Washington JTC
Staff Working Group Meeting

Discussion Materials
October 13, 2011
Welcome

- Opening remarks
- Software and Participation
- Objectives
  - Review SWG and PWG Feedback
  - Finalize Screening Tool and review results
  - Review status of Financial Model inputs and development
  - Walkthrough Draft Financial Model
  - Prepare for Table-Top Exercise
<table>
<thead>
<tr>
<th>Time</th>
<th>Item</th>
<th>Presenter</th>
</tr>
</thead>
<tbody>
<tr>
<td>10:00 AM</td>
<td>Welcome / Overview</td>
<td>Mary Fleckenstein / Simon Shekleton</td>
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<tr>
<td>10:15 AM</td>
<td>Screening Tool Review</td>
<td>Simon Shekleton / Sam Barend</td>
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<td></td>
<td>- Summary of DOT results</td>
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<td></td>
<td>- Final modifications</td>
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<td></td>
<td>- Future use</td>
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<tr>
<td>11:00 AM</td>
<td>Break</td>
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<tr>
<td>11:15 AM</td>
<td>Financial Model Inputs Update (1)</td>
<td>Simon Shekleton / Matt Hallissey / Susan Kehoe</td>
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<td></td>
<td>- Project Revenues</td>
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<td>- Construction Costs</td>
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<td></td>
<td>- Lifecycle CAPEX (R&amp;R)</td>
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<tr>
<td>12:00 PM</td>
<td>Working Lunch</td>
<td>General Q&amp;A</td>
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<tr>
<td>12:30 PM</td>
<td>Financial Model Inputs Update (2)</td>
<td>Simon Shekleton / Ian Flanagan</td>
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<td></td>
<td>- Operating Costs</td>
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<td></td>
<td>- Risk Registers / VFM Inputs</td>
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<td>1:30 PM</td>
<td>Break</td>
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<tr>
<td>1:45 PM</td>
<td>Financial Model Walkthrough</td>
<td>Ian Flanagan / Liam Kelly</td>
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<tr>
<td>3:45 PM</td>
<td>Discuss October 24 Table Top format</td>
<td>All</td>
</tr>
<tr>
<td>4:00 PM</td>
<td>Close</td>
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</tbody>
</table>
Process Update

Milestones and key findings

- 2 Day Informational Workshop complete
- Screening Tool Complete (pending any specific feedback)
  - WSDOT Staff inputs complete
  - Critical public interest criteria have been identified and subsequent “Minimum Public Interest Protections” defined (refer Screening Tool)
- Financial Models under development
  - Pending additional inputs for Operating Costs and Risk Registers
- Next Steps:
  - Table Top Exercise; Consultant team to demonstrate functionality of Screening Tool and Financial Models and present results
  - Reporting
Screening Tool Review
Development of a Screening Tool for Washington Complete

**Essential Considerations**
- Good Screening Tools assess common, comprehensive criteria
  - Public interest
  - Project viability
  - Risk
  - Numerous others (per following slide)
- Asking the rights questions is key, but it is equally important to:
  - Weigh responses to suit values and objectives of the State
  - Establish clear and objective requirements for inputs to the screening tool for consistency
  - Establish appropriate fatal flaws

**Local Calibration**
- Draft criteria will be presented through upcoming material and workshops (now)
- Once the list of criteria is set, we will ascertain and define:
  - Fatal Flaws
  - Weighting of objective criteria
  - Assessment and weighting of subjective criteria
  - Potential legal / legislative hurdles
Evolution of Screening Tool

- Initially distributed to SWG on September 2\textsuperscript{nd}
- Initial comments fielded prior to and during SWG Meeting on 15-16 September
- Screening Tool Review / Dry-Run with PWG during September 29 Meeting, comments incorporated
- No subsequent PWG or SWG feedback to date
- Screening tool distributed to DOT Staff
  - Screening Tool Instructional Call held with DOT Staff and Consultant team on October 5\textsuperscript{th}
  - All Responses were completed and received by October 10\textsuperscript{th} (405 being the last)
  - See following for detail
### Screening Tool Results (From DOT Staff)

