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REVISED

**PLANNING AND PROGRAMMING COMMITTEE
JUNE 20, 2012**

SUBJECT: PUBLIC-PRIVATE PARTNERSHIP PROGRAM

**ACTION: RECEIVE AND FILE
PROGRAM STATUS AND ANALYSIS**

RECOMMENDATION

Receive and file a report on status, results and interim recommendations of the Public-Private Partnership Program (PPP) as detailed in the attached Summary of Progress and Accomplishments (Attachment A).

ISSUE

The Board has adopted the PPP Framework and requested exploration and evaluation of the potential use of PPP as a project delivery model. The PPP Workplan was subsequently adopted, setting the stage for identifying PPP candidates from among the projects included in our 2009 Long Range Transportation Plan and Measure R program. Our PPP program has placed particular emphasis on identifying projects that could attract private investment capital and thus allow for accelerated and less expensive project delivery. We have now completed screening, evaluation and significant work on the business case models for the selected projects and are preparing to move forward with recommendations for implementation and procurement of certain of those projects.

BACKGROUND

Following a rigorous procurement process, a PPP consulting team led by InfraConsult LLC of Los Angeles, and including as subcontractors KPMG LLP, Nossaman LLP, Halcrow Inc., Sharon Greene + Associates and Englander and Associates was selected in 2009 to serve as an advisory team and program management support for the PPP Program. The Scope of Work for this team

consists of initial project screening and subsequent tasks to advance strategic assessments, business plan development, PPP procurement processes and an option for PPP project delivery and project management.

The initial comprehensive screening process identified fourteen transit and highway projects as the most promising candidates for private sector participation, with an initial list of six projects recommended for further consideration. These six were selected based on various factors, including modal equity, geographic distribution, PPP delivery model, public funding availability, financing options, and project readiness. The projects selected are the I-710 South Freight Corridor including the Early Action Projects, SR-710 North Gap, High Desert Corridor, Crenshaw/LAX Transit Corridor, Regional Connector, and the Westside Subway Extension.

The subsequent phase of work involved comprehensive strategic assessments and the preparation of business plans for implementation of the six projects, utilizing the most appropriate project delivery model for each. Undertaking the strategic assessment of each project was essential to determine preliminary “value for money” of the P3 delivery approach, as well as life cycle cost factors and project attributes most promising for attracting private investment and/or risk sharing, as well as to recommend potential procurement strategies.

As of this date, the Strategic Assessment for each of the selected projects, and Business Plans for all three of the transit projects have been completed, with the exception of additional required analysis of project financing structure assumptions and cash flow of sources and uses of funds, which is needed to understand Metro’s net funding requirements for the transit and highway projects. The Business Plans for the three highway projects are nearing completion and should be available later this summer.

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Included for reference as Attachments B through F are the following documents:

- Attachment B - Public-Private Partnership Delivery Options: Initial Six Measure R Projects
- Attachment C - Recommendations for Business Case Development
- Attachment D - Crenshaw/LAX Light Rail Project Business Plan
- Attachment E - Regional Connector Business Plan
- Attachment F - Westside Subway Extension Business Plan

Although the final Business Plans for the highway projects are in preparation, interim recommendations for proceeding with PPP approaches for the High Desert Corridor, SR 710 North Gap, and I-710 South Freight Corridor projects are contained in Attachment C, pages 45, 52, and 58, respectively.

Completion of the Business Plans correlates to the environmental clearance process for each of the six projects. That is the primary reason that the transit

projects were completed first, while the highway project business plans are still in final development. Metro's environmental clearance work for the highway projects is about two years behind the environmental work for the transit projects. The Draft EIR/S for the I-710 South and Early Action Projects is due to be completed in early summer 2012, but the environmental work for the High Desert Corridor and the SR-710 North Gap projects has only gotten underway in the last 6-8 months.

