

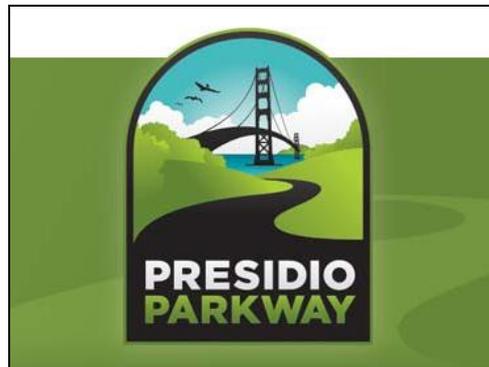


California Department of Transportation



San Francisco County Transportation Authority

Project Proposal Report



For the

Presidio Parkway Public-Private Partnership Project

Submitted to the

California Transportation Commission

Pursuant to the

California Streets and Highways Code Section 143

Submitted February 11, 2010

Table of Contents

	<u>Page</u>
Statement of Intent	i
1. Project Sponsors and Other Key Agencies	1
2. Project Scope	3
3. Basis of Public Interest Finding	8
4. P3 Project Financial Plan	18
5. Performance Objectives	27
6. Forecast of Travel Demand	29
7. Terms of Draft Public-Private Partnership Agreement	30
8. Evaluation Criteria	31
9. Useful Life of the Project	34
10. Attachments	
1. “Analysis of Delivery Options for the Presidio Parkway,” dated February 2010, by the Arup/PB Joint Venture (the Business Case)	
2. Availability Payments	
3. Draft Term Sheet	
4. Draft Public-Private Partnership Agreement and Draft Lease Agreement (together, the Draft P3 Agreement)	

STATEMENT OF INTENT

In accordance with California Streets and Highways Code Section 143, and the California Transportation Commission's Policy Guidance, the California Department of Transportation (Caltrans or Department) and the San Francisco County Transportation Authority (Authority), together the "Sponsors," have submitted a Project Proposal Report (Report) with a request that the Commission, within 45 days of receiving the Report, conduct a public hearing on the project as a scheduled agenda item and adopt a resolution that: (i) selects and approves the Presidio Parkway P3 Project for P3 delivery as proposed in the Report, (ii) certifies the Department's determination of the useful life of the Project, and (iii) adopts the Sponsors' proposed criteria for evaluating proposals based on qualifications and best value.

California Transportation Commission Policy Guidance

On October 14, 2009, the California Transportation Commission (CTC or Commission) adopted Resolution G-09-13 setting forth its Policy Guidance for Public Private Partnership Projects (hereafter, Policy Guidance). As set forth in the Policy Guidance, the Commission will consider approval of a public private partnership (P3) project only when the California Department of Transportation (Caltrans or Department) or regional transportation agency has prepared and submitted to the Commission a Project Proposal Report.

Scope of Project Approval: Section 2 of the Policy Guidance provides that the Commission's P3 project approval will include and apply to:

- 1. Project Scope.** *"The description of the scope of the transportation project and its boundaries, including construction work and the performance of maintenance and operations."*
- 2. Project Financial Plan.** *"The project financial plan, including the allocation of financial risk between public and private entities."*
- 3. Useful Life Certification.** *"For Department projects, a certification of the determination of the useful life of the project in establishing the lease agreement terms."*
- 4. Criteria for Evaluating Proposal.** *"Where the Department or regional agency proposes to use a final evaluation of proposals based on qualifications and best value to select a contracting entity or lessee, the criteria that the Department or regional transportation agency will use for that evaluation."*

Criteria for Commission Approval: Section 3 of the Policy Guidance sets forth criteria for Commission approval and indicates the Commission will approve a P3 project if, after reviewing the Project Proposal Report, it finds all of the following:

- 1. "That the project as described in the Project Proposal Report is consistent with the requirements of statute."*

2. *“That the Commission’s approval of the project and its financial plan does not in and of itself create a new commitment of state transportation revenues or create an undue risk to state transportation revenues committed to other projects.”*
3. *“That the project is primarily designed to achieve the performance objectives set forth in Streets & Highways Code section 143(c)(3).”*
4. *“That the project, consistent with Section 143(c)(4), addresses a known forecast demand as determined by the Department or regional transportation agency.”*
5. *“Where applicable, that the criteria that the Department or regional transportation agency proposes to use for a final evaluation of proposals based on qualifications and best value are consistent with statute.”*
6. *“For a Department project, that the Department has made a determination of the useful life of the project in establishing the lease agreement terms that is consistent with the terms of the lease agreement.”*

Project Proposal Reports: Section 4 of the Policy Guidance describes information to be included or referenced in a Project Proposal Report in order for the Commission to carry out its responsibility to select and approve a proposed P3 project. When the Commission office receives a Project Proposal Report at least 45 days prior to a Commission meeting, the Commission will place a request for approval of the P3 project on its agenda and conduct a public hearing on the project as a scheduled meeting agenda item before adopting a resolution approving the project.

Project Proposal Report for Presidio Parkway P3 Project

In accordance with the Policy Guidance, the Sponsors hereby submit this Project Proposal Report (Report) with a request that the Commission, within 45 days of receiving the Report, conduct a public hearing on the project as a scheduled agenda item and adopt a resolution that: (i) selects and approves the Presidio Parkway P3 Project for P3 delivery as proposed in the Report, (ii) certifies the Department’s determination of the useful life of the Project, and (iii) adopt the Sponsors’ proposed criteria for evaluating proposals based on qualifications and best value.

Section 4 of the Policy Guidance notes that the Department or regional transportation agency may engage in preliminary steps leading to the development of a draft lease agreement, including the general solicitation of proposals and the prequalification of potential contracting entities, prior to submitting a project proposal report. As of the date of this Report, the Sponsors have undertaken/completed an analysis of the full life cycle costs associated with potential delivery options and on February 2, 2010 posted a Request for Qualifications in order to prequalify potential contracting entities.

If the CTC selects the Project for P3 delivery, the Department would continue the procurement process by, among other things, issuing a Request for Proposals (RFP). Upon completion of the RFP process, the Sponsors will evaluate the bids by, among things, comparing the bids to information from various sources, including the Report. Ultimately, the Sponsors would proceed with the P3 delivery process if final bids continue to demonstrate positive value for money.

Project Scope: The overall Presidio Parkway Project (the Presidio Parkway Project) is the successor name to the Doyle Drive Replacement Project, to reconstruct 1.6 miles of existing route 101 with a new six-lane facility south of the Golden Gate Bridge in San Francisco. Doyle Drive was built in 1936 with narrow lanes, no shoulders and no median to separate on-coming traffic and has become structurally deficient. It is vulnerable to earthquakes and at the end of its useful life. The current facility serves approximately 120,000 trips per day and is the only regional roadway link between the North Bay Area counties and San Francisco and the San Francisco Peninsula. Therefore, replacement of Doyle Drive is vital to the region’s mobility, safety, environmental quality, and economic well-being. See Figure 1 for an artist’s rendering of the overall Presidio Parkway Project.

Figure 1 – Artist’s Rendering of the Presidio Parkway



Source: PB Americas, Inc.

The overall Presidio Parkway Project was split into two major construction phases.

- **Phase I** consists of contracts 1 through 4. It will ensure that seismic safety is achieved as soon as possible. At the completion of Phase I all traffic will be on either new structures or detour roads that meet seismic standards. Phase I started construction in November 2009 and is estimated to cost approximately \$450 million.
- **Phase II** consists of contracts 5 through 8, with an estimated cost of approximately \$473 million. As planned, Phase II would start in 2011 and be completed by 2013.

The proposed Presidio Parkway P3 Project (for purposes of this Project Proposal Report, the “Project”) consists of the design, construction and financing of Phase II and the future operation and maintenance of the completed Presidio Parkway Facility under both Phase I and Phase II of construction with the exception of certain local streets not included in the final Presidio Parkway Facility (Facility), all as will be specified in the anticipated P3 Agreement. See Attachment 4 for the Draft P3 Agreement.

Format and Organization of the Report: In accordance with Section 4 of the Policy Guidance, this Report includes and refers to information the Commission expects it will need in order to carry out its responsibility to select and approve the proposed P3 project. The organization of the Report corresponds to the information requests set forth in Section 4 of the Policy Guidance. In each section of the Report, the information requested in the Policy Guidance is stated in bold italics font, followed by the Sponsors’ response.

The Report is organized in sections that respond directly to the Commission’s Policy Guidance as follows:

- **Section 1 – Project Sponsors and Other Key Agencies** – Describes the roles and relationships of the Sponsors and other key agencies directly involved with the Presidio Parkway Project.
- **Section 2 – Project Scope** – Provides a description of the overall Presidio Parkway Project and the proposed Presidio Parkway P3 Project, including construction work and the performance of maintenance and operations.
- **Section 3 – Basis of Public Interest Finding** – Provides the Sponsors’ bases for concluding that it would be in the public interest to implement the proposed Presidio Parkway P3 Project through a public-private partnership agreement.
- **Section 4 – P3 Project Financial Plan** – Presents the Sponsors’ proposed project financial plan, including the allocation of risk between public and private entities. Among other things, the financial plan for the Presidio Parkway P3 Project provides information requested by the Commission on commitments of state, local (and federal) funding to the Project, the alternative sources of Project funding, and public financial responsibility for meeting Project costs in case of default by the contracting entity or lessee.
- **Section 5 – Achievement of Performance Objectives** – Presents information about the overall Presidio Parkway Project’s performance against the objectives in the Commission’s Policy Guidance, specifically mobility, operation and safety, and air quality.
- **Section 6 – Forecast of Travel Demand**– Provides information about the Sponsors’ estimates for traffic volume, specifically estimated average daily trips, which are forecast through 2030.
- **Section 7 – Terms of Draft Public-Private Partnership Agreement** – Compliance with this requirement of the Commission’s Policy Guidance is accomplished by incorporation of several detailed documents appearing as attachments to this Report, specifically the Draft Term Sheet (Attachment 3) and the Draft Public-Private Partnership Agreement and Draft Lease Agreement (both in Attachment 4, and collectively referenced as the “P3 Agreement”).
- **Section 8 – Evaluation Criteria** – Presents the criteria the Department proposes to use in making a final evaluation of proposals based on qualifications and best value, consistent with Streets and Highways Code Section 143(g)(1)(C).
- **Section 9 – Useful Life of the Project** – Provides the Department’s determination of the useful life of the Project, consistent with Section 143(d), including the basis the Department used for making that determination.