<table>
<thead>
<tr>
<th>Project</th>
<th>Received</th>
<th>Fatal Flaws?</th>
<th>Fatal Flaw</th>
<th>Other</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>I-405/SR 167</td>
<td>Yes</td>
<td>No</td>
<td>5/9 (Pass)</td>
<td>17/34 (Pass)</td>
<td>Pass</td>
</tr>
<tr>
<td>I-5/SR 509</td>
<td>Yes</td>
<td>No</td>
<td>0/9 (Pass)</td>
<td>10/34 (Pass)</td>
<td>Pass</td>
</tr>
<tr>
<td>SR 167 new segment</td>
<td>Yes</td>
<td>No</td>
<td>8/9 (Pass)</td>
<td>14/34 (Pass)</td>
<td>Pass</td>
</tr>
<tr>
<td>I-5 Crossing (CRC)</td>
<td>Yes</td>
<td>No</td>
<td>4/9 (Pass)</td>
<td>11/34 (Pass)</td>
<td>Pass</td>
</tr>
<tr>
<td>Monroe Bypass</td>
<td>Yes</td>
<td>Yes (2)</td>
<td>16/9 (Fail)</td>
<td>21/34 (Pass)</td>
<td>Fail</td>
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<tr>
<td><strong>Summary</strong></td>
<td>All</td>
<td>1/5</td>
<td>Range 0-16</td>
<td>Range 10-21</td>
<td>4/5 Pass</td>
</tr>
</tbody>
</table>

- Fatal Flaw criteria seem sound and functional
- Fatal Flaw scores also appear sound in conjunction with the Fatal Flaw test (range is good)
- Non Fatal Flaw scores indicate max score is too high. Recommend scaling back the threshold maximum to 1.5 x no. of criteria (=25 max); all projects would still pass on that basis
Final Screening Tool Modifications

- Recommend reducing maximum allowable non fatal flaw score
- PWG Comments already taken – any further feedback?
- Minimum Public Interest Protections have been defined – exhaustive list?
- DOT staff required addition of a comments column – appropriate?
- Land ownership issues has been restored as a Fatal Flaw question
Notes on Usage

- DOT Project Staff required some initial guidance but once provided felt comfortable answering most questions

- Additional relevant notes from DOT Staff discussion
  - The DOT staff generally scored more leniently than the Consultant Team did
  - DOT PMs expressed reservations having to fill in the Category 3 questions; they suggested this should be coming from another part of the DOT, and also that most of the questions would have identical answers for each project
  - A few questions are quite difficult to fill out due to the preliminary nature of the projects, particularly 2.02.02; 2.02.06; 2.03.02; 2.04.03; and 2.04.04 – which we generally agreed to answer in a standardized manner for now (P; PWL2; P or PWL1; P; F(4); and F(4) respectively). Notably this assumes that we are assessing the projects on current state conditions (including legislation that is currently in place) rather than guessing that things will improve in future
Treatment of Failed Projects

• Projects that fail the Screening Process are not yet ready for further financial analysis (these are no-go projects)

• Failing is not the end, but rather a guide for project promoters to identify a list of issues they must address in order for the project to proceed in future

• In the case of Monroe Bypass these most critically include:
  – 1.01.01 Affordability: Due to a lack of a viable revenue stream, the project is not self supporting and no additional sources of funding have been identified. The project can therefore not be considered affordable to the public until this situation improves
  – 1.04.01 Environmental Approvals expected within 3 years: this will not be possible until the project EIS is recompleted, submitted and nearing approval
  – 1.02.01 Financial Feasibility: Same concerns as Affordability but from a purely financial perspective
Financial Model Inputs

(Sample Project: 405 HOT Lanes)
Information transfer is required to populate each Financial Model as outlined below. Critical path constraints are shown with red arrows.

