State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

M e m o r a n d u m

To: CHAIR AND COMMISSIONERS

CTC Meeting: February 24-25, 2010

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Information Item

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Subject: **UPDATE ON PUBLIC PRIVATE PARTNERSHIP PROGRAM**

SUMMARY:

On February 11, 2010, the California Department of Transportation (Department) submitted a Project Proposal Report (PPR) and Request for Consideration of Public Private Partnership Procurement for the US 101 Presidio Parkway Project (Doyle Drive Replacement Project) to the Executive Director of the California Transportation Commission (Commission).

The Project Proposal Report (PPR) was submitted pursuant to the Commission's Policy Guidance (Resolution G-09-13) on Public Private Partnerships (P3) and in accordance with Streets and Highways Code section 143. The PPR, which constitutes the Department's request for the Commission action on the proposed P3 procurement for the Presidio Parkway Project (US 101 Doyle Drive Replacement Project), was submitted for Commission consideration and approval of the project for P3 delivery, certification of the Department's determination of useful life of the project, and adoption of the proposed evaluation criteria.

At the February 2010 Commission meeting, the Project Sponsors will brief the Commission on the PPR, including the recently completed "Analysis of Delivery Options for the Presidio Parkway Project" (the Analysis), which includes quantitative and qualitative analyses of the full life cycle costs of delivering the Project using a traditional "design-bid-build" (DBB) method as compared to "design-build-finance" (DBF) and "design-build-finance-operate-maintain" (DBFOM) methods. The methodology described in the Analysis is consistent with public sector best practices observed in other U.S. and international jurisdictions, and the findings are based on reasonable assumptions that demonstrate value for money sufficient to warrant nomination to the Commission for its selection of the Project for P3 delivery in accordance with the process set forth in Streets & Highways Code section 143. A final copy of the Analysis was included in the formal submittal of the PPR.

This item provides introductory information about the submittal (including anticipated timeline), background information regarding the project, and summary information regarding the rationale for the proposed P3 procurement, as well as its anticipated structure and process.

The Department requests that the Commission hold a public hearing and subsequently approve the project for P3 procurement at its April 7-8, 2010 meeting, or earlier.

BACKGROUND:

The Doyle Drive Replacement Project (Project) is a joint effort involving both the Department and several local and regional agencies that are funding partners. However, the Department and the San Francisco County Transportation Authority (Authority) are the requesting parties and "Project Sponsors" for the upcoming request for approval by the Commission.

Description and Phasing. The entire Project, which consists of eight contracts, will reconstruct 1.6 miles of existing Route 101 with a new six-lane facility south of the Golden Gate Bridge in San Francisco. The Project was split into two major construction phases.

- **Phase I,** which consists of contracts 1 through 4, will ensure that seismic safety is achieved as soon as possible. At the completion of Phase I all traffic will be on either new structures or detour roads that meet seismic standards. Phase I started construction in November 2009 and is estimated to cost approximately $450 million.

- **Phase II** consists of contracts 5 through 8, with an estimated cost of approximately $473 million. As planned, Phase II would start in late-2011 and be completed by 2013 as part of a P3 procurement.

The P3 Procurement of the Project, which is further detailed in the PPR and accompanying documentation, includes the completion of design and construction of Phase II and a 30-year concession that includes the maintenance and operation of the entire reconstructed Presidio Parkway. As planned, the Project poses very significant challenges and risks to the timeline and budget. For example, in addition to Phase II funding risks with the anticipated funds, Doyle Drive must remain open throughout the construction phase; four different federal agencies either have jurisdiction over portions of the right-of-way or must be consulted for other reasons; and a number of different contractors will depend on the timeliness of implementation of separate construction contracts in order to be able to access the site and deliver their portion of the project on time and on budget.

Therefore, the Department and the Authority (Project Sponsors) have been exploring P3 delivery options for Phase II of the Project in order to achieve key project objectives as follows:
(i) best value for money over the life of the project,
(ii) greatest cost and schedule certainty,
(iii) optimal risk transfer,
(iv) optimal level of operations and maintenance service, and
(v) best use of public funds.

Analysis of Delivery Options. Standard P3 analyses are based on the "net present value" (NPV) of the total costs of a facility over a specified period stated in today's dollars. In this case, the period is 33 years (3 years of construction and 30 years operations and maintenance). The NPV is estimated by comparing the total project costs expressed in dollars measured over the same period of time. The total estimated cost of traditional DBB is the base case (also referred to as the "public sector comparator"). To achieve "competitive neutrality" among delivery methods, the Analysis makes certain cost adjustments to account for differences between project delivery alternatives. Value for money (VfM) is the difference between the base case and the total estimated cost of P3 delivery. The Analysis applies methods consistent with successful international and US P3 procurements and finds that the DBFOM method yields VfM of approximately $147 million (or 23 percent) in NPV and most effectively meets the Project Sponsors' objectives stated earlier. Therefore, the DBFOM is

deemed the preferred delivery method, and the Department's presentation will focus on the comparative analysis that led to this conclusion.