BUSINESS PLAN RECOMMENDATIONS

Transit Projects

The results of our analysis indicate that the recommendation for all three transit projects should be for partial or full design/build project delivery rather than a full PPP structure with private financial participation. While certain risks related to design and construction completion should be allocated to design/build contractors, it is unlikely that the project delivery structure would benefit from significant financial participation or transference of long-term operations and maintenance obligations. The primary reason for this is the fact that all three projects interconnect with existing service, making it difficult to establish responsibility for appropriate operations and maintenance practices, which is essential in order to establish clear and unambiguous accountability.

There are several discrete capital components of all the projects which could be designed, built and maintained by the private contractor, such as elevator, escalator and other station facilities. Additionally, there is also the opportunity to consider bridge financing by contractors to better leverage Measure R funds availability and capture the opportunity to have contractors' "skin in the game".

The recommendations are more fully detailed in the attached Business Plans.

Highway Projects

The evaluation of the highway projects indicated that all have significant potential to be delivered using one of two basic approaches to public-private partnerships, namely the *availability payment model* and the *revenue risk concession model*.

The availability payment model can be applied to all projects, regardless of the magnitude of a toll revenue stream, while the revenue risk model is generally used most effectively for a project with a robust toll revenue stream that can cover all or a significant portion of the project's capital and operating costs.

An availability payment model is generally used for those projects that either do not have a user-based revenue stream (i.e., tolls), or those that do have a user-fee or tolling program, but generate insufficient revenue from such fees or tolls to

fully cover the project's capital construction costs and/or operations and maintenance costs. A combination of public subsidy and user fee revenue is often used to create a financial resource pool to cover the concessionaire's availability payments, to the extent the facility is fully "available" for use over the concession period. The payments are to be sufficient to permit a reasonable return on investment and repayment of debt services on borrowed funds. This model, of course, is also the one which applies when a project is not tolled, and a combination of public funding sources are sufficient to cover the concessionaire's availability payment series.

The revenue risk concession model can be utilized for those projects in which revenue from tolls and other user-based fees is projected to be sufficient to allow a concessionaire to undertake a full design-build-finance-operate-maintain (DBFOM) PPP without a public subsidy. In such cases, the concessionaire or the project sponsor accepts the actual toll revenue stream as sufficient to cover repayment of a private equity investment with a suitable risk-based return, and to service outstanding debt. Often, this model is applied to a toll highway project that either has a proven toll revenue history and is in need of capacity enhancements, or a "greenfield" project that is likely to produce a robust revenue stream from opening day onward.

The highway project Business Plans reflect these two approaches. All three initial projects – the High Desert Corridor, the I-710 South Freight Corridor, and the SR-710 Gap – are recommended for public-private partnership project development and delivery using either the availability payment model or the toll revenue concession model. The Business Plans, currently nearing completion, reflect the following respective directions:

The High Desert Corridor (HDC) should be developed using an availability payment approach. The HDC is a "greenfield" project for which forecasting models indicate that toll revenues generated will be insufficient to cover the full capital costs of construction, presenting a significant funding gap. This public funding gap could be closed by potential federal investment in "*freight and travel corridors of significant national interest*". Also being explored are opportunities for the development of a "*renewable energy corridor*" strategy in the HDC and a potential initiative involving extension of a proposed privately-financed high speed train between Las Vegas NV and Victorville CA, from Victorville westward to Palmdale along HDC. The long-range vision is to have a multimodal corridor interconnecting the DesertXpress in Victorville with California's High Speed Rail Project.

The I-710 Freight Corridor is also recommended to be undertaken as an availability-payment based public-private partnership. The PPP project is defined as a separate truck-only facility, largely on an elevated structure, paralleling the existing I-710 Long Beach Freeway from the Ports of Los Angeles and Long Beach northward. To create economic viability and to serve the primary purpose

of reducing congestion and improving safety, tolls would need to be charged to all trucks using the I-710 corridor. The current operating scheme, yet to be fully endorsed by all stakeholders, envisions that tolls would be dynamic (i.e., varied by time of day and day of week, as a function of congestion), and significantly greater for trucks opting to use the I-710 general purpose lanes rather than the truck-only facility. In addition, to meet the objective of improving air quality in the region, there is discussion about lowering or eliminating tolls for trucks utilizing low-emission or zero-emission technology. Similar to the HDC, a significant funding gap exists between available funding sources and the costs necessary to construct and operate this facility.