- **Section 10 – Attachments** – Provides important attachments, including the Draft Public-Private Partnership Agreement and Draft Lease Agreement required by the Commission’s Policy Guidance, and other documents referenced throughout this Report, as shown below:

The following items are attached and incorporated in the Report by reference:

- **Attachment 1** – “Analysis of Delivery Options for the Presidio Parkway Project,” dated February 2010, by the Arup/PB Joint Venture (the Business Case)
- **Attachment 2** – Availability Payments
- **Attachment 3** – Draft Term Sheet
- **Attachment 4** – Draft Public-Private Partnership Agreement and Draft Lease Agreement (together, the Draft P3 Agreement)

Basis for Public Interest Findings: The Business Case describes and documents in great detail the Sponsors’ bases for finding that it would be in the public interest to implement the Project through a P3 agreement. The Business Case includes quantitative and qualitative analyses of the full life cycle costs of delivering the Project using a traditional design-bid-build (DBB) method as compared to “design-build-finance” (DBF) and “design-build-finance-operate-maintain (DBFOM) methods – all expressed in “net present value.” The Sponsors find the methodology described in the Business Case consistent with public sector best practices observed in other U.S. and international jurisdictions, and the findings are based on reasonable assumptions that demonstrate value for money sufficient to warrant nomination to the CTC for its selection of the Project for P3 delivery in accordance with the process set forth in Streets and Highways Code Section 143.

The Sponsors find it in the public interest to implement the Project through a P3 agreement because the proposed Project:

1. Better manages the risk of cost overruns and late completion, and better mitigates funding uncertainty. There is \$473 million of committed and anticipated funding for Phase II; however, the risk-adjusted estimated cost at completion under a DBB contract is \$679 million in the Business Case, a difference of \$206 million);
2. Contains future costs of operations, maintenance and rehabilitation, and provides an improved level of service;
3. Avoids construction payments prior to substantial completion, thereby enabling other statewide projects to be programmed more quickly; and
4. Provides better “value for money.”

Conclusions: For the reasons fully discussed below, the Sponsors conclude that the Commission should select and approve the Project based on this Report, which amply demonstrates that: (1) the Project as described in the Report is consistent with the requirements of statute; (2) the Commission’s approval of the Project and its financial plan does not in and of itself create a new commitment of state transportation revenues or create an undue risk to state

transportation revenues committed to other projects; (3) the Project is primarily designed to achieve the performance objectives set forth in Streets and Highways Code Section 143(c)(3); (4) the Project, consistent with Section 143(c)(4), addresses a known forecast demand as determined by the Sponsors; (5) the criteria that the Sponsors propose to use for a final evaluation of proposals based on qualifications and best value are consistent with statute; and (6) the Department has made a determination of the useful life of the project in establishing the lease agreement terms that is consistent with the terms of the lease agreement.

SECTION 1 – PROJECT SPONSORS AND OTHER KEY AGENCIES

There are multiple public agencies directly involved in the overall Presidio Parkway Project, and therefore potentially involved in the proposed Presidio Parkway P3 Project, as well. Below please find descriptions of the Sponsors, other funding partners, and other key agencies and their anticipated roles.

Project Sponsors

- California Department of Transportation (Department): The Department is both a Sponsor and a Funding Partner for the overall Presidio Parkway project and the proposed P3 Project. In addition, as described more fully in Section 4, the Department intends to be the obligor for any milestone payments and availability payments under the P3 Agreement.
- San Francisco County Transportation Authority (Authority): The Authority is both a Sponsor and a Funding Partner for the overall Presidio Parkway project and the proposed P3 Project. In addition, as described more fully in Section 4, under agreements being developed with the Department, the Authority would secure amounts anticipated from or committed by other funding partners.

Other Funding Partners

As described more fully in Section 4, the following agencies have committed or are anticipated to commit funding to the construction of Phase II of the Presidio Parkway Project, which funding also would be made available to the P3 Project to offset, in part, the anticipated obligations of the Department under the P3 Agreement.

- Bay Area Metropolitan Transportation Commission (MTC)
- Federal Highway Administration
- Golden Gate Bridge Highway & Transportation District
- Sonoma County Transportation Authority
- Transportation Authority of Marin

Other Key Agencies

- Presidio Trust: Manages the majority of land and resources that will be affected by the Presidio Parkway Project. Under the terms of a Programmatic Agreement dated August 27, 2008, the Presidio Trust, through its agent, the Federal Preservation Officer (Trust FPO), will participate in or be consulted regarding various project design, procurement and oversight activities, including National Register of Historic Places matters.
- National Park Service (NPS): Has jurisdiction over certain lands to be crossed during construction, serves as co-manager of the Presidio National Historic Landmark District (PNHLD), and represents the Secretary of the Interior for the whole PNHLD. Under the terms of a Programmatic Agreement dated August 27, 2008, the NPS will be consulted on

National Register of Historic Places matters.

- Department of Veterans Affairs: Serves as the land manager for the San Francisco National Cemetery and has participated in consultation on the Presidio Parkway Project.
- California State Historic Preservation Officer and the Advisory Council on Historic Preservation: Have been consulted by the FHWA and other sponsoring agencies pursuant to federal regulations implementing Section 106 of the National Historic Preservation Act of 1966, as amended (NHPA).
- City and County of San Francisco, through the San Francisco Recreation and Parks Department: Serves as the land manager for the Palace of Fine Arts and has participated in consultation on the Presidio Parkway Project.

SECTION 2 – PROJECT SCOPE

The Commission Guidance requests, “...the description of the scope of the transportation project and its boundaries, including construction work and the performance of maintenance and operations.”

The Presidio Parkway Project: Figure 3 below shows the location of the overall Presidio Parkway Project in the context of the greater Bay Area. The purpose of the overall Presidio Parkway Project is to improve the seismic, structural, and traffic safety of Doyle Drive while being sensitive to the Presidio and its purpose as a National Park.

Figure 3 – Presidio Parkway Project Area Map



Source: Arup/PB Business Case, Exhibit 10. See Attachment 1 to this Report.

Based upon forecasted traffic demand, the specific objectives of the overall Presidio Parkway Project are to:

- Improve mobility by improving travel times or reducing the number of vehicle hours of delay
- Improve the operation or safety of the Presidio Parkway
- Provide quantifiable air quality benefits
- Improve the seismic, structural and traffic safety on Presidio Parkway

- Maintain the functions that the Presidio Parkway corridor serves as part of the regional and city transportation network
- Improve the functionality of Presidio Parkway as an approach to the Golden Gate Bridge
- Preserve the natural, cultural, scenic and recreational values of affected portions of the Presidio, a national historic landmark district
- Be consistent with the San Francisco General Plan and the General Management Plan Amendment Final Environmental Impact Statement, Presidio of San Francisco, Golden Gate National Recreation Area (NPS 1994a and 1994b) for Area A of the Presidio and the Presidio Trust Management Plan: Land Use Policies for Area B of the Presidio of San Francisco (Presidio Trust 2002)
- Minimize the effects of noise and other pollution from the Presidio Parkway corridor on natural areas and recreational facilities at Crissy Field and other areas adjacent to the project area
- Minimize the traffic impacts of Presidio Parkway on the Presidio and local roadways
- Improve intermodal and vehicular access to the Presidio; and redesign the Presidio Parkway corridor using the parkway concept described within the Doyle Drive Intermodal Study (1996)

A Record of Decision was rendered by FHWA for Doyle Drive Final Environmental Impact Statement / Report (FEIS/R) in December of 2008. The option advanced for construction is known as the “Refined Presidio Parkway” alternative in the FEIS/R. This construction option, shown in Figures 4 and 5 below, was the unanimous choice of the Authority’s Board of Commissioners.

Because of concerns about the need to ensure seismic safety for the traveling public, the Department decided to accelerate the date of initiation of the construction. The project was split into eight contracts and two major construction phases, as illustrated in Figure 4, below.

Figure 4: Presidio Parkway Project Phasing Map

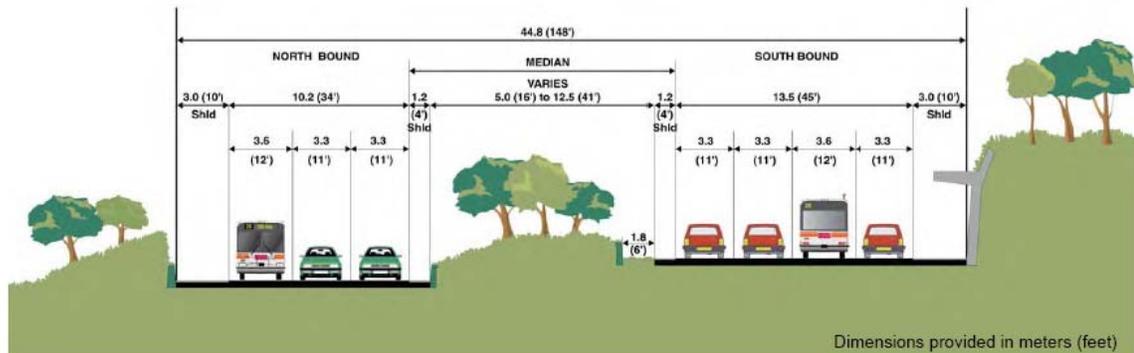


Source: Arup/PB Business Case, Exhibit 3. See Attachment 1 to this Report.

The Presidio Parkway will replace the existing facility with a new six-lane facility and a southbound auxiliary lane, between the Park Presidio Interchange and the new Presidio access at Girard Road. To minimize impacts to the Presidio National Park, the footprint of the new facility

will overlap with a large portion of the existing facility's footprint east of the Park Presidio Interchange. Construction will take place between FY 2009 and FY 2013.

Figure 5: Presidio Parkway Cross Section



Source: Arup/PB Business Case, Exhibit 11. See Attachment 1 to this Report.

