

**PUBLIC-PRIVATE PARTNERSHIP FRAMEWORK**

**June 18, 2008**

**PURPOSE**

Public-Private Partnerships (PPP) provide a unique opportunity for public agencies to partner with private companies on public infrastructure projects. This procurement method has been utilized with significant success by transportation and transit agencies both nationally and internationally. The Los Angeles County Metropolitan Transportation Authority (Metro) intends to evaluate this project delivery as a method to manage costs, utilize new revenue sources and accelerate project delivery. This document serves to guide our investigation of the potential to deliver future capital projects through a PPP program, and to identify acceptable parameters to implement projects under the program.

This Framework consists of an evaluation of projects included in the Long Range Transportation Plan (LRTP) as Tier 1 Strategic Unfunded transit and highway projects, to see which, if any, would be viable candidates for a PPP. Those which seem suitable would be further evaluated based on the process described below.

A significant feature of the PPP approach is the allocation of risk to the partner (private or public) most able to manage that risk. The public agency should assume most of the project definition risk, and thus would be responsible for the following:

- Environmental clearance
- Conceptual engineering
- Sketch level traffic and revenue forecast
- Financial feasibility analysis and public sector comparator
- Right of way acquisition
- Agency permitting
- Political and stakeholder commitment
- Any necessary enabling legislation

The private partner is most readily equipped to handle financial risk due to the ability to manage construction procedures, incorporate technological innovations and attract

## Public-Private Partnership Framework

financial investment capital. The private partner would be responsible for the following, depending on the scope of the project:

- Financing project
- Preliminary engineering
- Final design
- Construction
- Construction management
- Facility operation
- Facility management

PPPs are effective in advancing major capital projects for financially constrained public agencies. This is due in great part to the private partner's assumption of a significant share of the financial risk, which usually includes providing up-front capital to fund design and construction. A PPP agreement presupposes a reasonable economic return to the private partner for the up-front capital investment. Therefore, potential funding and/or revenue sources to provide for that economic return will need to be identified for any project which ultimately reaches the formal stage PPP negotiations. Further, the project will need to be recommended for inclusion in the Constrained portion of the LRTP to secure the Board's identified funding commitment, prior to execution of any Partnership contract agreements.

In order for the project to be considered as a Transportation Control Measure, SCAG's Regional Transportation Plan will also need to be amended to include the project.

### **GOALS**

The PPP program will advance the commitment to improve Los Angeles County's transportation system by exploring new transportation project delivery methods. The PPP program will be guided by the goals of:

- Improving mobility by accelerating project delivery;
- Utilizing cost effective contracting and construction methods;
- Providing projects which will be an integral component of the existing transit and highway infrastructure
- Operations and maintenance meet or exceed certain established performance criteria; and
- Allocating risk fairly and appropriately among all partners.

## PRELIMINARY PPP EVALUATION PROCESS

### STEP 1

The projects identified in the Tier 1 Strategic Unfunded LRTP highway and transit project lists will be reviewed to determine if any may be considered possible candidates for a PPP. A feasibility screening process will identify those projects that have some preliminary project development work such as alternatives analysis, draft environmental clearance, etc., and have the greatest likelihood of acquiring:

- Final environmental clearance within 12-24 months
- Political commitment
- Stakeholder ~~consensus~~ **support**

The projects which meet these criteria will be evaluated in the following preliminary steps:

- Evaluate Environmental Impact analysis status and pending information;
- Perform a financial feasibility analysis;
- Assess risk allocation; and
- Conduct industry outreach to determine private sector interest and acquire technical guidance in the project development.

### STEP 2

Those projects identified in Step 1 as likely candidates will be considered for recommendation to the Board for a continued environmental review process.

During the final environmental review process, additional agency decisions will need to be made regarding:

- Procurement methodology and source selection process;
- Optimum project delivery option;
- Benefit or relevance of opportunities for project innovation and alternate technical concepts;
- Policy regarding private operation/maintenance of project;
- Parameters for revenue generation proposals, including decisions on tolls, fares, etc.;
- Option(s) to phase project, if resulting funding or interest is limited; and
- Enabling legislation, if the project is not covered within California Government Code 5956.

## Public-Private Partnership Framework

### STEP 3

Once a detailed project definition has been completed, the Board could authorize the initiation of a formal proposal solicitation process.

The resulting contract negotiations will clearly refine and outline project roles, structures and standards, including risk allocations.

Should negotiations prove successful, the Board could decide to:

- A. Approve source of public sector funding commitment;
- B. Authorize the CEO to execute a PPP agreement; and
- C. Amend the LRTP to include the project in the Constrained (funded) Plan.

Final partnership funding commitments will not be effective until all necessary contracting agreements have been executed.