



Board Report

File #: 2020-0008, **File Type:** Contract

Agenda Number: 41.

**EXECUTIVE MANAGEMENT COMMITTEE
JANUARY 16, 2020**

SUBJECT: WEST SANTA ANA BRANCH P3 BUSINESS CASE FINANCIAL ADVISORY SERVICES

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

AUTHORIZE the Chief Executive Officer (CEO) to:

- A. EXECUTE Modification No. 3 to Task Order No. PS 50315-3049000 with Sperry Capital Inc. in the amount of \$1,258,650 to continue to support P3 Business Case Development for the West Santa Ana Branch LRT, increasing the not-to-exceed Task Order value from \$2,077,010 to \$3,335,660;
- B. INCREASE Contract Modification Authority (CMA) by \$267,605 from \$100,000 to \$367,605 in support of any unforeseen required additional level of effort

ISSUE

Task Order No. PS50315-3049000 currently provides for P3 Financial Advisory Services to support development of a P3 Business Case for the West Santa Ana Branch Light Rail Transit Project (“WSAB” or “the Project”).

Staff is requesting a modification in the amount of \$1,258,650 for Task Order No. PS50315-3049000 to support pre-procurement activities for the Project, including finalization of a P3 Business Case, and development and structuring of procurement and commercial documents. Staff is requesting an increase in CMA by \$267,605 to account for any additional unforeseen expenses or required level of effort, to be utilized with appropriate justification.

BACKGROUND

The P3 Business Case is a comprehensive approach, utilized as a best practice worldwide by public agencies for major capital investments to identify, assess and make a recommendation on the appropriate procurement option for a project that is likely to best achieve the project objectives and maximize value for money. A P3 business case will identify and assess a range of alternative procurement models (i.e., models that are different than the traditional design-bid-build or design-build approaches) and make a recommendation on an optimal procurement model to be pursued along with a credible plan for implementation.

Key tasks in support of a P3 Business Case include:

1. Review and analyze existing project information
2. Shortlist procurement options for assessment
3. Qualitative assessment of procurement options
4. Market soundings and industry engagement
5. Project cost identification and financial modelling
6. Risk assessment and quantification
7. Quantitative Value for Money Assessment
8. Funding and affordability analysis

DISCUSSION

Metro awarded Task Order No. PS50315-3049000 to support development of a Business Case Report for WSAB in February 2018. At that time, Metro was considering a defined range of alternatives for the project, and had established a well-developed schedule for further project definition and development through the conceptual engineering and environmental clearance process. Since then, the project has been rescoped due to community feedback regarding the alignment and configuration and additional project information has been developed, adding to the complexity of the effort, and resulting in a prior contract modification.

A full value-for-money analysis for the WSAB project alignment from Artesia to Downtown remains underway. Project team analysis has also identified that overall costs for an accelerated project were greater than anticipated in the Measure M Expenditure Plan, resulting in a funding gap. This information has been previously presented to the Board in quarterly staff updates on the "Pillar Projects."

Based in part on findings from high-level risk and financial assessments on various project alternatives authorized by the previous Task Order modification, taking into account the funding gap, Metro has identified a defined scope (alignment, configuration, and termini) for the West Santa Ana Branch that is likely the most feasible option for early delivery of the project.

This project option, which was not developed at the time the Task Order, or prior Task Order modification was issued, must now be incorporated into the draft Business Case. As a result, OEI and its P3 Financial Advisory Consultant must reorient financial analysis supporting a final P3 Business Case to incorporate this newly defined scope option. This contract modification will allow Metro to ensure the Business Case analysis fully considered the defined interim operating segment (IOS) alternatives, in addition to the ongoing analysis on the full Downtown-Artesia alignment.

This will support Metro staff's efforts to confirm P3 value for money and support structuring of the P3 solicitation and contract documents, activities which will occur in parallel. This effort will support a P3 commercial structure and procurement that can optimize project value. It will also support efforts to identify and obtain federal financial support.

This modification will have no impact on the ongoing environmental process, which will evaluate the entire proposed WSAB alignment, from Downtown to Artesia, including the two Interim Operating Segments. After the release of the draft environmental document, the Board will select the Locally Preferred Alternative to be carried forward into the final environmental document.

Based on the expected schedule for project development, staff anticipates additional tasks and deliverables will be required to support a robust Business Case Report. These have been outlined in a supplemental statement of work.

DETERMINATION OF SAFETY IMPACT

This action will have no impact on safety for Metro.

FINANCIAL IMPACT

This Task Order is allocated to Cost Center 2031 - Public Private Partnerships, account 50316. Funding of \$5,558,000 was budgeted for P3 Professional Advisory Services under this account in FY 2020. To date in FY 2020, \$4,069,196 has been encumbered and \$1,457,806.63 has been expended, with \$4,100,193.37 remaining in the budget. Since sufficient value remains on the underlying contract and in the fiscal year budget, the cost center manager and Chief Innovation Officer will be accountable for budgeting the cost.

IMPACT TO BUDGET

The current year funding for this action will come from General Fund revenues. These funds are eligible for Bus and Rail Operating projects. No other funds were considered for this project. Since this is a multi-year project, it will be the responsibility of the department to budget for these funds in future years.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The Metro Vision 2028 Strategic Plan identifies five goals to guide Metro's work and initiatives. This modification supports the following goals.

- ***Goal 1: Provide high-quality mobility options that enable people to spend less time traveling.***
Allowing Metro's P3 Financial Consultants to support further P3 Business Case Development for the expanded scope of the WSAB project definition will allow Metro to seek ways to deliver this project faster, to identify potential project savings, and to ensure project performance throughout its lifecycle.
- ***Goal 2: Deliver outstanding trip experiences for all users of the transportation system.***

A key benefit of P3 delivery is higher guaranteed project performance (reliability, safety, cleanliness, etc.).

- **Goal 5. Provide responsive, accountable, and trustworthy governance within the Metro organization.**

P3s have been shown to achieve higher levels of schedule and funding certainty, supporting Goal 5.2 to exercise good public policy judgment and sound fiscal stewardship

ALTERNATIVES CONSIDERED

Staff considered limiting analysis to the existing level of reliability. However, this would not have supported a Business Case Report offering identification of key value drivers or reliability for commercial structuring and procurement.

Staff also considered moving forward without a full Business Case, but has noted that to execute a high-quality P3 transaction requires the due diligence presented in a robust Business Case. Moving forward with incomplete information would likely undermine the success of a P3 transaction.

Staff's assessment indicated that none of these options were a cost-effective or financially sound option for Metro.

NEXT STEPS

Upon Board approval, staff will execute Modification No. 3 to Task Order No. PS 50315-3049000 with Sperry Capital Inc. to finalize the Business Case for the West Santa Ana Branch LRT project on the identified project scope.

ATTACHMENTS

Attachment A - Procurement Summary

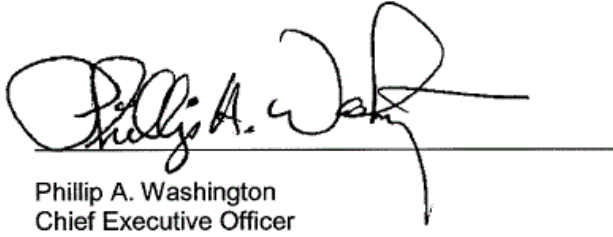
Attachment B - Task Order Modification/Change Order Log

Attachment C - DEOD Summary

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