



August 1, 2011

To: Highways Committee
From: Will Kempton, Chief Executive Officer
Subject: Consultant Selection for a Strategic Financial and Delivery Advisor for the Interstate 405 Improvement Project

Overview

On April 25, 2011, the Orange County Transportation Authority Board of Directors authorized the release of a request for proposals for a consultant to provide strategic financial and delivery services for the Interstate 405 Improvement Project. Board of Directors' approval is requested for the selection of a firm to perform the required work.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-1-2547 between the Orange County Transportation Authority and Sperry Capital Inc., in an amount not to exceed \$500,000, to provide strategic financial and delivery services for the Interstate 405 Improvement Project.

Discussion

The Interstate 405 Improvement Project proposes to add new lanes to the Interstate 405 between the State Route 55 and Interstate 605, generally within the existing right-of-way.

Project development and environmental clearance work is underway. Three alternatives are being considered. Alternative 1 proposes to add a single general purpose lane in each direction, and Alternative 2 proposes to add dual general purpose lanes in each direction. Alternative 3, the Express Lanes Alternative, would add a single general purpose lane and one express lane in each direction. The new express lane and existing high-occupancy vehicle lane would be operated as a two-lane express lane facility in each direction.

Current engineering studies show that the projected cost of Alternative 1, adding a single general purpose lane in each direction, is \$1.3 billion; Alternative 2, adding dual general purpose lanes in each direction, is \$1.4 billion, and; Alternative 3, adding a single general purpose lane and one express lane in each direction, is \$1.7 billion. These figures have been updated based on the latest preliminary engineering and represent year-of-expenditure dollars, assuming construction begins in year 2013 and the project delivery method is design-build.

The Measure M2 (M2) revenues for this project are currently estimated to be \$600 million over the life of the M2 program. The Alternative 1 single general purpose lane and Alternative 2 dual general purpose lanes have additional funding needs of \$700 million and \$800 million, respectively. Additional funding for Alternatives 1 and 2 has not been identified. All three of the project alternatives may become more financially viable as the economy improves and M2 revenues identified for the project increase.

Comparatively, the conservative Phase II toll revenue projections for Alternative 3 support a construction bonding capacity of approximately \$480 million, which would leave an additional funding need of \$620 million. Further exploration of various funding alternatives and delivery methods would inform the Orange County Transportation Authority (OCTA) of the potential to reduce the funding need. Refinements in the traffic and revenue model and the analysis of alternate financing and delivery methods could provide additional funding benefits to show Alternative 3 as financially feasible.

Next Steps

The goal of the project is to proceed immediately into the implementation phase once the notice of determination/record of decision for the environmental impact report/environmental impact statement (EIR/EIS) is approved, which is currently scheduled for late 2012. To maintain this schedule, staff proposes that OCTA begin exploring various funding and delivery methods which may bring added value to support the development of the project's three alternatives. This will include a public sector comparator analysis of the project alternatives to provide a qualitative and quantitative assessment of construction estimates, risk, and cost to finance for a scenario where the public agency (OCTA) takes the lead to finance and implement the project compared to a scenario where a private entity takes the lead.

Staff is recommending Board of Directors' (Board) authorization to negotiate and execute Agreement No. C-1-2547, to employ a strategic financial and delivery advisor to help explore various alternative funding and delivery methods, including further study of financial mechanisms to leverage additional public and private funding, to advance the project.

All three build alternatives will continue to be evaluated during the environmental process. Public review of the draft EIR/EIS is scheduled for late 2011. Staff will present a summary of the draft EIR/EIS to the Board before its release for public review. Upon completion of the public review and comment period, staff will bring all three alternatives, coupled with the information developed on funding alternatives and delivery methods, to the Board for a decision on a locally preferred alternative. The final EIR/EIS will be prepared based on this recommendation.

Procurement Approach

This procurement was handled in accordance with OCTA's procedures for professional and technical services that conform to both federal and state laws. Proposals are evaluated with consideration of cost and are ranked in accordance with the qualifications of the firm, staffing and project organization, work plan, and cost. A price analysis was performed on each firm to determine the weighted average hourly rate of the proposed hourly rates and task hours provided by the firm.

On April 27, 2011, Request for Proposals (RFP) 1-2547 was issued and electronically sent to 1,942 firms registered on CAMM NET. The project was advertised on April 27 and May 2, 2011, in a newspaper of general circulation. A pre-proposal conference was held on May 3, 2011, with 14 attendees representing 13 firms. Addenda Nos. 1 through 4 were issued to make available the pre-proposal conference registration sheets, pre-proposal conference presentation, and handle administrative issues related to the RFP.

On May 26, 2011, five proposals were received. An evaluation committee consisting of members from OCTA's Contracts Administration and Materials Management, Highway Programs, and Treasury departments, California Department of Transportation (Caltrans), and Riverside County Transportation Commission met to review all submitted proposals. The proposals were evaluated based on the following evaluation criteria and weights:

- Qualifications of the Firm 20 percent
- Staffing and Project Organization 35 percent
- Work Plan 25 percent
- Cost and Price 20 percent

In developing these weights, several factors were considered, giving the greatest importance to the staffing and project organization of the firm as the qualifications of the project manager and other key personnel are very important to the successful completion of the project. Similarly, high importance was given to the work plan criterion to emphasize the importance of the team's understanding of the assignment and its challenges, and the approach to implementing the various elements of the scope of work. The qualifications of the firm and cost provide for other important criteria in the RFP.