The SR-710 North Gap Project will be a connection between the I-10 and the I-210 Freeway. While the environmental and engineering studies currently underway by Metro will result in a final ROD and preferred alternative for the project, a nominal tunnel project has been modeled for undertaking the PPP business planning process. As a PPP, this project would be recommended to be undertaken as a toll concession, with the concessionaire taking toll revenue risk, owing to the projected financial strength of the toll revenue stream. As a “gap closure” rather than a “greenfield” project, traffic volumes – and hence toll revenue – are projected to be extremely high from opening day forward. The Business Plan concludes that there is a strong likelihood the SR-710 North Gap Project will be successful in attracting a DBFOM consortium to implement and operate the project at a cost to Metro less than that allocated in the Measure R Program.

Additional Projects

In addition to the projects discussed above, we have applied the PPP model and analysis to several other potential highway and multimodal projects. The Sepulveda Pass Transportation Corridor was conceived by the consulting team as an opportunity for a full revenue-risk concession (DBFOM) providing both transit and highway/toll road alternatives to the I-405 through the Sepulveda Pass between the north San Fernando Valley and the Westside/LAX. An initial feasibility study and evaluation of alternatives is currently underway by Metro’s Planning Department, and if the Board determines to pursue a PPP alternative, it is anticipated the project could be greatly accelerated as it is likely to attract significant private risk investment that could provide all the current funding “gap” in Measure R funds allocated to the project.

The PPP consultant team and internal PPP staff have also been working with Metro’s highway staff to assemble a package of several discrete highway and goods movement projects that are nearly fully funded and environmentally cleared. The concept is to bundle five or more projects that could be offered as a Highway/Goods Movement Package to a PPP contractor, accelerating project delivery and likely assuring a reduction in construction costs.

NEXT STEPS

The schedules for advancing procurement of any of these potential PPP projects is tied to completion of the Draft Environmental Impact Reports/Statements (EIS/R) for these projects. Requests for Information (“RFI”) and/or industry outreach can be conducted while the environmental work is ongoing. Requests for Qualifications (“RFQ”) can be developed and distributed to interested investors, contractors and operators shortly thereafter. Requests for Proposals (“RFP”) would be prepared during the Final EIS/R preparation period, and can be released as the date on which federal Record of Decision (“ROD”) and state Notice of Determination (“NOD”) approaches. This will allow contractor selection to be completed and construction to commence immediately upon ROD/NOD.

The strategic analysis and business plan development of the Highway/Goods Movement Package is nearly completed, and we anticipate issuing an RFI and/or inviting formal industry input within the next several months. Later this year we expect to issue an RFI for the I-710 Freight Corridor project and possibly the SR-710 North Gap project as well.

Supplemental Tasks 3A-1 and 3A-5 has been issued to InfraConsult LLC for the additional required analysis of project financing structure assumptions and cash flow of sources and uses of funds.

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Delivery of the Business Plans completes the current contract activity of the consultant team. We anticipate returning to the Board this summer with specific recommendations and will request authorization to proceed with the procurement phase of the consultant’s contract for the Highway Goods Movement Package.

ATTACHMENTS

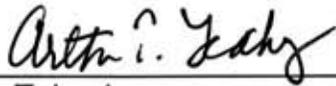
- A. Summary of Progress and Accomplishments, March 15, 2012
- B. Public-Private Partnership Delivery Options: Initial Six Measure R Projects, July 2010
- C. Recommendations for Business Case Development, February 2011
- D. Crenshaw/LAX Light Rail Project Business Plan, January 2012
- E. Regional Connector Business Plan, January 2012
- F. Westside Subway Extension Business Plan, January 2012

(Attachments are also available at www.metro.net/ppp)

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*Public-Private
Partnership Program*