With Commission's project selection, project sponsors would update the analysis to compare the actual DBFOM bids with the DBB base case, which would be updated to reflect then-current schedules and market conditions. If the final analysis does not favor DBFOM delivery, the Department could decide not to award a DBFOM contract and instead re-start DBB procurement without material delays to final completion of the Project.

Key Benefits of Proposed P3 Procurement. In general, the Analysis shows that there is a reduction in lifecycle costs in addition to a largely reduced risk of cost overrun and construction delays. An element of assuming schedule certainty is the minimization of the potential interface risks associated with the various contracts.

As currently programmed, the project includes various funding sources that add up to about $473 million, which includes approximately $174 million in State Highway Operation and Protection Program (SHOPP) funds. These SHOPP funds are the remaining balance available to the Phase II construction of the $405 million total for the projects. P3 procurement would allow these SHOPP expenditures to be delayed for several years and then only paid out in smaller installments. This would provide additional programming capacity in the State Highway Account during early years of the concession.

The Department is aware that the current global economic crisis has a profound effect on transportation finances as well. The provision of private capital for construction assures that this critically needed improvement will not be subject to stops or work suspension in the event of any public cash flow restrictions. Therefore, P3 procurement not only brings a cost effective delivery, but assures delivery of one of the state's most critical transportation facilities by date certain.

In addition, P3 procurement would better assure that necessary maintenance of this facility occurs to avoid extra cost of catch-up maintenance. Given the current bidding environment, it is expected that even more value will be gained from a P3 venture, which should maximize job creation in the very near future to contribute to economic recovery.

Presidio Parkway also presents some advantages as the first P3 project under Streets & Highway Code Section 143. At the current estimated $473 million in capital costs, the project is not too large or too small for the P3 market based on feedback from industry/market soundings that were conducted. It has environmental approval and the right-of-way is secured, therefore focusing competition on maximum financial advantage to public sector. The Project's complexity, integration risks and potential for overruns and delays also offers private sector a real opportunity to prove value and a reasonable measure of innovation. In addition, the time lag in construction phasing between Phase I and Phase II created an opportunity to insert P3 procurement into project schedule without delay. Finally, because no toll revenues are involved, this first project avoids the added complexity of estimating and transferring demand risk to the private sector.

Project Financial Plan. The Project financial plan will also be fully presented in the PPR and at the February 2010 Commission meeting, as necessary. Payments to the concessionaire may include a milestone payment at the end of construction and will include periodic availability payments to the concessionaire over the proposed 30-year concession period. As contemplated, the availability payments to the concessionaire would be paid from the State Highway Account and subject to

annual appropriation, unless funds are continuously appropriated for this and other potential P3 projects as the Department has requested in a 2010-2011 budget proposal. The milestone payment could be made either from the State Highway Account directly, or from other funds set aside for such purpose from other funds already committed to the project. In either case, these other funds offset the impact on the State Highway Account.

The availability payments shown in the Analysis are estimated at about $35 million commencing in 2013 and would increase up to an estimated $41 million in 2043. The Analysis estimated that the year of expenditure (YOE) total payments associated with the DBFOM option would amount to $1.378 billion (YOE$), including an assumed milestone payment of $150 million (YOE$) at the end of construction and availability payments over 30 years thereafter. This compares to estimated YOE expenditures totaling $974 million under the traditional DBB delivery. However, because the cash flows in these alternatives vary significantly, it necessary to have a more even comparison by expressing these costs in today's dollars or NPV. At the assumed discount rate of 8.5 percent, the Analysis results in an NPV of $488 million for the DBFOM which, as stated earlier, is estimated to be approximately 23 percent better than traditional DBB procurement. The details of the assumptions and analysis that led to this conclusion are included in the recently completed Analysis, which was included as an attachment to the PPR.

Next Steps

Request for Qualifications: The Sponsors issued a Request for Qualifications (RFQ) for the Presidio Parkway P3 Project on February 2, 2010, as a first step toward eventual P3 procurement, subject to the Commission's action. Statements of Qualifications (SOQs) are expected in response to this RFQ by March 1. If the Commission selects the project for P3 delivery, the goal, through a rigorous competitive procurement process, is to identify a short list of qualified bidders and issue the Request for Proposals (RFP) in April 2010 and select a "best value" bidder later in the year. This schedule would allow us to achieve a commercial closing in late 2010 and a financial closing by the spring of 2011. Therefore, assuring that the selected developer will be ready to begin work after Phase I construction work is completed.

Anticipated Timeline for Proposed Procurement:

January 2010	-	Presidio Parkway Analysis Completed
February 2, 2010	-	Project Sponsors Release Presidio Parkway RFQ
February 11, 2010	-	Project Sponsors submit Presidio Parkway PPR to Commission
February 24, 2010	-	Project Sponsors provide initial briefing to Commission and receives feedback
March 1, 2010	-	Statements of Qualifications due from prospective Presidio Parkway teams
March/April 2010	-	Commission hearing on Parkway Presidio Project Proposal Report
March/April 2010	-	If Commission selects P3 delivery, Project Sponsors short list proposers
May 2010	-	Project Sponsors to issue final RFP
August 2010	-	Final proposals due