The evaluation committee reviewed all proposals received, based on the evaluation criteria, and found three firms most qualified to perform the required services. The three most qualified firms are listed below in alphabetical order:

Firm and Location

ARUP North America Ltd (ARUP)
San Francisco, California

Sperry Capital Inc. (Sperry)
Sausalito, California

The PFM Group (PFM)
Los Angeles, California

On June 20, 2011, the evaluation committee interviewed the three firms. The firms' project managers and key team members had an opportunity to present each firm's qualifications and respond to the evaluation committee's questions. In general, each firm's presentation addressed the requirements of the RFP, experience with all aspects of the required tasks, and stressed each firm's commitment to the success of the project. Also highlighted were staffing plans, work plans, and perceived project issues and risks. Each firm was asked questions about the understanding of advisory and delivery practices relative to the public sector, project challenges, financial modeling approach, and utilization of the traffic and revenue study in the final delivery of the project, in addition to specific questions pertaining to each firm's proposal.

Based on the evaluation of proposals and interviews, staff recommends Sperry as the firm to provide strategic financial and delivery services for the Interstate 405 Improvement Project. This firm ranked highest among the proposing firms because it displayed a very clear understanding of the project's requirements, issues, and challenges. Sperry proposed highly-experienced personnel to support this project.

The other short-listed firms submitted comprehensive proposals and presented detailed interviews. Brief summaries of evaluation results follow for the three firms.

Qualifications of the Firm

All three short-listed firms were found qualified to perform the services required by the RFP.

The Sperry firm had excellent experience with delivery options and financing tools for infrastructure, including federally-sponsored Transportation Infrastructure Finance and Innovation Act (TIFIA) loans, and private activity bond financings. The firm's wealth of experience spans congestion management pricing, public-private partnership (P3) concessions, and capital markets. The Sperry firm had an insightful understanding of the transportation funding and finance options and challenges, advising municipalities on local and national levels, and abroad. Sperry and its subconsultant, KPMG, are current advisors on Caltrans' Presidio Parkway P3 project. Sperry and KPMG have teamed up on past express lane projects, such as the North Tarrant Express and Interstate 635 Managed Lanes P3 concession in Texas to determine the financing and delivery options of these projects.

The PFM firm had a very good understanding of the overall project, extended resources, as well as very good P3 and TIFIA experience. The firm's proposal provided relevant and local project experience on the Interstate 710 project for the Southern California Association of Governments.

The ARUP firm showed good understanding of the overall project and required experience, and displayed good overall qualifications. The firm's realm of experience in providing advisory services to the public sector is limited.

Staffing and Project Organization

All three firms proposed solid staffing teams who are well qualified. Each team is qualified to carry out the tasks required by the RFP.

The Sperry team submitted a detailed staffing plan that proposed key personnel and extended resources. The project manager and other key personnel on the team brought substantial experience from current and previous similar projects individually and as a team. Sperry provided resource allocation and the level of effort anticipated on this project. The availability of the proposed staff for the project duration was very good. The team conducted an excellent interview where the answers to the questions were provided in detail.

The PFM team proposed key staff with good experience on similar projects and financial advisory work for the public sector. The availability of the PFM project manager and other key personnel was limited. The team conducted a very good interview and responded well to the questions.

The ARUP team proposed staff with good experience in providing financial advisory services, but did not elaborate on staff's previous teaming history. The team conducted a good interview and provided good answers to the questions.

Work Plan

The work plan provided by Sperry demonstrated that the firm had researched and had very good comprehension of OCTA's traffic and revenue (T&R) studies. It also showed excellent understanding of OCTA's project issues, and similar projects, such as the State Route 91. The work plan presented a strong discussion relative to the delivery options analysis to optimize the leveraging of the toll revenues and other funds. A very good risk analysis was also presented in the work plan.

The PFM firm offered an independent evaluation of the Phase II T&R study. The work plan provided a detailed approach to identification and analysis of feasibility, applicability, financial benefits, risks, opportunities, and challenges of this type of projects.

The work plan provided by ARUP was good and general in nature, providing clear task and deliverable structure.

Cost and Price

Pricing scores were based on a formula which assigned the highest score to the lowest proposed hourly rates and scored the remaining proposed hourly rates based on relation to the lowest proposed hourly rates. The three firms offered competitive pricing.

While Sperry's cost was higher than the cost of the other two firms, the firm's qualifications, its approach to meeting the project's requirements, and addressing its challenges were considered most important in outweighing the cost of the services.

Fiscal Impact

Funding for these contracts is included in OCTA's Fiscal Year 2011-12 Budget, Capital Programs Division, Account 0017-7519-FK101-F17, and is funded with M2 funds (Project K).

Summary

Staff requests Board approval for the Chief Executive Officer to execute Agreement No. C-1-2547 with Sperry Capital Inc., in an amount not to exceed \$500,000, to provide strategic financial and delivery services for the Interstate 405 Improvement Project.

Attachments

- A. Review of Proposals, RFP 1-2547 Strategic Financial and Delivery Advisor for the Interstate 405 Improvement Project
- B. Proposal Evaluation Criteria Matrix (Short-Listed), RFP 1-2547 Strategic Financial and Delivery Advisor for the Interstate 405 Improvement Project
- C. Contract History for the Past Two Years, RFP 1-2547 Strategic Financial and Delivery Advisor for the Interstate 405 Improvement Project

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