The Park Presidio Interchange will be reconfigured due to the realignment of Doyle Drive to the south. New entrance and exit ramps will be constructed with ramp geometry consistent with current safety standards and additional lanes will be added where appropriate. Direct access will be provided to the Presidio and indirect access to Marina Boulevard in both directions via access ramps from Doyle Drive connecting to an extension of Girard Road. East of the new Letterman garage, Gorgas Avenue will be a one-way street with a signalized intersection at Richardson Avenue. North of Richardson Avenue, Lyon Street will remain in its existing configuration that provides access to Palace Drive. The surface parking spaces will be reconfigured to maintain the existing parking supply in the area and improve pedestrian access between the Presidio and the Palace of Fine Arts.

Presidio Parkway Project Background: The history of the Project dates back to 1933 when the Golden Gate Bridge and Highway District (renamed in 1969, the Golden Gate Bridge Highway and Transportation District) started construction on Doyle Drive as the southern approach to the Golden Gate Bridge. Doyle Drive was named after Frank P. Doyle, a director of the California State Automobile Association. Mr. Doyle was a roadway advocate and civic leader, and the first private citizen to cross the Golden Gate Bridge.

Doyle Drive was designed and built to operate with three ten-foot lanes in each direction, separated by painted double stripes. In September 1945, Doyle Drive became a State highway. Subsequently, the California Division of Highways, now known as the Department, assumed responsibility for maintenance of the section extending from near the Golden Gate Bridge toll plaza to the Palace of Fine Arts and the Marina District of San Francisco.

In 1955, the Golden Gate Bridge Highway and Transportation District (District) requested that the State widen and reconstruct Doyle Drive to handle increasing congestion. In 1962, the District specifically asked for an eight-lane divided roadway as part of a proposed Golden Gate Freeway. The proposal was not pursued due to public objection. In 1970, after a fatal accident on the facility, the National Transportation Safety Board (NTSB) recommended that Doyle Drive be upgraded to current freeway design standards. In 1973, a Draft Environmental Impact Statement (DEIS) was completed for reconstruction of Doyle Drive as an eight-lane highway with a fixed median barrier. The public objected to the proposal, and the following year the State legislature

passed the Marks Bill, which prohibited the Department from widening Doyle Drive to more than six lanes without the specific approval of the San Francisco Board of Supervisors.

In 1985, the San Francisco Board of Supervisors recommended that the Department develop alternatives that would improve safety but not increase the number of vehicles using Doyle Drive. The Department responded with two alternative recommendations: an eight-lane roadway design and a six-lane roadway design. The issues surrounding each of these alternatives were never resolved and a preferred solution was not identified.

In 1991, the Department requested that the San Francisco Board of Supervisors revisit the most recent design concepts for Doyle Drive. The Supervisors responded with the establishment of the Doyle Drive Task Force, consisting of representatives from various local governments and public and private organizations. The task force considered design alternatives; developed a consensus on a preferred alternative, and in 1993 issued the Report of the Doyle Drive Task Force, which proposed a scenic parkway through the Presidio.

This parkway concept envisioned three travel lanes in a separate tunnel in each direction and an additional eastbound auxiliary lane between the Park Presidio interchange and a new direct access point to the Presidio. In principle, the Board of Supervisors unanimously approved the recommendations of the Task Force and urged the Department to expedite inclusion of rebuilding Doyle Drive in the next State transportation funding cycle.

In the same year, the Department completed a Project Study Report for the replacement of Doyle Drive. The Task Force's recommended concepts were included in the alternatives evaluated in the Department report.

In July 1994, the National Park Service identified the following objectives for Doyle Drive:

- redesign the Doyle Drive corridor as a parkway rather than a freeway;
- respect the Presidio's status as a National Historic Landmark District in redesign options;
- minimize the effects of noise and other pollution from the parkway on natural and recreational areas at Crissy Field and other areas adjacent to the Presidio;
- improve the Presidio entrance and circulation features as part of the Doyle Drive redesign; and
- maintain the functions that the Presidio Parkway corridor provides as part of the regional and City transportation network.

In 1994, the Authority initiated the Doyle Drive Intermodal Study, which was funded by a planning and research grant, "to further the development and ultimate implementation of a realistic and fundable replacement for Doyle Drive."

The results of the Intermodal Study were released in 1996. They supported the Doyle Drive Task Force and prior recommendations that multi-modal and direct vehicular access, in and out of the Presidio, would be the central features of the replacement design. The study also emphasized that the Doyle Drive replacement be designed as a parkway. Other important recommendations included building a transit center; introducing transportation systems management and intelligent transportation systems technology, such as roadway surveillance cameras and real-time transit information kiosks.

Preparation of the environmental assessment began in 2000 and the Draft Environmental Impact Statement/Report (DEIS/R) was released in 2005. On September 26, 2006, the Authority's Board of Commissioners unanimously selected the Presidio Parkway as the Preferred Alternative. The input received during the comment period as well as refinements to the Preferred Alternative, are reflected in the Final EIS/R that was circulated in October 2008 and certified on December 16, 2008.

SECTION 3 – BASIS OF PUBLIC INTEREST FINDING

The Commission’s Policy Guidance requests, “...the basis of the Department or regional transportation agency for the finding that it would be in the public interest to implement the project through a public-private partnership agreement.”

There is significant documentation of the basis for this finding in the case of the Presidio Parkway P3 Project, including the anticipated transfer of risk from the public to private entities and the reduced impact on State highway funds. Such documentation is contained in this Report and in the Business Case in Attachment 1.

The Sponsors believe the Project would achieve public interest benefits that address important fiscal, policy, technical and financial considerations. These benefits have been grouped under the following four key topics:

1. Provides greater cost, schedule, and funding certainty;
2. Integrates a life-cycle operations and maintenance (O&M) approach and improves the level of service;
3. Improves the State’s ability to fund additional statewide transportation projects more quickly; and
4. Provides best “value for money” over the life of the project.

Benefit 1: Provides Greater Cost, Schedule, and Funding Certainty

The Sponsors considered several key factors in terms of cost, schedule, and funding certainty. The DBFOM option demonstrates the following key benefits:

- Addresses unique site and contractor interface challenges, with significant risk transfer to the private sector;
- Insulates Phase II construction from funding and cash flow uncertainty, thereby providing funds as needed to complete the project without compromising other public programs; and
- Provides greater certainty about the State’s costs for construction, and provides a hedge against spikes in the cost of materials, labor, etc.

Cost and Schedule Certainty: As introduced in Section 1 in the Business Case, the Project poses some very significant challenges and risks to the timeline and budget, including the following:

- The existing roadway must remain open to traffic throughout the construction phase;
- Four different federal agencies either have jurisdiction over portions of the right of way or must be consulted for other reasons; and
- A number of different contractors depend on the timeliness of implementation of separate construction contracts in order to be able to access the site and deliver their portion of the project on time and on budget.

In addition, the Project is subject to construction cost risks that are typical for projects of its size and complexity. The current funding sources that are committed to the overall Presidio Parkway Project, and therefore would be available to meet future Project financial obligations, are currently capped by agreements among the funding partners and might not be sufficient in the event of significant increases in construction costs. Due to current state and local budget constraints, the Project funding partners have severely limited resources to fund unforeseen construction cost increases.

With these concerns in mind, the Sponsors endeavored to assess the construction cost risk of Contracts 5 through 8 (now constituting Phase II) through workshops designed to assess the construction costs and risk premiums applicable to Phase II under the DBB, DBF and DBFOM options. The workshops included experts from the design-build industry, construction risk analysts, and construction practitioners.

For each delivery option analyzed, the starting point was the initial FHWA Initial Financial Plan as of May 2009. The baseline capital cost examined for Phase II (i.e., for the work previously planned to be done under Contracts 5 through 8) is \$499 million in 2009 dollars.

The construction risk register in the Business Case lists four risk groupings: interface, site, construction, and “unknown unknowns,” with a total of ten risk categories across these groupings. The risks are rated for their probability of occurrence. The construction risk register was used as an input to a Monte Carlo simulation of the risks. Based on the simulation, the risk exposure value for Contracts 5 through 8 for a traditional DBB procurement, corresponding to an 80% confidence level, was \$108 million, or 29% of the adjusted base cost (a series of adjustments to the Plan baseline costs was necessary to arrive at the adjusted base case). See Section 3 in the Business Case for details about the methodology utilized, and Exhibit 25 and Appendix D to the Business Case for information about the risk allocations assumed.

After further adjustments, the risk-adjusted cost of Phase II, based on a traditional DBB procurement (including public transaction costs and the public retained risk reserve), is estimated at \$679 million. This represents the risk-adjusted expected construction cost at completion. The difference between the \$473 million of committed and anticipated funding for Phase II and the \$679 million risk-adjusted cost in the Business Case is \$206 million. With limited committed and anticipated funding for Phase II, construction cost increases of this magnitude under the DBB approach are prohibitive.

The Business Case demonstrates that risks to the Phase II timeline and budget are significant. The table in Figure 6 below shows a high-level summary of which options are best suited to managing key project risks. Red symbols represent risks that are not optimally managed under the given option.

Figure 6 – Delivery Options Risk Transfer

Optimizes Risk Transfer	DBB	DBF	DBFOM
Construction time overruns	■	●	●
Construction cost overruns	■	◆	●
Maintenance	■	■	●
Operations	■	■	●
■ = risk not optimally managed ◆ = risk somewhat managed ● = risk optimally managed			

Source: Arup/PB Business Case, Exhibit 5. See Attachment 1 to this Report.

As described in the project-specific risk analyses contained in the Business Case, the risk of cost overruns and late completion is better managed under a DBFOM option. This conclusion is driven by the commercial structure of a DBFOM, with its transfer of risks to the Developer and its financing providers, who will be responsible for managing the construction subcontractors to deliver on time and to the budget agreed to by the Developer. The DBFOM also is judged to impose greater discipline on delivery and generate expected cost efficiencies for soft and hard construction-related costs. The transfer of most project delivery risks (such as time and cost overruns) to the design-build contractor in the DBFOM option, combined with turn-key contracts and a long-term performance-based payment structure, results in greater cost control and containment of the risks within the DBFOM financial structure than compared to a traditional DBB procurement option. The Business Case contains significant detail regarding the risks assumed to be transferred to the design-build contractor under a DBFOM.

