options because the delivery schedule remains as programmed in the LRTP, with a completion date up to 7 years later for some of the programmed elements.

SUMMARY OF HOT LANE OPTIONS (NPV \$2012 MM - 30 years)

SCENARIO	DESCRIPTION	TOTAL COST OF DELIVERY OPTION**
Option 2 HOT 30 yr	Conventional Delivery, Accelerated through Unconstrained Allocation of Proceeds from Measure R and Proposition C Bond Financings	911 to 939
Option 3 HOT 30 yr	Design-Build Delivery, Accelerated through Unconstrained Allocation of Proceeds from Measure R and Proposition C Bond Financings	753 to 781
Option 4 HOT 30 yr	Single Availability Payment Contract Covering all Elements, with Fixed Payment Obligations	701 to 731

* The total cost includes taxation, fees, cost of debt and returns to equity. Both public and P3 revenues are shown based on a 10% range.

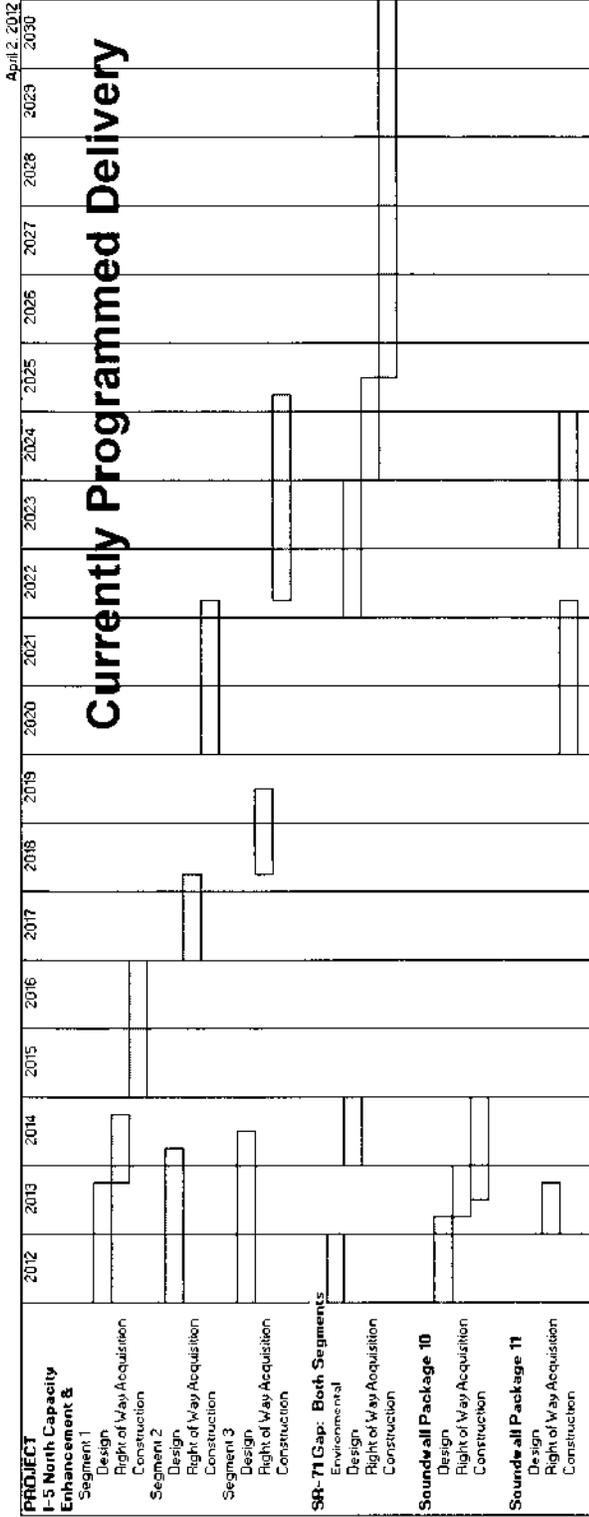


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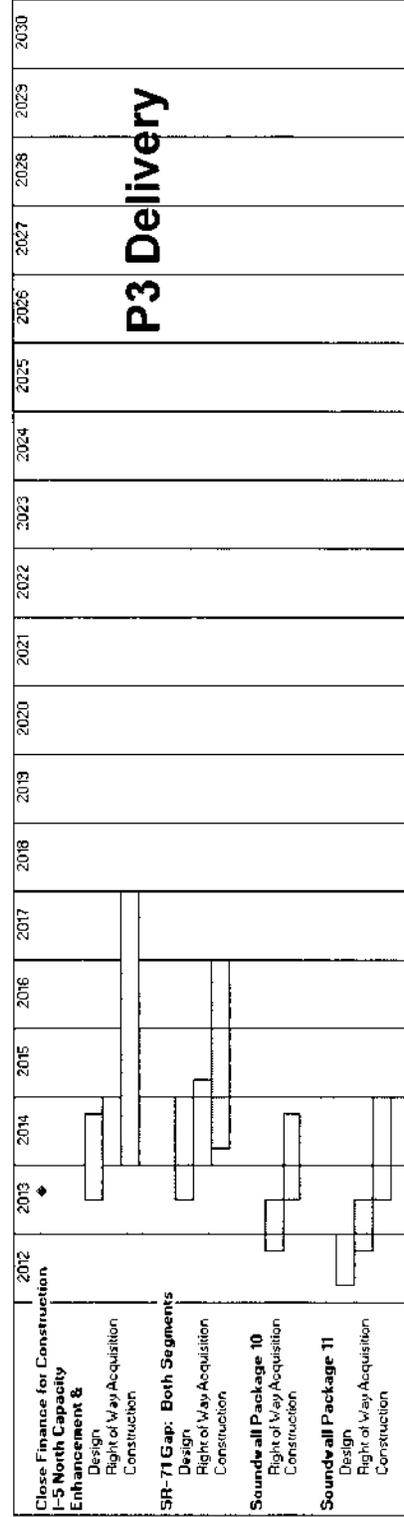


