

High Desert Corridor
Joint Powers Authority

April 10, 2013

Meeting Materials

Item 8

Presentation on Next Steps/Issues/Timeline
on High Desert Corridor P3 Business Case and
Feasibility Study

**Metro**Los Angeles County
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metro.net**PLANNING AND PROGRAMMING COMMITTEE
MARCH 20, 2013****SUBJECT: PUBLIC-PRIVATE PARTNERSHIP PROGRAM, HIGH DESERT
CORRIDOR****ACTION: RECEIVE AND FILE PROPOSAL FOR PRE-DEVELOPMENT
AGREEMENT****RECOMMENDATION**

Receive and file report outlining proposal to deliver the High Desert Corridor (HDC) as a Public-Private Partnership (P3) project.

ISSUE

At its January 24, 2013 meeting, the Board approved Chair Antonovich's Motion #36, requesting a proposal for a pre-development agreement, or similar Public-Private Partnership method, that would capture the potential for combined investment in and development of the Victorville to Los Angeles (via Palmdale) High Speed Rail Corridor. The motion also directed the engagement of the private sector for input in developing this rail corridor. Attachment A is the requested proposal.

DISCUSSION

The HDC is a highway facility extending 50 miles from SR-14 in Palmdale to I-15 in Victorville. Initial analysis of delivering this project as a public-private partnership (PPP) concluded that the central segment of the highway could be tolled and the east and west segments would need to be paid for by public funds. Our initial analysis concluded that additional public funding in the range of \$1.5 to \$2.3 billion would be required to cover the capital costs of the east and west segments not covered by toll revenue-based financing and private equity, and to potentially subsidize the capital cost of the central segment.

The consideration of incorporating other potential uses with a highway facility has led to a designation of a multimodal project in this corridor as the High Desert Multipurpose Corridor (HDMC). An assessment of the financial impact of adding passenger rail and other potential uses to the HDC project concluded that the addition of high speed passenger rail service enhances the overall financial viability of the project, provided that certain significant assumptions are realized. Based on our analysis and factoring in the best-case assumptions, we find that combined highway toll revenues and rail fare revenues could fully finance and support a multipurpose transportation corridor between Palmdale and Victorville.

Attachment A outlines the approach and process that could be undertaken to select a concessionaire for the HDMC, including a hypothetical schedule based on issuance of the final Request For Proposals linked to public circulation of the Draft EIS/R and the project report for the HDC. These documents are essential to provide project definition for calculation of project cost estimates and traffic and revenue forecasts. We anticipate completion of the Draft EIS/R in the fall of 2013, and the Record of Decision in the late summer of 2014.

NEXT STEPS

We will return to the Board for adoption of a locally preferred alternative, and request for authorization to proceed with the HDMC as a PPP project, as appropriate, when sufficient public funding has been identified to proceed.

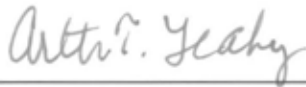
ATTACHMENTS

- A. Public-Private Partnership Pre-Development Agreement Procurement Plan, High Desert Multipurpose Corridor

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LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY

**Public-Private Partnership
Preliminary Development
Agreement Procurement Plan**

High Desert Multipurpose Corridor

Prepared by
INFRACONSULTLLC

Objective

The purpose of this report is to augment the High Desert Multimodal Corridor ("HDMC") Feasibility Study with a plan for proceeding to the next phase of the procurement process. The HDMC Feasibility Study began with the Interim Business Plan ("IBP") for the High Desert Corridor ("HDC") highway facility extending 50 miles from SR-14 in Palmdale to I-15 in Victorville, and estimated the likely range of additional public funding required to construct this project assuming its delivery as a public-private partnership ("P3"). The analysis in the IBP concluded that toll revenues would be adequate to cover some but not all of the project's capital costs with an upfront subsidy of at least \$1 billion YOY required during construction. The HDMC Feasibility Study then undertook the analysis of other development opportunities in the corridor, including first and foremost high-quality passenger rail service, water conveyance, electrical transmission, and energy generation through wind and solar technologies. The fundamental conclusion of this analysis was that the addition of high-quality, high speed passenger rail service enhances the overall financial viability of a HDMC Project, assuming that the proposed XpressWest service is implemented between Victorville and Las Vegas and achieves the forecasted level of ridership. This is particularly true for the scenario with a "one-seat" high speed ride beginning in downtown Los Angeles Union Station, which showed promise for also paying for the shortfall in funding for the HDC highway facility. This study also concluded that there was potential for the corridor to be self-sufficient in terms of energy generation, with solar energy developed in the corridor sufficient to power the trains and the electrical needs of the highway facilities. Such solar energy would reduce the operating cost of the trains by providing electrical energy approximately 20% more cost effectively than traditional sources.