Funding Certainty: Another risk to the project schedule addressed by the P3 options relates to the public funding expected to be provided by numerous local, state, and federal sources. At this time, despite a fully funded plan for the project as presently understood, uncertainties remain about the precise timing of these public contributions to the project. In a traditional DBB delivery, the funds must be available “up front” in order to commence construction; otherwise, the project likely would face delays. Such delays or work stoppages could occur if sufficient cash were not available when needed to make construction progress payments. The need for up-front cash is avoided through a P3 approach, which uses the private sector’s financing until at or near the end of construction when key public sector milestone payments are required to be made with subsequent public sector payments over the term of the P3 agreement.

Finally, in the event of unanticipated increases in project costs, a scenario that is common in traditional DBB delivery of similar large and technically complex projects, additional public funding would have to be identified. This contingency is avoided through a P3 approach that transfers many of the construction cost risks to the private sector.

Summary of Benefit 1: There is \$473 million of committed and anticipated funding for Phase II; however, the risk-adjusted estimated cost at completion is \$679 million, a difference of \$206 million. The Sponsors find that it is in the public interest to implement the project through a P3 agreement because the proposed Project better manages the risk of cost overruns and late completion, and better mitigates funding uncertainty.

Benefit 2: Integrates a Life-cycle Operations and Maintenance (O&M) Approach and Improves the Level of Service

The Sponsors considered several key factors in terms of life-cycle costs and level of service. The DBFOM option demonstrates the following key benefits:

- Requires the private sector to consistently maintain the quality of the facility at the level established in advance by the Sponsors.
- Transfers operation and maintenance risks to the private sector.

The Business Case includes an examination of ongoing operations and maintenance costs of the Presidio Parkway, and the ways those costs would be managed and allocated under the various delivery options. In particular, it discusses the assumptions related to public sector operations under either a DBB or DBF option, and the assumptions related to private sector operations under a DBFOM option.

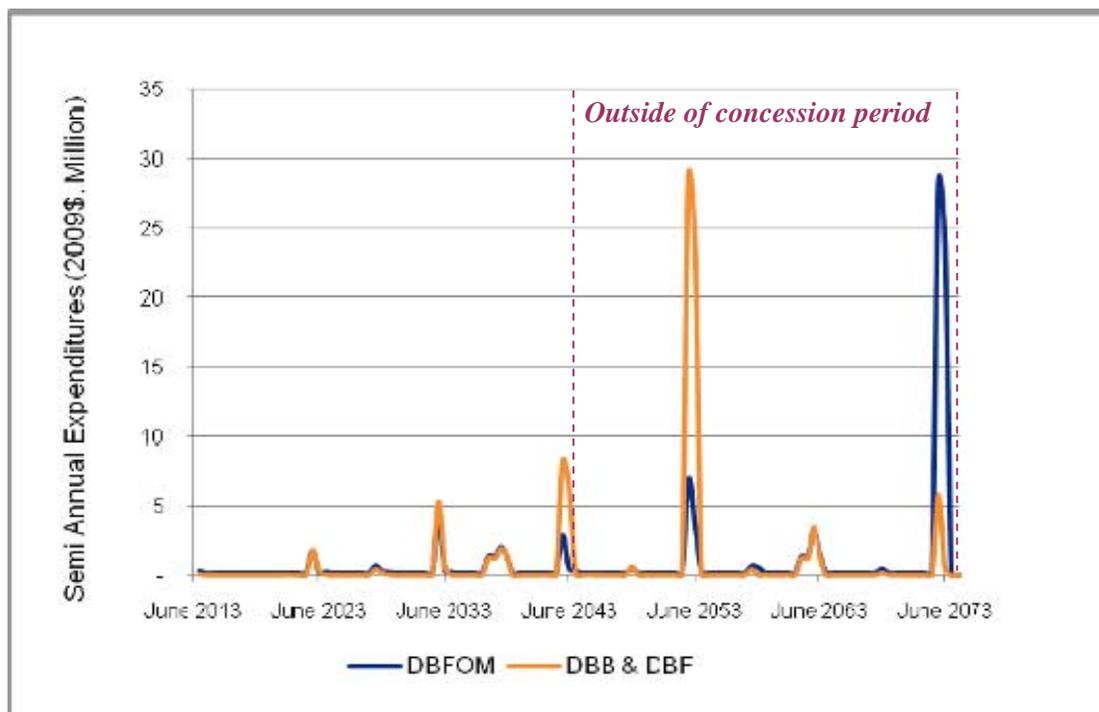
There are the fiscal constraints related to the public sector's management of operations and maintenance services, which historically have led to increased project life-cycle costs. These include:

- Fiscal constraints on the funding of operations, routine maintenance, and major maintenance interventions in the aggregate for all State facilities.
- Budget allocations for project/facility O&M are typically subject to annual programmatic appropriations rather than determined specifically to cover the life of the project.

In light of the budget and fiscal issues that often cause the public sector to defer routine maintenance and rehabilitation, two major factors favor the use of a DBFOM versus a DBB or DBF option:

- **Improved (reduced) cash outflows.** The resulting routine maintenance and rehabilitation cash flows for the DBB/DBF and the DBFOM options are presented in Exhibit 37 in the Business Case, excerpted in Figure 7 below for ease of reference. The graph illustrates the acceleration of pavement-related rehabilitation costs in the DBB/DBF options. The net present value (NPV) cost of these cash flows (at an 8.5% discount rate) to provide the assumed levels of service shows a total of \$23 million in the DBB and DBF, against \$18 million in the DBFOM.

Figure 7 - Routine Maintenance and Rehabilitation Annual Cash Flows Under Public- and Private-Sector Operations



Source: Arup/PB Business Case, Exhibit 37. See Attachment 1 to this Report.

- Improved level of service.** While budget issues may prevent the public from funding routine maintenance under the DBB option, under a DBFOM option the concessionaire must adhere to a preventative maintenance program to meet established norms specified in the P3 Agreement. Thus, a DBFOM option will likely operate the Project to a higher standard.

It should be noted that, even as compelling as it is, the Business Case is conservative in evaluating the benefits of an integrated life-cycle approach. It only takes into account the monetary trade-off due to the DBFOM option preventing major maintenance (rehabilitation) and replacement expenditures from occurring earlier than planned. The Business Case assumes the smaller public sector expenditures would be prioritized such that all fire and life safety standards would be met (achieving the same standards as would the private sector in these areas), and the remaining public sector funding would be applied to the other operation and maintenance activities, to the extent possible with available funds. The Business Case thereby concludes that other maintenance will not achieve the same standards in the public sector DBB/DBF options as would be achieved with DBFOM. However, the Business Case does not assign monetary value to the loss of service level assumed to occur with smaller public sector maintenance expenditures under the DBB/DBF options. It focuses instead on the impact on the cash flows for both maintenance and eventual rehabilitation. As such, the Business Case is conservative in describing the benefits of the DBFOM option.

Summary of Benefit 2: The Sponsors find that it is in the public interest to implement the proposed Project through a DBFOM public-private partnership because it better controls future costs of operations, maintenance and rehabilitation, and it provides an improved level of service.

Benefit 3: Improves the State’s Ability to Fund Additional Statewide Transportation Projects Near Term

The Sponsors considered several key factors in terms of impacts on the State’s project funding capacity. The DBFOM option demonstrates the following key benefits:

- Requires no publicly funded construction payments to the Developer before substantial completion of Phase II. (Note that the public sector is still responsible for its transaction and oversight costs.)
- Allows the State to determine the best use of public funds committed to the Project.
- Creates an estimated \$175 million of additional State Highway Account programming capacity in the near term.

Under a DBFOM, no publicly-funded construction payments would be required before the substantial completion of Phase II, thereby preserving the public funding on the Project. Together with the improved cost and schedule certainty discussed previously, this would enable the Sponsors to reduce the Project’s call on public funding over the next few years. Under agreements contemplated between the Department and the other public funding partners, the Department would be taking on the obligation of any milestone payment at the substantial completion of construction and future availability payments under the P3 Agreement in exchange for receiving the current committed and anticipated funding from the other agencies. The timing of the funding partner contributions has not yet been finalized. The public funding sources are summarized in Figure 8 below:

Figure 8 - Funds Committed and Anticipated for Phase II (\$ million)

<u>Source</u>	<u>Total</u>	<u>Committed</u>	<u>Anticipated</u>
Federal	\$89.2	\$13.2	\$76.0
State SHOPP	\$174.8	\$174.8	
SFCTA	\$128.9	\$128.9	
Golden Gate Bridge	\$75.0	\$75.0	
Marin/Sonoma Counties	\$5.0	\$5.0	
Total	<u>\$472.9</u>	<u>\$396.9</u>	<u>\$76.0</u>

Sources: FHWA Initial Financial Plan May 2009, the Department and the Authority.

Depending on the timing of receipts, the Department would have the capability to “escrow” some of these funds toward its future milestone and availability payment obligations under the P3 Agreement, and to “reallocate” some of the funds for other transportation purposes, such as funding additional statewide transportation projects more quickly.

To the extent that a competitive P3 procurement process results in savings on the Project’s costs, the Department would realize and retain all the benefits of these savings, while the other public funding partners would have the benefit of being insulated from any future cost increases to the Project.

This approach provides another benefit to the public by enabling the State to advance other high priority projects statewide from additional near-term capacity in the State Highway Account, in exchange for the State’s commitment to pay the milestone payment and ongoing availability payments for the Project. The Department estimates that the direct impact in terms of additional programming capacity for the State Highway Account would be approximately \$175 million in the near term.

Summary of Benefit 3: The Sponsors find that it is in the public interest to implement the project through a P3 agreement because the proposed Project avoids construction payments prior to substantial completion, thereby enabling other statewide projects to be programmed more quickly.

