



## 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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Reviewed by: Debra Avila, Chief Vendor/Contract Management Officer, (213) 418-3051  
Joshua Schank, Chief Innovation Officer, (213) 418-3345



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Phillip A. Washington  
Chief Executive Officer

## PROCUREMENT SUMMARY

Financial Advisory Services: Business Case Development and Pre-Procurement Support for the West Santa Ana Light Rail Transit Project/ PS50315-3049000

1.	<b>Contract Number:</b> PS2210-3049-G-06 (Task Order No. PS50315-3049000)		
2.	<b>Contractor:</b> Sperry Capital Inc.		
3.	<b>Mod. Work Description:</b> To finalize the Business Case for the West Santa Ana Branch Light Rail Transit Project (WSAB).		
4.	<b>Work Description:</b> Financial Advisory Services: Business Case Development and Pre-Procurement Support for the West Santa Ana Light Rail Transit Project.		
5.	<b>The following data is current as of:</b> 03/21/19		
6.	<b>Contract/TO Completion Status:</b>		<b>Financial Status:</b>
	<b>Award Date:</b>	02/23/18	<b>Awarded Task Order Amount:</b> \$1,000,000
	<b>Notice to Proceed (NTP):</b>	02/23/18	
	<b>Original Completion Date:</b>	02/28/20	<b>Value of Mods. Issued to Date (including this action):</b> \$1,077,010
	<b>Current Est. Complete Date:</b>	02/28/20	<b>Total Amount (including this action):</b> \$2,077,010
7.	<b>Contract Administrator:</b> Lily Lopez		<b>Telephone Number:</b> (213) 922-4639
8.	<b>Project Manager:</b> Colin Peppard		<b>Telephone Number:</b> (213) 418-3434

### A. Contract Action Summary

This Board Action is to approve Modification No. 2 to Task Order No. PS50315-3049000 under Contract No. PS2210-3049-G-06 to provide financial advisory services in order to prepare a P3 Business Case for the West Santa Ana Branch Light Rail Transit (WSAB LRT) Project, as well as to assist with other pre-procurement activities, including general strategic advisory on the procurement process for the project to help maximize achievement of Metro's project goals. This Modification will require the Contractor to finalize the Business Case for the West Santa Ana Branch Light Rail Transit Project (WSAB).

This Task Order Modification was processed in accordance with Metro's Acquisition Policy. The contract/task order type is firm fixed price. All other terms and conditions remain in effect.

On February 23, 2018, Task Order No. PS50315-3049000 in the firm fixed price of \$1,000,000 was issued to Sperry Capital Inc., a contractor on the Public-Private Partnership Technical Bench, Discipline 6 (Financial Analysis).

Refer to Attachment B – Task Order Modification/Change Order Log for modifications issued to date.

**B. Cost Analysis**

The recommended price has been determined to be fair and reasonable based upon an independent cost estimate (ICE), cost analysis, and technical analysis. Metro's ICE underestimated the level of effort required to conduct the value for money assessment and business case development. All labor rates remain unchanged from the original task order.

<b>Proposal Amount</b>	<b>Metro ICE</b>	<b>Negotiated Amount</b>
\$977,040	\$881,875	\$977,040

**ATTACHMENT B**

**TASK ORDER MODIFICATION/CHANGE ORDER LOG  
P3 TECHNICAL BENCH/WSAB BUSINESS CASE FINANCIAL ADVISORY SERVICES  
TASK ORDER NO. PS-50315-3049000 VALUE ISSUED TO DATE**

<b>Mod. No.</b>	<b>Description</b>	<b>Status (approved or pending)</b>	<b>Date</b>	<b>Amount</b>
1	Provided supplemental market sounding, preliminary financial analysis, project risk analysis and FTA expedited project delivery grant support.	Approved	01/22/19	\$99,970
2	To finalize the Business Case for the West Santa Ana Branch Light Rail Transit Project (WSAB).	Pending	Pending	\$977,040
	<b>Task Order Modification Total:</b>			<b>\$1,077,010</b>
	<b>Original Task Order Amount:</b>		<b>02/23/18</b>	<b>\$1,000,000</b>
	<b>Total:</b>			<b>\$2,077,010</b>

**DEOD SUMMARY**

**Financial Advisory Services: Business Case Development and Pre-Procurement Support for the West Santa Ana Light Rail Transit Project/PS2210-3049-G-06**

**A. Small Business Participation**

Sperry Capital, a Small Business Enterprise (SBE) Prime, made a 34.63% SBE commitment. The project is 90% complete and Sperry Capital's current SBE participation is 31.63%, which represents a 3.00% shortfall. According to Sperry Capital, the shortfall is due to the timing of certain activities which necessitated more engagement from their non-SBE subcontractor. Sperry Capital indicated they will increase their current SBE participation through efforts that include augmenting their team's staffing level and revisiting personnel allocation on all remaining scope activities. For this modification, Sperry Capital has proposed they will meet their 34.63% SBE commitment.

Notwithstanding, Metro Project Managers and Contract Administrators, will work in conjunction with DEOD to ensure that Sperry Capital is on schedule to meet or exceed its SBE commitment. If Sperry Capital is not on track to meet its small business commitment, Metro staff will request that Sperry Capital submit an updated mitigation plan. Additionally, key stakeholders associated with the contract have been provided access to Metro's tracking and monitoring system to ensure that all parties are actively tracking Small Business progress.

<b>Small Business Commitment</b>	<b>34.63% SBE</b>	<b>Small Business Participation</b>	<b>31.63% SBE</b>
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	<b>SBE Subcontractors</b>	<b>% Committed</b>	<b>Current Participation<sup>1</sup></b>
1.	Sperry Capital (SBE Prime)	31.26%	31.33%
2.	NWC Partners, Inc.	3.37%	0.30%
	<b>Total</b>	<b>34.63%</b>	<b>31.63%</b>

<sup>1</sup>Current Participation = Total Actual amount Paid-to-Date to DBE firms ÷ Total Actual Amount Paid-to-date to Prime.

**B. Living Wage and Service Contract Worker Retention Policy Applicability**

The Living Wage and Service Contract Worker Retention Policy (LW/SCWRP) is not applicable to this modification.



**C. Prevailing Wage Applicability**

Prevailing wage is not applicable to this modification.

**D. Project Labor Agreement/Construction Careers Policy**

Project Labor Agreement/Construction Careers Policy is not applicable to this Contract. Project Labor Agreement/Construction Careers Policy is applicable only to construction contracts that have a construction contract value in excess of \$2.5 million.