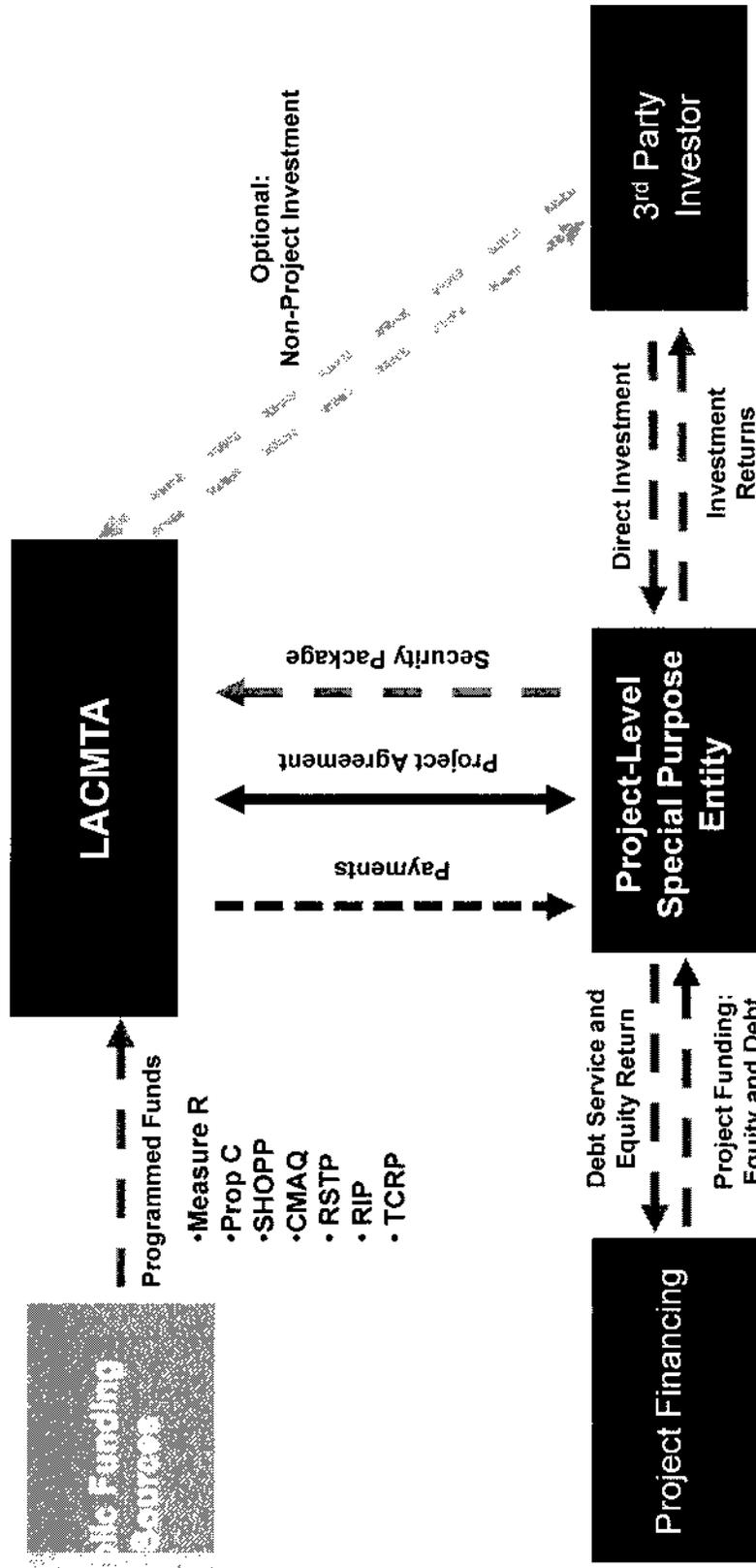
Highway / Goods Movement Package

CONVENTIONAL DELIVERY ACCORDING TO PLANNED PAY-AS-YOU-GO FUNDING



SINGLE AVAILABILITY PAYMENT CONTRACT COVERING ALL ELEMENTS WITH SCULPTED PAYMENT OBLIGATIONS





Public Funding Sources

LACMTA

Programmed Funds

- Measure R
- Prop C
- SHOPP
- CMAQ
- RSTP
- RIP
- TCRP

Payments

Project Agreement

Security Package

Optional:
Non-Project Investment

Project Financing

Debt Service and Equity Return

Project Funding: Equity and Debt

Project-Level Special Purpose Entity

Direct Investment

Investment Returns

3rd Party Investor

Legal Relationship

Guarantee

Financial Commitment

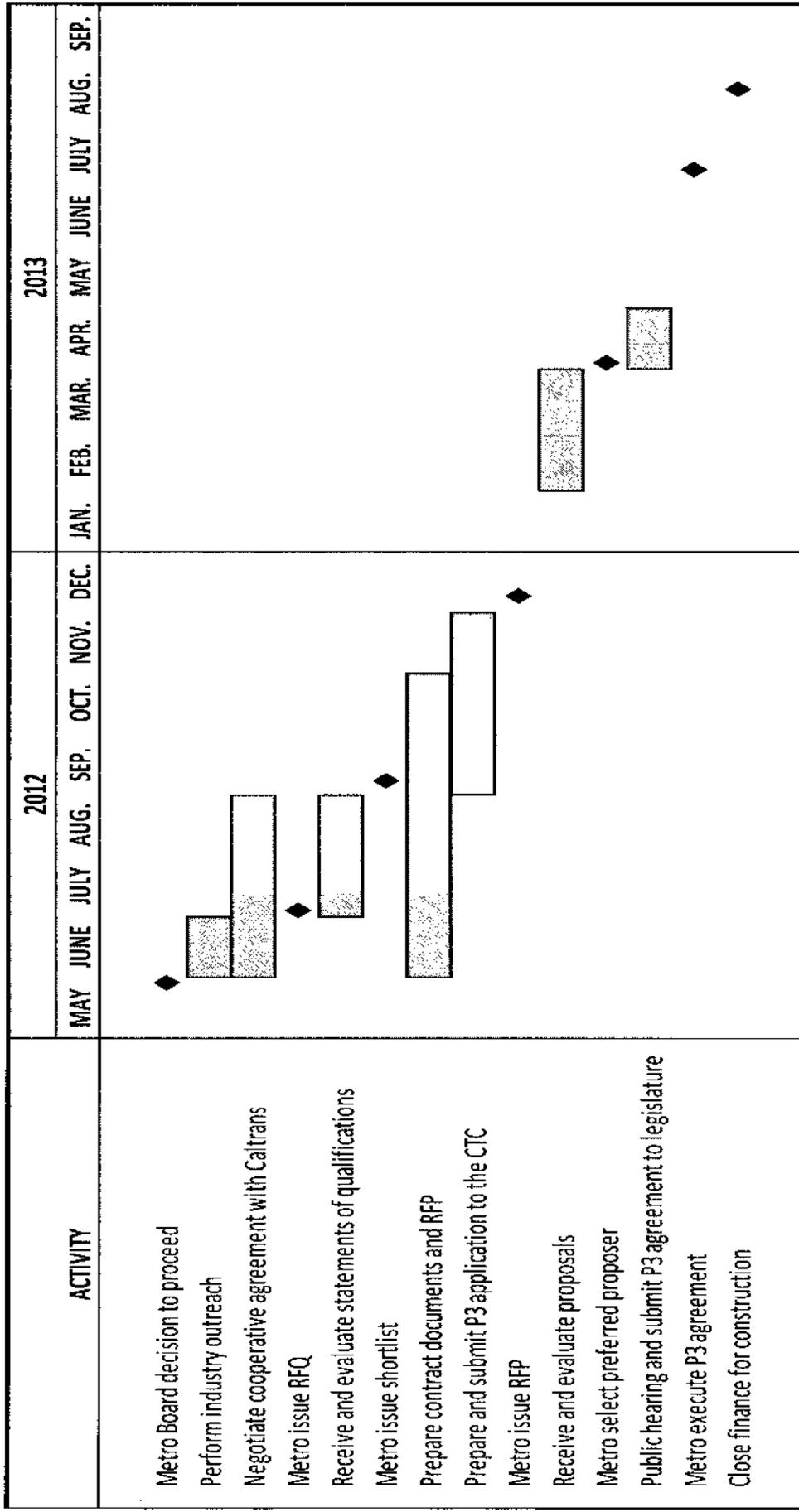
Financial Commitment



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Highway / Goods Movement Package

Schedule Assumes Optimal Acceleration Program



◆ Key Milestones

- **The Highway / Goods Movement Package will yield value-for-money to Metro if delivered as a P3 program, utilizing an availability payment structure for a 30-year term.**
- Construction and completion risk will be borne by the private partner, who will also have responsibility for long-term maintenance.
- The potential for “scope creep,” cost increases, or change orders is significantly reduced.
- Additional project capital may be generated through equity investment by the Concessionaire and/or third-party infrastructure funds, including CalPERS
- Contract provisions will give Metro direct, ongoing control over design, construction, operations and maintenance performance.
- The projects will be available for public use many years ahead of the current schedule.

- Meet with Caltrans
 - Request that design work on I-5 North be completed at the 35% design level
 - Agree on a plan for promptly performing an environmental reevaluation on I-5 North HOT lanes
 - Agree on a process for State payments for routine maintenance
 - Prepare a cooperative agreement for delivery of the Program
- Meet with California Transportation Commission staff to initiate discussions toward approval of the Program for P3 delivery, and confirm authority to impose tolls
- Begin outreach to the industry to generate interest in and feedback on the Program
- Meet with Federal Highway Administration staff to provide briefing on the Program and initiate the process to add HOT lanes on I-5
- Finalize scope and budget to support Metro procurement and management of the Program.