Benefit 4: Provides Best “Value for Money” Over the Life of the Project

The Sponsors considered several key factors regarding “value for money” (VFM) over the life of the project. The Business Case used an NPV approach in its evaluation. The NPV approach is the standard financial analysis technique used to compare costs that are experienced over varying time frames, and allows, for example, a direct comparison between one-time costs and costs that occur over a long period of time (such as 33 years in the case of the Project under a DBFOM approach). The NPV is estimated by comparing the total project costs, expressed in dollars measured at the same point in time, through the use of a discount rate, a process that is discussed in detail below. The total estimated cost of a traditional DBB is the base case (sometimes referred to as the “public sector comparator” or “PSC”). VFM is the difference between the base case and the total estimated cost of P3 delivery. The DBFOM option (based on interest rates and other market conditions in September 2009) demonstrates the following key benefit:

- Has an estimated life-cycle net present value cost over the Project investment horizon that is approximately \$147 million, or 23 percent lower than the traditional design-bid-build option.

To achieve “competitive neutrality” among delivery methods, the Business Case makes adjustments to certain factors to account for differences between public and private sector scenarios. Adjusted factors included in the VFM analysis of each scenario include risk-adjusted capital costs; operations, maintenance, replacement and rehabilitation costs; transaction costs; retained risk and related reserves; and tax implications, among others.

As summarized in the discussion of construction cost risk above, the Business Case takes into account differences in anticipated construction costs at completion between the procurement options. It also considers differences in risk allocation, and financial structures, including finance and tax costs.

The NPV method takes into account the time value of money by discounting the nominal values of future payments (i.e., it takes account of the fact that a dollar of income or expenditure today has a higher value than a dollar of income or expenditure in the future). A range of net present value scenarios was considered, primarily to evaluate the impact of alternative discount rates on the resulting net present value results. The assumptions in the analysis in the Business Case are based on a point in time. Actual proposal results may differ from those assumed. More information about key assumptions that are subject to change can be found in Section 4 of this Report.

The results of the analysis, which are summarized in Exhibit 6 and Exhibit 8 as presented in the Business Case, are excerpted below as Figure 8 and Figure 9, respectively, for ease of reference. They show the total estimated cost to deliver the Presidio Park P3 Project under the DBB, DBF, and DBFOM delivery options, presented in both NPV dollars and year of expenditure (YOE) dollars, respectively. YOE shows the total sum of the nominal values of expenditures over time (i.e., it adds nominal dollars expended over a 30+ year time frame which include the effect of inflation over that time frame). For the NPV analysis, the choice of discount rate is affected by the specific circumstances of the decision maker, including opportunity cost of capital, risks not otherwise included, inflation (where applicable), and other externalities. The base case value for money results are calculated in NPV terms using a discount rate of 8.5%. Information regarding the rationale for use of this discount rate can be found in Appendix G in the Business Case.

For the purpose of the Business Case, the time-weighted average cost of capital is used and this is equivalent to the project internal rate of return. Exhibit G2 “Sensitivity to NPV by Delivery Option to Varying Discount Rates” uses a range of discount rates including the (California) general obligation bond (GO) rate. There is no single methodology to determine the appropriate discount rate for VFM studies. For example, the Florida Department of Transportation used the Florida state general obligation bond borrowing rate as the appropriate discount rate in the I-595 Corridor Roadway Improvements P3 project that closed March 5, 2009, as well as for the Port of Miami Tunnel project that closed October 15, 2009.

Figure 9 – Total Costs (NPV @ 8.5% Discount Rate)

(\$ Million)			
	DBB	DBF	DBFOM
Oversight and Transaction Costs	\$77	\$50	\$32
Retained Risk Reserves	\$125	\$91	\$47
Construction Completion Payments	\$369	\$113	\$113
Annual Payments	N/A	\$324	\$289
Tax Adjustment	\$36	\$36	N/A
O&M and Replacement and Rehabilitation *	\$28	\$28	\$7
Sum Total Costs	\$635	\$642	\$488

Source: Arup/PB Business Case, Exhibit 6 in Attachment 1 to this Report.

Figure 10 – Total Costs (YOE)

(\$ Million)			
	DBB	DBF	DBFOM
Oversight and Transaction Costs	\$96	\$61	\$51
Retained Risk Reserves	\$125	\$91	\$47
Construction Completion Payments	\$458	\$150	\$150
Annual Payments	N/A	\$640	\$1,130
Tax Adjustment	\$167	\$167	N/A
O&M and Replacement and Rehabilitation (2010-2043))	128	128	N/A
Total sum of nominal dollars (concession term, 2010 to 2043)	\$974	\$1,237	\$1,378
O&M and Replacement and Rehabilitation (2044-2073)	\$417	\$417	\$591
Total sum of nominal dollars (2010 to 2073)	\$1,391	\$1,654	\$1,969

Source: Arup/PB Business Case, Exhibit 8 in Attachment 1 to this Report.

The DBB option has the lowest sum total of YOE dollars. However the DBFOM option had the lowest NPV of the three options considered, by a margin of approximately \$147 million, or 23% compared to the NPV of the DBB option over the assumed 33-year concession term.

Exhibit 50 in the Business Case presents the breakdown of the NPV of the cost saving, which is based on the following components:

- Lower risk-adjusted construction and oversight costs (NPV -\$93 million);
- More efficient preventative maintenance asset management program during operations which prevents the need for large rehabilitation costs (NPV -\$6 million) which is offset from a lack of economies of scale by higher operating costs, (NPV +\$6 million); and
- The NPV impact of spreading the financing over the 30-year operations phase of the concession at a lower (after tax) cost of capital than the discount rate (NPV -\$54 million).

The total risk adjustment for each delivery option is the sum of the private and public risks. The outputs are taken at the 80th percentile confidence interval, meaning that with an 80% probability the actual project risks will not exceed the estimated dollar amount indicated by the analysis (conversely, there is a 20% probability that the actual project risks will exceed the estimated dollar amount).

The Business Case finds there is a 80% chance that public sector costs would exceed the base project costs by 29% on account of construction cost overruns if the Project Sponsors proceed with the traditional DBB delivery method. DBFOM delivery is expected to result in lower total risk-adjusted cost based on: improved project management, contractual and financial structures that transfer risks and impose discipline on delivery, and expected cost efficiencies for soft and hard construction-related costs.

The differential in the risk-adjusted construction cost in the DBB and the DBFOM (NPV \$93 million) is the largest contributor to the difference between the total NPV of the DBB and DBFOM options. Components of the differential which are offset by public and private transaction costs are summarized by Exhibit 51 in the Business Case and include, but not limited to, the following components (may not add due to independent rounding):

- Net DBFOM efficiencies estimated at \$54 million (NPV)
- Reduction in design contingencies at \$19 million (NPV)
- A smaller retained public risk reserve at \$78 million (NPV)
- Regarding construction cost risks, it should be noted that a number of these risks would be allocated to the private sector under a DBFOM option, whereas the public sector typically bears a substantial number of these types of risks under the DBB option.

Summary of Benefit 4: The Sponsors find that it is in the public interest to implement the proposed Project through a DBFOM public-private partnership agreement because it provides better “value for money.”

SECTION 4 – P3 PROJECT FINANCIAL PLAN

The Commission’s Policy Guidance, in Section 4 requests, “...the Department or regional transportation agency’s proposed project financial plan, including the allocation of risk between public and private entities. The financial plan will include:

- a. forecasts of revenue from tolls and user fees, as determined by the Department or regional transportation agency;**
- b. commitments of state or local revenues to the project (including capital, operating, maintenance, and debt service) or to any neighboring or ancillary projects necessary or desirable for full implementation of the project;**
- c. the alternative source of project revenue should revenues from tolls and user fees fail to meet projections or otherwise be insufficient to meet project costs; and**
- d. public financial responsibility for meeting project costs (including costs for operations, maintenance, and debt service) in case of default by the contracting entity or lessee.”**

Furthermore, this Report provides additional information regarding key assumptions and estimates related to the DBFOM financial model in the Business Case. There is significant documentation of the DBFOM financial plan, including the assumed terms of the debt instruments and the internal rate of return on equity, contained in the Business Case.

The Commission’s approval of the proposed Project and its financial plan will not in and of itself create a new commitment of state transportation revenues or create undue risk to state transportation revenues committed to other projects. In fact, significant state transportation revenues already have been committed, and the anticipated P3 Agreement would enable the State to schedule the timing of its payments in order to *improve* the State’s ability to fund additional statewide transportation projects. The State’s obligations also would be offset in part by committed and anticipated funding from other project funding partners. And finally, as described below, the overall cost, on a net present value basis, over the life of this project is estimated to be lower than under traditional procurement.

As presented in Section 3, the project-specific risk analyses contained in the Business Case concludes the risk of cost overruns and late completion is better managed under a DBFOM option. This conclusion is driven by the commercial structure of a DBFOM, with its transfer of risks to the Developer and its financing providers, who will be responsible for managing the construction subcontractors to deliver on time and to the budget agreed to by the Developer. The DBFOM also is judged to impose greater discipline on delivery and generate expected cost efficiencies for soft and hard construction-related costs. The transfer of most project delivery risks (such as time and cost overruns) to the design-build contractor in the DBFOM option, combined with turn-key contracts and a long-term performance-based payment structure, results in greater cost control and containment of the risks within the DBFOM financial structure than compared to a traditional DBB procurement option. The Business Case contains significant detail regarding the risks assumed to be transferred to the design-build contractor under a DBFOM.

a. Forecasts of revenue from tolls and user fees, as determined by the Department or regional transportation agency

The overall Presidio Parkway Project will not be paid for with tolls or direct user fees, and therefore, the Project will not generate revenue. However, there will be partial funding (\$75 million) from toll-supported sources such as the Golden Gate Bridge Highway and Transportation District, among other sources.

The Department's Presidio Parkway P3 Project Payment Obligations: Based on the timely receipt of the committed and anticipated funds identified above, and the benefit of shifting O&M risk to the Developer, the Department will be the sole obligor of the milestone payment, if any, and of availability payments to the Developer.

Based on a 33-year P3 agreement, the Business Case estimates that the cost of the DBFOM option to the Department is \$1.378 billion (YOES), including \$51 million for oversight and transaction costs, \$47 million for retained risk reserves, a milestone payment at the end of construction of \$150 million (YOES), and availability payments over 30 years totaling \$1.130 billion (YOES).