It was the recommendation of the feasibility evaluation that the development of a complete business case is warranted assuming that XpressWest achieves its financing and proceeds. The business case would include an evaluation and recommendation regarding governance structure for the corridor and procurement strategy. At its December meeting, the Board directed staff to develop an approach to delivering the HDMC Project as a P3 and specifically using a Pre-Development Agreement ("PDA") and report at their March meeting. This document is that report.

Issues

There are a variety of issues identified in the Feasibility Study that must be evaluated and addressed in a procurement process and in the business case. These include the following:

- **Project Segmentation.** This evaluation must address the question of whether to procure the project as an integrated corridor from Palmdale to Victorville or a separate project for rail and a separate project for highway and whether rail operations should consist of a two-seat ride with a transfer in Palmdale to a train going through Victorville and on to Las Vegas, or whether operation from LA Union Station through Palmdale through Victorville and on to Las Vegas in a one-seat ride scenario.
- **Governance Structure.** This is a multi-modal, multi-county project. There is a currently established Joint Powers Authority that was established when the project was envisioned as only a highway project. This evaluation must lead to a selection of a governance structure to oversee the implementation and the operation of the project. It must also address alternatives for integrating service with the XpressWest rail service that is anticipated between Las Vegas and Victorville and is the foundation for rail service in the HDMC.

- Allocation of revenue risk and reliance on the accuracy of the ridership and revenue forecasts. Ridership and revenue forecast are based upon the Victorville to Las Vegas XpressWest rail service forecasts which were developed by some of the most reputable firms in the business (see Section 4.2 of the Feasibility Study). Should the forecast levels of ridership fail to materialize for XpressWest, the financial viability of the HDMC would be proportionately impacted. Until such time as there is actual ridership experience between Victorville in Las Vegas (2018 service start at the earliest), it is highly unlikely that the private sector would be willing to take the majority of the revenue risk. There is also an issue of whether there would be adequate market appetite for the level of equity participation required in a revenue risk, greenfield project of this size even with actual supporting ridership levels between Victorville and Las Vegas. These are issues that must be evaluated and addressed in the industry outreach component of the procurement.
- Public funding of the cost of track improvements for the Los Angeles - Palmdale corridor has been assumed in the Feasibility Study as this is part of the CaHSRA¹ plan. If CaHSRA funding is unavailable, the excess financing capacity from the rail service would not be available to support construction of the East and West segments of the High Desert Corridor highway facility. The procurement will require confirmation of this public funding.
- The Feasibility Study assumes the availability of Transportation Infrastructure Finance and Innovation Act ("TIFIA") and Railroad Rehabilitation & Improvement Financing ("RRIF") loans up to the statutory program maximums. Given the total capital cost of the Project at over \$4.0 billion, the amount of these loans would be unprecedented in size. In addition, Metro's current policy is to seek a 33% share of TIFIA for its highway program, not the 49% share assumed in this financial analysis. That said, the Consultant Team believes a strong case could be made for seeking the maximum 49% TIFIA share for the HDMC based on its multimodal character, innovative integration of clean energy components to power train operations, and overall economic development potential for the Antelope Valley / Mojave Desert region in Southern California. The availability of such loans must be confirmed during the procurement process.
- Finally, there needs to be confirmation of the availability of early public funding in the estimated amount of \$520 million (Year of Expenditure) for the pre-development costs (comprising mostly of ROW, but also environmental, planning etc.). This amount has yet to have a source identified and dedicated.