**Summary of Critical FM Inputs**

Inputs from DOT:
- Revenue forecasts (from off-the shelf toll studies)
- Capital Cost Forecasts for Construction
- Lifecycle R&R (long term Capital Expenditures)
- O&M Costs (all inclusive, staffing, tolling, routine, G&A)
- PSC Risk Registers to inform VFM Analysis
- PSC Financing assumptions

Consultant Develops P3 Case:
- Revenue forecasts (PSC case risk adjusted to Equity case)
- Capital Cost Forecasts (same for DB and P3*)
- Lifecycle R&R (PSC units, private sector benchmark costs)
- O&M Costs (benchmark costs from private sector)
- P3 Case Risk Registers to inform VFM Analysis
- Financing assumptions

*Schedules can potentially be accelerated under P3 for some projects.*
Remote Files / Screenshare Discussion

- Project Revenues
  - Matt Hallissey
  - Generally taken directly from Tolling Studies with assumptions applied

- Construction Costs (Initial Capital Expenditures / CAPEX)
  - Susan Kehoe / Simon Shekleton
  - Costs assumed comparable for DB vs. PPP but potentially different schedule

- Lifecycle CAPEX (Repairs and Replacement / R&R)
  - Susan Kehoe / Simon Shekleton
  - Traditional comparator provided by DOT
  - PPP comparator under development by AECOM based on bottom up and top down analysis
Financial Model Inputs

(Sample Project: 405 HOT Lanes)
Remote Files / Screenshare Discussion

- Operating Costs
  - Susan Kehoe / Simon Shekleton
  - Public Sector comparator in development by DOT (resolving Overhead and employee costs)
  - PPP comparator under development by AECOM based on bottom up and top down analysis
  - Key metrics include EBITDA Margin (%) and proportion of tolling to general OPEX

- Risk Registers / VFM Inputs
  - Simon Shekleton
Purpose of Value for Money in Context of Study

- **VFM is specifically designed to provide a comprehensive and unbiased metric for upholding the Public Interest at all times**

- VFM Analysis enables transparent consideration of project specific issues under both P3 and Traditional delivery (including Design Build) scenarios

VFM inputs and process (for each project):

- **Project Specific Inputs:**
  - Risk profile
  - Risk apportionment preferences
  - Costs (immediate and long term operations)
  - Revenues

- **Develop Risk Matrices**
  - P3 Delivery* and risk Apportionment profile
  - Traditional Delivery* and risk Apportionment profile

- **Financial Model**
  - P3 Risk Score
  - P3 Risk Score
  - Value for Money Analysis

*Consensus required for Delivery Assumptions
Common VFM Drivers

- **Optimal Risk Allocation** – risks should be transferred to the party best able to manage or mitigate that risk
- **Focus on Whole Life Costing** – ensuring whole life costing, not just up-front costs, ensures consideration of operating and refurbishment costs
- **Integrated Planning & Design** – early consideration of operational aspects of the design ensures cost savings in the provision of facilities services
- **Use of Output Specifications** – describing required output, without prescribing a solution, allows bidders to innovate and reduce costs
- **Sufficient Flexibility** – ensuring sufficient flexibility in long-term contracting structures will allow changes to be effected at reasonable costs
- **Proper Incentives** – both rewards and deductions for performance should serve to properly incentivize the parties
- **Long-term Partnerships** – contracts should occur over a period which can be reasonably predicted, while maximizing gains from risk transfer
- **Managing Scale and Complexity in Procurement** – procurement costs should not be disproportionate to the underlying project
Methodology

- Balance between qualitative and quantitative assessment
- Considers project and market features
- Embeds an evidence-based approach
- Uses generic quantitative models for the PSC and “should cost” P3 solution
- Models include technical adjustments (Optimism Bias, tax etc.)
Qualitative Assessment

- Viability
  - Measurable and definable outputs, clear scope
  - Operational flexibility
  - Equity/efficiency reasons for private sector service provision

- Desirability
  - Do the benefits outweigh the costs?

- Achievability
  - Market interest, time scales
Issues Regarding Use of Public Sector Comparators

- **Staff / legislative context**
  - Consensus can be complex

- **Advantages**
  - helpful with political / public perception / presentation issues

- **Challenges**
  - Needs empirical data and sector experience (limited at start of program)
  - Reliant on a single-point, cost-based test based on Net Present Values
  - Timing of final output does not help with decision making process
  - Reliant on assumptions that can be manipulated (e.g. optimism bias calculation)
  - Risk of double counting
Financial Model