DBFOM Financial Model: In order to estimate the Presidio Parkway P3 costs and payments for the proposed DBFOM public-private partnership agreement, the Business Case included a "shadow bid" DBFOM financial model. This DBFOM financial model solved for the milestone payment and availability payments as well as ancillary costs that are consistent with the risk adjusted construction costs and financing costs assumed in the Business Case.

The DBFOM model assumed the Developer would establish a Special Purpose Vehicle (SPV) corporation responsible for subcontracting and managing design, construction, and operations and maintenance contracts. The Developer is also responsible for the financing (debt and equity) necessary to fund its obligations under the P3 Agreement.

The DBFOM financial model also assumes a structure that is designed to allow the SPV achieve an investment grade rating on its debt obligations. The Business Case is based on a number of assumptions that will be subject to change over time. This DBFOM financial model is described in detail in Additional Information below as well as in the attached Business Case.

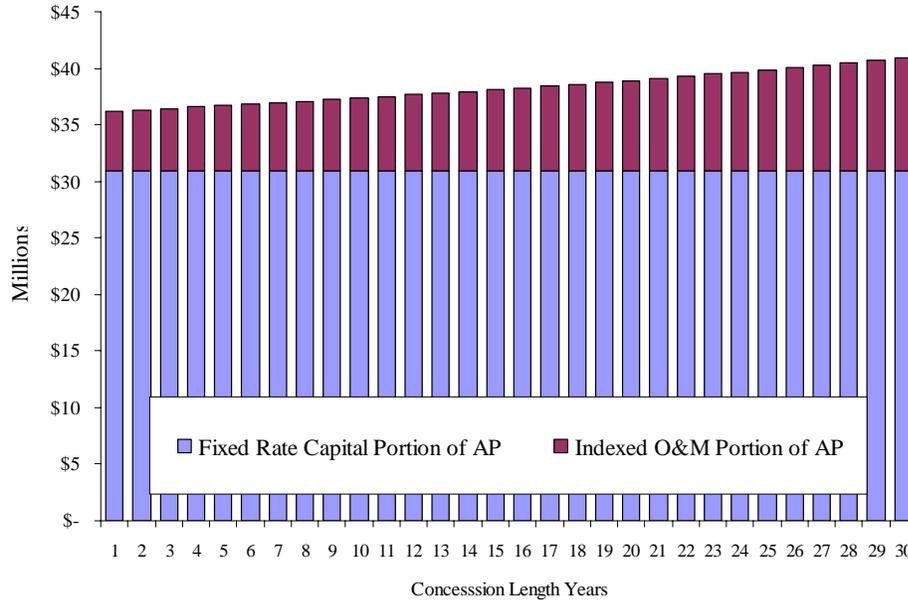
The DBFOM financial model in the Business Case assumes a single lump sum payment, or milestone payment, of \$150 million upon substantial completion of the Presidio Parkway P3 Project. Substantial completion is defined as when the work currently constituted under Contract 7 is finished (except for punch list items not affecting safe usage for traffic) and the facility can safely carry traffic. The DBFOM model also assumes that the Department would make availability payments for 30 years thereafter.

The availability payments would begin at approximately \$35 million per annum commencing in late 2013 and would increase up to an estimated \$41 million in the final year of the P3 Agreement. The DBFOM financial model in the Business Case estimated that approximately 85% of the availability payments, which portions is attributable to construction and financing costs, would be fixed. The remaining 15% of the availability payments, which portion is attributable to the operation and maintenance costs, would be inflation index based. The

Business Case used a 30-year Consumer Price Index (CPI) forecast of 2.2% per annum (constant) based on a projection by the economic research firm IHS Global Insight (USA) Inc.

These estimated availability payments from the Business Case are illustrated in Figure 11 below.

Figure 11 – The Business Case’ Estimate of Availability Payments



Source: Adapted from Arup/PB Business Case, Attachment 1 to this Report

The actual availability payment amount will be determined by the selection of the preferred Developer. As currently contemplated, the Developer will bid a single Maximum Availability Payment in 2010 dollars (MAP) commencing when the facility is in its final configuration and is available to safely carry traffic. The MAP will be subject to adjustment for increases or decreases in interest rates compared to benchmark interest rates, and potentially for increases or decreases in credit spreads compared to benchmark credit spreads, between the proposal due date and a date to be determined (in no event later than the financial close).

The amount of availability payments also is subject to (a) the facility being open and available for public travel in accordance with specified standards, and (b) the extent to which the operation of the facility complies with the performance standards (e.g. facility condition, maintenance requirements, safety levels) to be set forth in the technical provisions of the P3 Agreement. . The failure of the Developer to meet these required availability or performance standards will result in reduced availability payment amounts or termination of the P3 Agreement.

b. Commitments of state or local revenues to the project (including capital, operating, maintenance, and debt service) or to any neighboring or ancillary projects necessary or desirable for full implementation of the project

The proposed milestone payment and the availability payments to the Developer will be payable from the State Highway Account (or from other funds set aside for such purpose from funds already committed and anticipated to be committed to the Presidio Parkway P3 Project) and may be subject to annual appropriation, unless the Legislature adopts a continuous appropriation for this and other P3 projects as requested by the Department.

It is anticipated that the supplemental funds described below in the amount of \$472.9 million from federal, state and local sources will significantly reduce the obligation of the State Highway Account. The Sponsors are working on the timing of the receipt of these funds by the Department. The sources of the \$472.9 million, which are either already committed or anticipated to be committed, are listed in Figure 12 below.

Figure 12 – Sources of FHWA Plan Funding for Phase II in Millions

		Status
Federal C - UPA	\$13.20	Committed
Federal R - ER Demo	\$6.00	Anticipated
Federal R - Earmark (Sonoma)	\$20.00	Anticipated
Federal Stimulus Regional (TIGER) Share	\$50.00	Anticipated
Federal Total	\$89.20	
State - SHOPP	\$174.80	Committed
SFCTA - Prop K - XGEN	\$38.80	Committed
SFCTA - RIP	\$56.10	Committed
SFCTA - RIP (2010)	\$13.00	Anticipated
SFCTA - SLP	\$12.00	Committed
SFCTA Total	\$128.90	
Golden Gate Bridge Highway & Transportation District	\$75.00	Committed
Sonoma County Transportation Authority	\$1.00	Committed
Transportation Authority of Marin	\$4.00	Committed
	\$472.90	

Source: FHWA Initial Financial Plan

Near Term State Highway Account Capacity Benefits: Based on the timely receipt of the committed and anticipated funds identified above, and the ability of the Department to postpone any construction payments until the milestone payment at the substantial completion of the Presidio Parkway P3 Project, the Department estimates that the closing of the proposed P3 Agreement will increase available State Highway Account programming capacity by approximately \$175 million in the near term.

State Highway Account The Department has implemented an internal policy to establish a level of future funding that should be prudently used to support existing project delivery without unduly jeopardizing future transportation needs. This cap is set at 15 percent of the annual revenue levels and applies to both future GARVEE bond commitments and availability payments for P3 projects. It limits the amount of availability payments approved and required for P3 projects pursuant to the California Streets and Highways Code Section 143. This policy mandates that the projected annual payments, together with the outstanding annual debt service payments on the State's Grant Anticipation Revenue Vehicles (GARVEE) bonds may not exceed an amount equal to 15 percent of the total available federal transportation funds (after deduction for safety and other mandates) deposited into the State Highway Account for any 12 month consecutive period within the preceding 24 months.

c. The alternative source of project revenue should revenues from tolls and user fees fail to meet projections or otherwise be insufficient to meet project costs

There are no alternative funding sources for the Project beyond currently identified committed and anticipated funds already discussed including the State Highway Account resources that will be appropriated to make availability payments later in the concession term. The Presidio Parkway will not charge tolls or direct user fees. The milestone payment and the availability payments to the Developer would be paid from the State Highway Account (and other public funds described above) and may be subject to annual appropriation, unless such funds are continuously appropriated.

d. Public financial responsibility for meeting project costs (including costs for operations, maintenance, and debt service) in case of default by the contracting entity or lessee

The public sector's responsibility for meeting project costs in the case of default by the Developer is addressed in provisions contained in the Draft Public-Private Partnership Agreement. A copy of the Draft Public-Private Partnership Agreement is provided in Attachment 4. See also "Default and Remedies" and "Early Termination and Compensation for Early Termination" in Attachment 3. The agreement contains detailed controls and limits to public exposure in case of default. It includes a range of penalties for default and given that public payments are in arrears, the potential developer is at risk financially, within bounds of statutes, throughout the term of the concession.

The Department will not guarantee or otherwise contractually undertake responsibility or liability for the Developer's performance of contract obligations. The Department will receive indemnities to protect it from liabilities to third parties arising from any Developer default. In addition, the Department will have, among other remedies, the right to terminate the P3 Agreement if any one of the specified defaults, material in nature, occurs and is not cured within the applicable cure period available to the Developer and its lenders.

After termination, the Department will control, operate and maintain the project at its cost, and will be relieved of all future payment and other obligations to the Developer, as specified in the termination compensation provisions of the P3 Agreement. The amount of the termination compensation can vary as it generally is determined by the current financial markets, which require some reasonable measure of compensation in order to induce lending for the project. It

also may be necessary to adhere to California laws against forfeitures. The termination compensation formula may differ depending on whether the default resulting in termination arises before or after substantial completion.

If termination arises *before* substantial completion, compensation may be for all or a portion of reasonable construction costs previously expended by the Developer or of the value of work completed, minus Department damages (including cost to complete, to correct deficient work and to replace the Developer), and minus the amount of any previous payments by the Department to the Developer.

If termination arises after substantial completion, the compensation formula typically provides no protection for equity investment or for loss of future profits, may be for less than the full amount of outstanding debt, and typically is reduced by the amount of damages due the Department (including costs to correct deficient work, to bring the project to the standards required by the Agreement, and to replace the developer.

The termination compensation formulas should result in a lower cost (on an NPV basis) to the Department over the period that the concession would have been in effect, as compared to the costs (on an NPV basis) the Department would have incurred had the concession remained in effect. This result is due to several factors:

- Equity invested is not compensable;
- The formula provides for payment of an amount less than the entire outstanding debt;
- The Department is relieved from all future availability payments and would be responsible for providing all operations and maintenance; and
- The compensation is reduced as necessary to recover the Department's current and future damages.