Approach

Under current law Metro has the ability to enter in to a comprehensive development lease agreement ("CDLA") with a concessionaire for development of the HDMC Project as authorized by Streets and Highways Code, Section 143 ("SB 4"). This is subject to selection and approval of the Project by California Transportation Authority ("CTC") and confirmation that a PDA can be utilized under this Code. The schedule for delivery of the Project is driven by the environmental process and availability of public funding. The approach presented here accelerates the procurement to the extent compatible with the environmental approval process, conforms to a preliminary assessment of existing legal requirements, and enables a selection of the concessionaire based on a best value selection.

¹ California High-Speed Rail Program Revised 2012 Business Plan, April 2012

The selection of the concessionaire will involve a three-step procurement starting with the industry outreach phase, followed by a prequalification process to narrow the field of potential proposers down to a short list of qualified teams to be allowed to submit detailed proposals for the development of a detailed engineering and financial plan to form the basis for the negotiation of a CDLA. The last step would be the final selection of the concessionaire team based on the approach and team qualifications most likely to result in best value to Metro and the public. The selection criteria would include four components:

- The proposed technical approach, schedule and indicative pricing needed to allow the concessionaire to finance, design, build, operate and maintain the Central Segment of the HDMC as a toll road for 50 years.
- The proposed technical approach, schedule and indicative pricing for design and construction of the West and East Segments when done in conjunction with the Central Segment.
- The proposed technical approach, concept of operations, schedule and indicative pricing to allow the concessionaire to finance, design, build, operate and maintain the high speed rail line along the HDMC.
- The overall financial approach to the HDMC including indicative revenue support or revenue sharing anticipated bid by the concessionaire.

A hypothetical expedited procurement schedule has been prepared based on the schedule for issuance of the final Request for Proposals ("RFP") linked to the public circulation of the draft EIR/EIS and the draft project report ("PR"). These two documents provide an official milestone of project definition that can be used as the basis for a construction cost estimate, estimate of operations and maintenance costs, and a traffic and revenue forecast. These are necessary components of the proposers' financial plans to enable a fixed price bid on the amount of subsidy needed for the HDMC Project. The draft EIR/EIS and PR become contract documents as part of the RFP to partially define the scope of the Project. The RFP will likely request two proposals; one technical to present the technical approach, schedule, organization, project management approach and detailed plan for execution of the project; and the other to present the proposed financial approach.

A list of key milestones with anticipated dates is shown in the table below. There is some float left in the schedule in anticipation that the environmental process does not proceed exactly as scheduled.

HDMC Project Preliminary Schedule: PDA Procurement

Activity	Anticipated Dates
Notice to Proceed with PDA Procurement	June 2013
Completion of Project Segmentation and Governance Structure Report	September 2013
Issue RFI	October 2013
Industry Outreach, RFI General Meeting, one-ones; Prepare CTC Project Proposal Report	October – January 2014
Issue RFQ	February 2014
SOQ Due Date	April 2014
Shortlisting announcement	May 2014
Submit Request for P3 Selection to CTC with Project Proposal	March 2014

Activity	Anticipated Dates
Report Prior to CTC Public Hearing	
CTC hold Public Hearing and Approve Project	June 2014
Issue Draft RFP and PDA for review by shortlisted teams	June 2014
Record of Decision	Summer 2014
Issue Final RFP	August 2014
Proposal Due Date	December 2014
Notice of Intent to Award	January 2015
PDA Agreement Final Form	January 2015
PDA Agreement Execution	February 2015
Develop firm, fixed price proposal	March 2015 – January 2016
Prepare Addendum to EIS/Negotiate CDLA	January 2016-April 2016
Metro hold Public Hearing	May 2016
Submission of P3 Agreement to PIAC and Legislature for 60-day review period	June 2016
Notice of award	September 2016
Execute CDLA	September 2016
Financial close/Start of Design and Construction	January 2017
Toll Operations Commencement – Central Segment	July 2020
Start of Rail Operations	December 2021