

ATTACHMENT E

Attachment E - Development of the West Santa Ana Branch Light Rail Transit (WSAB) Public Private Partnership (P3) Business Case

The process for the development of the WSAB P3 Business Case and thus the identification of the optimal procurement option for the WSAB Project is outlined below:

1. Shortlist the Procurement Options for the WSAB Project
2. WSAB P3 Procurement Strategy
3. Define the WSAB Project Scope and Prepare Cost Estimate
4. WSAB Value for Money (VfM) / Quantitative Analysis
5. Completed WSAB P3 Business Case

1 - Shortlist the Procurement Options for the WSAB Project

Deliverable - Market Sounding Report (Estimated Completion: June 2018)

The purpose of the Marketing Sounding is to ascertain the market's interest in different P3 delivery models and to qualitatively determine the extent to which specific delivery models will attract competition and gather information about the interest, opportunities and challenges associated with the Project. Conducting a Market Sounding provides an understanding of the WSAB's marketability; solicits feedback from the market on the Project's potential scope, contract structure, market constraints and possible financing options. The Market Sounding process validates financial and contract structure assumptions (e.g. term length, equity return rates, etc.) and prepares the market for the WSAB procurement. Metro can use bidder feedback from market soundings to inform and create the most marketable transaction possible.

Deliverable – Qualitative Analysis (Estimated Completion: June 2018)

The purpose of the qualitative analysis is to examine the benefits and risks of the WSAB Project that are not directly quantifiable. This section is important to Metro as it will account for the non-quantifiable benefits and risks (e.g., Timeliness/Project acceleration, Operational, Interfaces, Local participation, Labor considerations, etc.) of the various delivery approaches under consideration and takes into account how these procurement options align with the overall objectives of the WSAB Project. It is an important step for Metro to complete because it recommends the P3 models that respond the Project's qualitative requirements.

2 – WSAB Procurement Strategy

Deliverable (1) - Procurement Strategy (Estimated Completion: October 2018)

Procurement Strategy articulates Metro’s policy and process framework for establishing an accessible, fair and competitive environment to secure a Private Partner for the WSAB Project. Human and financial resources are identified along with a framework to oversee the procurement. Procurement strategy also defines roles and responsibilities of individual members of the Metro WSAB Project team and outlines the rationale for their inclusion and provides clarity on the project’s future direction and anticipated key milestones.

Deliverable (2) Implementation Plan (Estimated Completion: October 2018)

The Implementation Plan demonstrates the degree to which the WSAB project is “market ready” relative to Metro’s resourcing strategy. This step ascertains the status of relevant, environmental assessments, property conveyance, utilities, site approvals, design development and other non-procurement related processes. The Implementation Plan presents an integrated WSAB project schedule (e.g., GANTT chart) that outlines the critical path for successfully executing the WSAB Project. Approvals received to date are identified and a timeline to be followed to achieve any outstanding approvals. In addition, the Implementation plan addresses engagement of stakeholders throughout project execution and develops a transition plan for Metro through the post-transaction / contract administration period.

3 – WSAB Value for Money (VfM) / Quantitative Analysis

Deliverable (1) – Quantitative Analysis (Estimated Completion: Preliminary VfM - December 2018; Final VfM – February 2020)

Quantitative Analysis considers quantifiable factors pertaining to each shortlisted procurement option (i.e., Design-Build-Finance, Design-Build-Finance-Maintain, Design-Build-Finance-Operate-Maintain, etc.) and evaluates the total Net Present Value (NPV) of proposed procurement options. On the basis of reliable project cost information (e.g., 30% design completion, and a +/- 15% level of cost precision.) quantitative analysis compares respective costs and determines which procurement option provides the most Value for Money (VfM) for the WSAB Project. Metro staff and its External Advisors will be responsible for the following interim activities and deliverables including: Project Costing, Risk Analysis and Quantification, Project Financing Assumptions and Preliminary VfM analysis. The quantitative analysis including the VfM will be continually refreshed as we receive more precise costing data. These refreshes will occur up until the completion of the Final P3 Business Case in February 2020.

Important items to consider as part of the Quantitative Analysis:

- Base project costs for all procurement options on a life-of-project basis, i.e. hard and soft construction costs, facilities management costs, operations, maintenance and lifecycle costs
- Clear description of the risk allocation model and the quantitative benefits brought to Metro from the risk allocation model
- Understanding of project risks and thorough consideration of the risk transfer benefits and financial impacts
- Level and timing of Metro's capital injections during the construction (milestone payments) and at substantial completion
- Assumed financing plan under the P3 model, including the types, amounts and timing of different debt and equity instruments, along with associated fees
- Identify the procurement option that provides the greatest VfM in quantitative terms over the design, construction and operation/maintenance phases of the project

Deliverable (2) – Integrated Recommendation for the WSAB Project (Estimated Completion: January 2019)

Integrated Recommendation (IR) formulates a recommendation concerning the optimal procurement option for the WSAB Project. This step defines the optimal procurement option and includes a comprehensive discussion of the Quantitative and Qualitative Analyses with particular emphasis on factors that most influenced the procurement option decision.

Deliverable (3) – WSAB Project Funding and Affordability (Estimated Completion: February 2020)

The purpose of the WSAB Project Funding and Affordability analyses is to demonstrate the Metro's financial preparedness to undertake the WSAB Project. In this process, Metro will disclose all the sources of the funds for the WSAB Project and all the manners in which the WSAB Project funds will be used. This step is important for Metro because it will show Metro's financial capability of undertaking the long-term commitments associated with the WSAB P3 contract; the timeline for how funds will be utilized by the WSAB Project, including construction and operations and/or maintenance (O&M) over the concession period and lifecycle costs; and, where a funding gap is not fully eliminated through Measure M investment and the measures being put into place to address the funding gap.

4 - Define the WSAB Project and Prepare Cost Estimate:

Deliverable - Project Definition and Schematic Design Cost Estimate (Estimated Completion: October 2019 and February 2020)

The purpose of the Project Definition and Cost Estimate is to outline and justify the WSAB Project and validate its costs. Project definition identifies the scope of the proposed investment; outlines the rationale for the pursuit of the Project (i.e. needs assessment and investment objectives); demonstrates Metro's preparedness, knowledge and understanding of the Project; frames WSAB's suitability for a P3 procurement approach; and allows Metro to complete the credible and justifiable quantitative analysis for the WSAB Project (i.e., Milestone #3). The WSAB will be defined when the Board selects a Locally Preferred Alternative (October 2019). Metro's External Advisors will complete a Schematic Design Cost Estimate (30% design completion and a +/- 15% level of cost precision) for the Project. This estimate will validate the WSAB Project Costs and our quantitative analysis.

5 – Completed WSAB P3 Business Case

Deliverable – P3 WSAB Business Case (Estimated Completion: Preliminary Business Case - March 2019; Final Business Case - February 2020)

The culmination of all of the above deliverables will form the Final WSAB P3 Business Case. The purpose of the P3 Business Case is to identify and assess viable procurement options in order to recommend the option that best achieves the WSAB project objectives and outcomes and Value for Money (VfM). The P3 Business Case proposes a credible implementation plan for the WSAB Project.