Additional Information: The Business Case provides a detailed description of a DBFOM financial model that approximates a “shadow bid” in order to estimate a Developer’s financial proposal. A number of assumptions have been made that will be subject to change over time. The key assumptions of the DBFOM financial model and the potential changes are discussed below.

P3 Agreement Financing: The Developer would be responsible for the financing of its obligations under the P3 Agreement including the costs of the development and capital expenditure of Phase II. Each proposer will be required to submit as part of its proposal a comprehensive financing plan and financing commitments supporting the proposed financing plan subject to the final approval by their lenders. As currently contemplated, financing commitments must include at a minimum:

- A letter of support from all lead credit arrangers, lead managers and/or underwriting banks and/or debt and equity providers indicating their view that, subject to final due diligence, credit approval, final credit documents and then current market conditions, the debt funding described in the financing plan and reflected in the financial model is

reasonable for the purpose of fulfilling the proposer's commitments, while acknowledging the terms of the P3 Agreement would not have to be altered.

- Terms and conditions attaching to each financing commitment such as conditions precedent to drawdown, drawdown schedule, capital repayment grace period, repayment schedule and final maturity date, cover ratio requirements, default provisions including events of default, security requirements (including any guarantees), and any reserve accounts;
- Interest rates (whether fixed or floating) specifying assumed base rate and spreads and the reference interest rates and spreads (if credit spread benchmarking is applicable);
- Level of due diligence performed to date by the proposer on the project in relation to securing the financing plan;
- Other information to be determined.

The preferred Developer will be required to deliver firm, unconditional financing commitments, in the amounts sufficient to meet the capital requirements of the preferred bidder's proposed financial plan, within a specified time period (to be determined) after a conditional award. The preferred Developer also will be subject to a specified deadline (to be determined) for a financial closing.

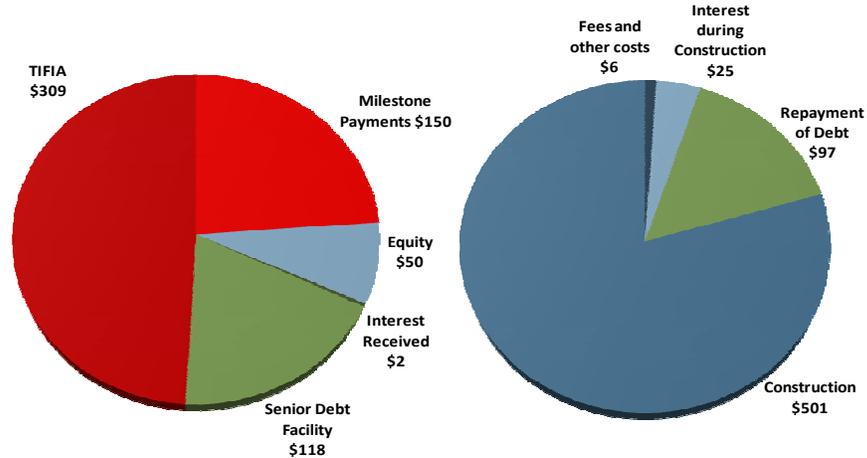
The Developer will have the right, with the Department's consent, to refinance its funding agreements, and the P3 Agreement will describe how refinancing gains would be shared between the Developer and the Department.

The Developer will be responsible for the payment of all applicable taxes and assumes the risk of future changes in tax laws of general application.

The Developer may have to assume the risk of annual appropriations for the payment of the availability payments, unless public funds for this and other P3 projects are continuously appropriated. See "Appropriations Risk" in Attachment 3, Draft Term Sheet

The Business Case projects the anticipated funding needs of the Developer to reach the end of construction and the sources of funds. These sources and uses are illustrated below in Figure 13:

Figure 13 – The Developer’s Sources and Uses through Construction Completion



Source: Arup/PB Business Case, Exhibit 53. See Attachment 1 to this Report

In order to move the Project from “substantial completion” to “final acceptance,” the Developer likely will use a portion of the funds from the milestone payment and draw down funds from the TIFIA loan. The Business Case estimates that these funding sources will keep the SPV in a positive cash flow position prior to the opening of the facility and the commencement of availability payments to the SPV.

The Business Case estimates that senior debt (e.g., commercial bank debt and/or tax exempt private activity bonds) would be repaid, in part, by the single milestone payment at the end of Contract 7. The Business Case shows that the remaining senior debt will be repaid by 2016. Following repayment of the senior debt, the TIFIA loan is repaid annually throughout the remainder of the operations period. The DBFOM financial model reflects that the proceeds of the availability payments would be used by the SPV to pay for:

- Operation and maintenance costs,
- Taxes,
- Senior debt principal and interest,
- TIFIA loan principal and interest,
- Debt service reserve accounts,
- Rehabilitation reserve accounts, and
- Dividends to equity investors.

During the operations period, the Developer’s revenue is equal to the proceeds of the availability payments plus interest received on reserve accounts.

Operation and routine maintenance costs and contributions to rehabilitation reserve accounts represent a relatively small portion of the use of funds over the life of the P3 Agreement. Contributions to rehabilitation reserves start at the beginning of the operations period, but increase substantially in 2027 to pay for expected rehabilitation costs in the tunnels.

The Business Case assumes that the SPV's distributions to equity holders are payable once the Developer's other periodic obligations are met, and are estimated to increase gradually over time.

The financial structure of the DBFOM used in the Business Case assumes no need for refinancing. The senior commercial bank debt is assumed to be paid off before the maximum period accepted by the current market. However, it is possible that the market will allow longer loan periods as it improves between now and financial close.

Assumptions are Subject to Change: Actual proposal results may differ from those projected in the Business Case, which were based on interest rates and other market conditions in September 2009. As summarized above in this Report, the Business Case provides a detailed discussion regarding assumptions regarding construction cost risks, as well as operation and maintenance cost risks, all of which have significant impact on the results of the Business Case. In addition, any future changes in other key assumptions, including the assumptions below, could significantly change the results from those estimated in the value for money calculations in the Business Case:

- The continuing recovery of the capital markets from the dislocation in the capital markets in 2007, 2008 and a portion of 2009;
- The confidence of the Developer and the capital markets in the proposed payment of availability payments from the specified portions of the State Highway Account over 30 years;
- The availability of TIFIA loan capacity based on TIFIA's existing loan guidelines (TIFIA program staff has responded that they expect that TIFIA loan capacity will be "oversubscribed" based on the anticipated amount of TIFIA Letters of Interest due on March 1, 2010);
- The ability of the SPV to achieve an investment grade rating based on, among several factors, the proposed payment of availability payments from the State Highway Account over 30 years and the proposed amounts of the TIFIA loan (\$309 million) and senior debt (\$118 million) in the Business Case;
- The percentage of the TIFIA loan subsidy amount payments paid by the Developer (which is expected to increase based on the anticipated volume of TIFIA loan applications this year);
- The ability to use federal funds deposited into the State Highway Account to pay the SPV, which would then be used by the Developer to reduce its TIFIA debt; and
- The levels of the cost of debt and required equity returns.

SECTION 5 – PERFORMANCE OBJECTIVES

The Commission’s Policy Guidance requests, “...*The Department or regional transportation agency’s estimate, with supporting documentation, of the extent to which the project will be designed to achieve each of the following performance objectives:*

- a. improve mobility by improving travel times or reducing the number of vehicle hours of delay in the affected corridor;*
- b. improve the operation or safety of the affected corridor; and*
- c. provide quantifiable air quality benefits for the region in which the project is located.”*

Details regarding its performance against the objectives in the Commission’s Policy Guidance are presented below.

The Presidio Parkway Project is designed to achieve these performance objectives within the setting and context of the Presidio of San Francisco and its purpose as a National Park. Details regarding its performance against the objectives in statute and the Commission’s Policy Guidance are presented below. As an inherent and integral part of the overall Presidio Parkway Project, the P3 Project contributes directly to achieving these statutory benefits.

- a. Improve mobility by improving travel times or reducing the number of vehicle hours of delay in the affected corridor*

The Presidio Parkway serves as a primary north-south link in Northern California and a critical link for commuters who work in San Francisco. There are approximately 120,000 vehicle trips per weekday on the Presidio Parkway. The Presidio Parkway will also provide an important link for goods movement between San Francisco and the North Bay counties as well as northern California communities served by US 101. It also provides access for non-work trips for tourist and residents to and from San Francisco and areas north such as Sausalito, Sonoma and Napa.

Specific mobility objectives of the Presidio Parkway are to:

- Maintain the functions that the Doyle Drive corridor serves as part of the regional and city transportation network;
- Improve the functionality of Doyle Drive as an approach to the Golden Gate Bridge;
- Minimize the traffic impacts of Doyle Drive on the Presidio and local roadways; and
- Improve intermodal and vehicular access to the Presidio.

The Presidio Parkway is designated as a regional, post-disaster, recovery route. An interruption of the traffic flow following a major earthquake would sever a principal connection to the Golden Gate Bridge and would result in major congestion impacts on the regional transportation system and local streets. Such an interruption would have profound effects on regional transit, ferry services, freeway system and local streets in San Francisco and Marin counties, the East Bay, and the Peninsula. The near-term economic costs associated with such post-disaster peak period delays are estimated to be approximately \$1.4 million per day for the region, or about \$420 million per year (2008\$). Although travel patterns would adjust to the post-disaster delays,

the elimination of beneficial travel to and from San Francisco and the resulting economic loss would have an enduring impact on the local and regional economy.

b. Improve the operation or safety of the affected corridor

The overall Presidio Parkway Project will offer improved operations and safety with the following enhancements:

- A median barrier will be constructed to separate traffic traveling in opposite directions. This will reduce the potential for head-on collisions. In addition, the barrier will eliminate the need for the lane switching operations on Doyle Drive, thus reducing worker exposure to traffic.
- Inside and outside shoulders that are currently non-existent will be constructed, thus providing a clear recovery zone, as well as improving sight distance.
- Lane width will be increased from the current 10-foot width to 11-foot width for interior lanes and 12-foot width for outside lanes. The increased width will reduce the potential for side-swipe type collisions.
- Traffic management equipments will be installed, allowing the Department to monitor real time traffic conditions. The Department can provide real time traffic advisory information to motorists about congestion or collisions, improving both operations and safety.

c. Provide quantifiable air quality benefits for the region in which the project is locate

The overall Presidio Parkway Project meets air quality conformity requirements and conforms to the state air quality implementation plan as determined in the adopted 2008 Metropolitan Transportation Commission (MTC) Regional Transportation Improvement Program (RTIP) on January, 23, 2008.

