



## Board Report

File #: 2019-0176, File Type: Contract

Agenda Number: 37.

### EXECUTIVE MANAGEMENT COMMITTEE APRIL 18, 2019

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

**ACTION: APPROVE RECOMMENDATION**

#### **RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to execute Modification No. 2 to Task Order No. PS50315-3049000 with Sperry Capital Inc. to finalize the Business Case for West Santa Ana Branch Light Rail Transit Project (“WSAB” or “the Project”) in the amount of \$977,040 increasing the not-to-exceed task order value from \$1,099,970 to \$2,077,010.

#### **ISSUE**

Task Order No. PS 50315-3049000 currently provides for P3 Financial Advisory Services to support development of a P3 Business Case for the WSAB. Staff is requesting a modification in the amount of \$977,040 for Task Order No. PS50315-3049000 to finalize the Business Case for WSAB.

#### **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

Key deliverables include:

1. Qualitative Assessment Report
2. Market Sounding Report(s)
3. Project Financial Model
4. Risk Assessment Matrix and Report
5. Value for Money Report
6. Funding and Affordability Report
7. Integrated Procurement Recommendation
8. Preliminary and Final Business Case Report

Based on the review of several Unsolicited Proposals, Metro determined that there was likely value to delivering WSAB through a P3. Metro has undertaken a development of a P3 Business Case to better understand and confirm this expected value.

### **DISCUSSION**

Metro awarded the Task Order to support development of a Business Case Report for WSAB in January 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. Additionally, a significant amount of additional project information has been developed that has made the project's overall engineering and design process more complicated. As the project has changed and evolved, so has the scope of activities required to support a robust P3 Business Case. Additional market soundings have been conducted to receive industry feedback on a range of key issues. Additional data has been required to examine various alignments and configurations not originally contemplated. Significant additional financial modeling has been undertaken to ensure appropriate examination of all project options and potential risks. Risk assessment experts on the consultant team have been engaged to ensure comprehensive and accurate risk assessment.

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 is a contractual action that effects financial analysis for the planning of a capital project, meaning that it has little to no safety impact.

### **FINANCIAL IMPACT**

This Task Order is allocated to Cost Center 2031 - Public Private Partnerships, account 50316.

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Funding of \$14,490,000 was budgeted for P3 Professional Advisory Services under this account in FY 2019. To date in FY 2019, \$5,429,720.00 has been encumbered and \$2,746,632.53 has been expended, with \$9,061,204.00 remaining in the budget.

#### Impact to Budget

The funding for this is included in the FY19 Budget, in Cost Center 2031, Project 405701. The cost center manager and Deputy Executive Officer, Innovation, will be accountable for budgeting the cost 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 Consultant 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 project scope. However, this would have supported a Business Case Report based on spurious project costs, risks, scope, and schedule, and not produced any useful analysis.

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. 2 to Task Order No. PS 5890400-3049 with Sperry Capital Inc. to finalize the Business Case for the WSAB LRT project.

### **ATTACHMENTS**

Attachment A - Procurement Summary

Attachment B - Task Order Modification/Change Order Log

Attachment C - DEOD Summary

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