Program Status and Analysis



June 20, 2012



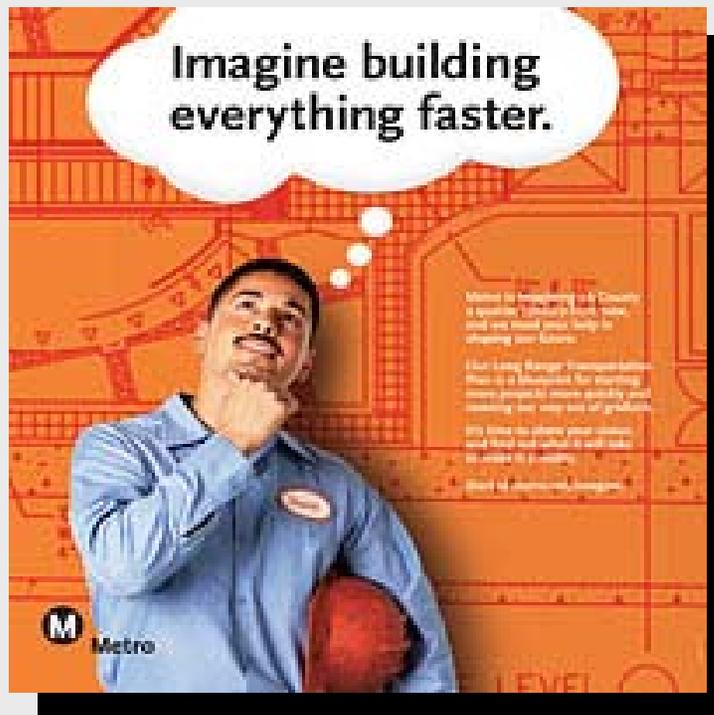
Public-Private Partnership Program

- Accelerated Delivery System for
 - Rail and highway projects
 - Greenfield and brownfield projects
 - Passenger and freight projects
- Leverage Measure “R” and other funds
- Attract Private and New Revenue



Public-Private Partnerships...

- How can private capital be utilized to build, operate and maintain regional transportation projects in an optimal manner?
- How can public funds be leveraged in creative ways to make best use of private capital?



METRO P3 PROGRAM OBJECTIVES

- Accelerating project delivery to improve service to Measure R taxpayers
- Reducing capital costs through contracting and construction efficiencies
- Reducing lifecycle/O&M costs through productivity improvements
- Leveraging tax proceeds, grant funding and other revenues through integrated financial engineering
- Allocating risk in design, construction and operation in most efficient manner

PROGRAM DEVELOPMENT

- Board adopted PPP Framework and Work plan
- Set the stage for identifying PPP candidates in 2009 LRTP and Measure R program
 - Authorized procurement of PPP consultant team, InfraConsult, LLC with subs:
 - KPMG, LLP, Nossaman LLP, HDR Inc., and Sharon Greene + Associates

PPP PROGRAM

- PPP Consultant Scope of Work step by step process. Move on to next step if current effort shows positive results:
 - Initial project screening
 - Strategic assessments
 - Business plan development
 - PPP procurement processes
 - Optional PPP project delivery and project management

FOCUS ON PROJECT LIFE-CYCLE

- Achieve accelerated project delivery
 - Project activities in “parallel”
- Insure 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
- Compliment 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)

PPP WORKPLAN

- Initial screening identified 14 transit and highway projects as most promising candidates for private sector participation
- Six projects recommended for further screening, with others to follow:
 - I-710 South including Early Action Projects
 - SR-710 North Gap
 - High Desert Corridor
 - Crenshaw/LAX Transit Corridor
 - Regional Connector
 - Westside Subway Extension

PROJECT ANALYSES

- Strategic Analyses
 - Completed; all six projects carried forward to Business Plan development
- Business Plans
 - Completed for all three transit projects
 - Additional analysis required of financing structure assumptions cash flow of sources and uses of funds
 - Highway project business plans nearing completion
 - Completion correlates to environmental clearance process; transit projects two years ahead in that timeline

BASIC PPP PAYMENT APPROACHES

Availability Payment Model

- May be used for all projects, including those with insufficient user-based revenue (i.e. tolls) to cover capital and O&M costs, but have sufficient public funding sources to cover project funding gaps
- Allows long-term leveraging of public funds and user-based revenues to accelerate delivery
- Consolidates benefits of integrated project design, construction, operation and maintenance, realizing life-cycle cost savings