A Record of Decision was rendered by FHWA for Doyle Drive Final Environmental Impact Statement / Report (FEIS/R) in December of 2008.

Specific air quality benefits of the Presidio Parkway include:

- To be consistent with the San Francisco General Plan and the General Management Plan Amendment Final Environmental Impact Statement, Presidio of San Francisco, Golden Gate National Recreation Area (NPS 1994a and 1994b) for Area A of the Presidio and the Presidio Trust Management Plan: Land Use Policies of Area B of the Presidio of San Francisco (Presidio Trust 2002);
- To minimize the effects of noise and other pollution from the Presidio Parkway corridor on the natural and recreational areas at Crissy Field and other areas adjacent to the corridor.

SECTION 6 – TRAVEL DEMAND FORECAST

The Commission’s Policy Guidance requests, “...*the Department or regional transportation agency’s forecast of travel demand, with supporting documentation.*”

The Sponsors have estimated that the average daily trips (ADT) on Doyle Drive are approximately 120,000 vehicles currently and that the ADT on the Presidio Parkway will be approximately 163,000 vehicles in 2030. The Presidio Parkway Project’s replacement of the existing Doyle Drive is necessary to meet this forecasted travel demand with a seismically safe facility

Since the Presidio Parkway P3 Project is currently not subject to tolls or direct user fees pursuant to Section 143(s) of the Streets and Highway Code, the Sponsors have not commissioned a traffic and revenue forecast. However, in the event that unforeseen circumstances necessitate consideration of tolling in the future, provisions under Article 11 of the P3 Agreement allow the Sponsors to authorize tolls in conformance with all applicable laws, regulations and agreements, including concurrence by regional and/or local stakeholders, as applicable.

SECTION 7 – TERMS OF THE DRAFT PUBLIC-PRIVATE PARTNERSHIP AGREEMENT

The Commission’s Policy Guidance requests, “...*the terms of the draft lease agreement associated with the project.*”

A summary of the draft terms for the P3 Agreement may be found in the Draft Term Sheet in Attachment 3. The Draft Public-Private Partnership Agreement and Draft Lease Agreement (together the “Draft P3 Agreement”) may be found in Attachment 4.

Certain of the terms have not been finalized at this time, pending additional analysis, market sounding, and interaction with proposers. In the unlikely event that any changes in the terms of the Draft P3 Agreement alters the project scope, the Sponsors will reserve the option to present such changes to the Commission for approval, as provided for in Section 5 of the Commission’s Policy Guidance.

SECTION 8 – EVALUATION CRITERIA

The Commission’s Policy Guidance requests, “...where the Department or regional transportation agency proposes to make a final evaluation of proposals based on qualifications and best value, consistent with Section 143(g)(1)(C), the criteria the Department or regional transportation agency proposes to use in making that evaluation.”

The Department proposes the RFP evaluation criteria set out below. Further refinements and details of the evaluation criteria, to be developed in conjunction with the development of the RFP, are anticipated to follow and be consistent with the evaluation criteria set out below.

A. “Pass/Fail” Evaluation Factors

(i) Administrative Pass/Fail Requirements

The administrative pass/fail requirements evaluate whether the Proposer has submitted the necessary documents pursuant to the RFP and the Equity Members, Major Non-Equity Members and key personnel listed in the Proposer’s SOQ have not changed since submission of the SOQ, or the Proposer has previously advised the Department of a change, and the Department has consented to such change.

(ii) Technical Pass/Fail Requirements

The technical pass/fail requirements evaluate whether the Proposer has submitted certain Technical Proposal submittals. Also, to “pass,” the Technical Proposal receives an average adjectival score of at least “Fair” on each of the individual technical evaluation criteria and receives an average adjectival score of at least “Good” on the entire Technical Proposal.

(iii) Financial Pass/Fail Requirements

The financial pass/fail requirements evaluate whether or not the Proposer has submitted certain required Financial Proposal submittals including supporting documentation for the financing proposal.

B. Proposal Evaluation Criteria

Unless the Department determines that a Proposal does not pass the “pass/fail” qualification requirements set forth above, each Proposal will be evaluated and scored according to the criteria set forth below. The order in which the evaluation criteria appear within each category is not an indication of weighting or importance.

(i) Technical Proposal Criteria

(a) Management / Administration Evaluation Criteria

The Department will use the following evaluation criteria to score the Management / Administration portion of the Technical Proposal:

- A) The degree to which the Project Management Plan contains a comprehensive and efficient construction management concept.
- B) The degree to which the Project Management Plan contains a comprehensive and efficient design management concept.
- C) The degree to which the Project Management Plan demonstrates an efficient and effective interface between various stakeholders.
- D) The degree to which the Project Management Plan demonstrates a comprehensive and efficient approach to management of traffic during Construction Period and the O&M Period.
- E) The degree to which the Preliminary Quality Plan demonstrates that adequate QA/QC procedures and staffing will be in place during performance of the Design Work, Construction Work and O&M Work.
- F) The degree to which the Project Schedule and Construction Phasing/Sequencing Plan addresses certain issues, including traffic management and right of entry issues.
- G) The degree to which the Environmental Compliance Plan addresses certain issues, including but not limited to environmental permit commitments, including mitigation and design features, and the ability to work with Section 4f and Section 106 issues.

(b) Preliminary Master Plan Submittal Evaluation Criteria

The Department will use the following evaluation criteria to score the Preliminary Master Plan Submittal portion of the Technical Proposal:

- A) The degree to which the Proposer's Preliminary Master Plan demonstrates an understanding of the physical attributes of the project.
- B) The degree to which the Proposer's Preliminary Master Plan demonstrates an understanding of stormwater issues.
- C) The degree to which the Proposer's Preliminary Master Plan structures/tunnels design meets standards and requirements.
- D) The degree to which the Proposer's Preliminary Master Plan demonstrates an understanding of the architecturally-significant features of the structures/tunnels and the landscaping features.
- E) The degree to which the Proposer's Preliminary Master Plan landscaping design meets standards and requirements, and demonstrates an understanding of the landscaping features.

- F) The degree to which the Proposer's Preliminary Master Plan demonstrates a broad understanding of the electrical & mechanical systems for tunnel lighting, ventilation, fire and life-safety systems, and intelligent transportation systems for the Project

(c) Operation and Maintenance Evaluation Criteria

The Department will use the following evaluation criteria to score the Operation and Maintenance portion of the Technical Proposal:

- A) The Proposer's approach, as described in the O&M Plan, to the operations and maintenance requirements during the Construction Period, including operation of movable median barriers for management of traffic during construction.
- B) The Proposer's approach, as described in the O&M Plan, to the operations and maintenance requirements during the Operating Period, including Developer's approach to operation and maintenance of tunnels, tunnel systems (lighting, ventilation, fire and life-safety systems, and intelligent transportation systems), maintenance of the landscaping and the architectural features of the structures/tunnels, Renewal Work, and Proposer's overall approach to meeting the routine maintenance requirements, incident response and the management of the Project.
- C) The Proposer's approach, as described in the O&M Plan, to coordinating and working with other government agency's whose operations are associated with the Project.
- D) The Proposer's approach, as described in the O&M Plan, to the Handback requirements for the Project.

(ii) Financial and Commercial Proposal Criteria

(a) Maximum Annual Availability Payment

The evaluation criteria will consider the net present value of Availability Payments made over the life of the project term assuming standard macro-economic assumptions set out by the Department in the RFP.

(b) Feasibility of Financial and Commercial Proposal

The Department will use the following evaluation criteria to score the feasibility of the Financial Proposal:

- A) The level of support from lenders and evidence of equity commitment
- B) Coherence, robustness and deliverability of the Financial Plan

SECTION 9 – USEFUL LIFE OF THE PROJECT

The Commission’s Policy Guidance requests, “...for a Department project, the Department’s determination of the useful life of the project in establishing the lease agreement terms, consistent with Section 143(d), including the basis the Department used for making that determination.”

The Presidio Parkway P3 Project has multiple components ranging from landscaping to pavement to tunnels. The Department has determined that the useful life of the Presidio Parkway pavement on the U.S. 101 corridor is 40 years. The Department has determined that the structures and tunnels will have a useful life of 75 years based on the described specifications. The Department’s determination was based on the design and construction specifications in the overall Presidio Parkway Project design documentation.

The proposed P3 Agreement is anticipated to be for 33 years (three years to construct and 30 years of operation). During the term of the P3 Agreement and at hand back at the end of the P3 Agreement, the Developer will be required to conform to the Department’s maintenance schedules and standards as set forth in the Department’s Maintenance Manual, maintenance directives, policy and procedure memorandums, and applicable safety orders, and asset condition, including the remaining useful life of the Project components, as to be specified in the P3 Agreement.

Based on these facts, the Department has determined that the Project has a significantly longer useful life than the anticipated 33-year term of the proposed P3 Agreement.

SECTION 10 – ATTACHMENTS

- **Attachment 1** – “Analysis of Delivery Options for the Presidio Parkway Project,” dated February 2010, by the Arup/PB Joint Venture (the “Business Case”)
- **Attachment 2** – Availability Payments
- **Attachment 3** – Draft Term Sheet
- **Attachment 4** – Draft Public-Private Partnership Agreement and Draft Lease Agreement

Attachment 1

**“Analysis of Delivery Options for the Presidio Parkway Project,” dated February 2010
by the Arup/PB Joint Venture (the Business Case)**

Availability Payments

Attachment 3

Draft Term Sheet

**Draft Public-Private Partnership Agreement
and
Draft Lease Agreement
(together, Draft P3 Agreement)**