BASIC PPP PAYMENT APPROACHES

Revenue Risk Concession Model

- Used when revenue (tolls or other user-based fees) are projected to be sufficient to cover most or all project costs
- No public subsidy needed
- Concessionaire accepts actual toll revenue stream (risk) as sufficient to:
 - Build, operate and maintain the project
 - Provide reasonable return on investment for equity investors
 - Provide repayment of debt services on borrowed funds

BUSINESS PLAN RECOMMENDATIONS

Transit Projects

- Westside Subway Extension
- Regional Connector
- Crenshaw/LAX Transit Corridor
- All three prospective projects are extensions of existing and currently operating rail lines; potential benefits of maintenance/operation difficult to achieve
- The rail projects have significant Measure R funding and two of the three have federal “New Starts” grant support. The third has a \$540m TIFIA award.

BUSINESS PLAN RECOMMENDATIONS

Transit Projects (con't)

- Recommend design-build for all or parts of the respective capital construction programs; O&M continue to be Metro's responsibility
- Certain station facilities (elevator/escalator) suitable for P3 treatment
- New transit lines with "independent utility" will likely be considered for DBFM or DBFOM delivery

BUSINESS PLAN RECOMMENDATIONS

Highway Projects

- High Desert Corridor
 - DBFOM Central Segment (31 miles)
 - DB East and West Segments
 - Optional Apple Valley Segment
 - Availability payment approach
 - Exploring possible development of:
 - Renewable energy corridor
 - Extension of privately-operated High Speed Train from Victorville to Palmdale within corridor

BUSINESS PLAN RECOMMENDATIONS

Highway Projects (con't)

- SR-710 North Gap
 - DBFOM for full project if preferred alternative selected is a tolled tunnel
 - Toll risk concession approach
 - Tolling revenues projected to be extremely high
 - Gap closure rather than greenfield project, so traffic volumes easier to predict
 - Potential to cost less than funds allocated in Measure R plan

BUSINESS PLAN RECOMMENDATIONS

Highway Projects (con't)

- I-710 South Freight Corridor
 - DBFOM Freight Corridor
 - Early Action interchange projects completed as public works
 - Freeway widening to be constructed as funds become available
 - Availability payment approach
 - Dynamic tolling of all trucks on freight corridor and general purpose lanes
 - Create economic viability
 - Reduce congestion
 - Improve safety
 - Tolling revenues insufficient; significant funding gap

ADDITIONAL PROJECTS

Sepulveda Pass Transportation Corridor

- Initial feasibility study/alternatives analysis underway, including PPP
- Through Sepulveda Pass between north San Fernando Valley and Westside/LAX
- If PPP selected, would consider DBFOM transit and highway/toll project
- Revenue risk concession approach
- Potential to attract private investment covering full funding gap

ADDITIONAL PROJECTS

Highway Goods Movement Package

- Package of several discrete highway and goods movement projects
- Environmental clearance complete or nearly so
- All nearly fully funded in later years
- PPP package could accelerate project delivery
- Completing strategic analysis and business plan development
- Industry outreach meeting scheduled for July 9

Metro P3 Program: Next Steps

- Requests for Information (RFI) and industry outreach:
 - Can be conducted while environmental work is ongoing.
- Requests for Qualification (RFQ)
 - Can be distributed shortly thereafter
- Requests for Proposal (RFP)
 - Can be prepared during Final EIS/R period, and can be released near Record of Decision (ROD) and Notice of Determination (NOD) dates.
- Contractor selection
 - Only after receipt of ROD/NOD

September 2011

Metro P3 Program: Next Steps

- RFIs for I-710 Freight Corridor, SR-710 Gap and Highway/Goods Movement Package could be issued later this year
- Start RFI document work soon, anticipating positive Board direction to proceed
- Conduct industry outreach and one-on-one meetings for near-term projects
- Prepare for initial procurement(s)