

Southeast and West LRT – Construction Delivery Method

Recommendation:

That the January 25, 2011, Capital Construction Department report 2011CC4819 be received for information.

Report Summary

This report responds to two motions and summarizes the findings of the Public-Private Partnership business case for the Southeast and West LRT expansion.

Previous Council/Committee Action

- At the December 13, 2010, Agenda Review Committee meeting, the January 25, 2011, Capital Construction report 2011CC4819 was postponed to the January 25, 2011, Transportation and Public Works Committee meeting.
- At the May 4, 2010, Transportation and Public Works Committee meeting, the following motion was passed:
That Administration complete an analysis and determine the appropriate construction delivery method for the Southeast and West LRT line, and return to the Transportation and Public Works Committee with a recommendation before the end of 2010.
- At the January 12, 2010, Transportation and Public Works Committee meeting, the following motion was passed:

That Administration return to Transportation and Public Works Committee with a hybrid proposal for fast tracking LRT construction (Southeast, West and NAIT).

Report

Administration has developed a business case to determine the optimal delivery method for the Southeast, West and Downtown LRT Connector (collectively referred to as the Southeast and West LRT). Attachment 1 is a summary of the business case.

The business case assumed that the entire 27 km system from Millwoods Town Centre to Lewis Estates would be delivered as a single project with revenue service starting in January 2017.

Policy C555: Public-Private Partnerships

The business case has been completed in accordance with Public-Private Partnerships Policy C555. This policy states that Public-Private Partnerships will be considered where a Public-Private Partnerships will serve to achieve Value for Money in public infrastructure and service delivery while ensuring the public interest is protected and Council's priorities are met. More specifically, Policy C555 has six guiding principles that must be considered when assessing the viability of a Public-Private Partnership. For the Southeast and West LRT, they are addressed as follows:

1. **Alignment with City priorities:**
As set out in *The Way We Move*, construction of the South East

and West LRT is high on the City's list of capital priorities.

2. **Value for money is**

demonstrated: The business case indicates that VFM, in the range of 5 percent to 10 percent, is likely to be achieved over the 30-year operating period if a P3 is used to deliver the South East and West LRT when compared to a Design-Build delivery method.

3. **Public interest is protected:** A Public-Private Partnership contractor would be required to meet the following performance measures at a minimum:

- Reliability
- Punctuality
- Customer Management
- Cleanliness and maintenance of the entire system
- System Accessibility
- Safety
- Security of the system

The commercial structure of the Public – Private Partnership agreement would have the appropriate financial incentives to ensure the Public – Private Partnership contractor is meeting all the performance measures and would therefore ensure that the public interest will be protected.

4. **Risks are identified, effectively shared and managed:** A

comprehensive risk workshop was conducted, with internal and external stakeholders, analyzing the most significant project life cycle risks. This assessment

also identifies which risks are best retained and managed by the City, and which risks can be transferred to a Public-Private Partnership contractor. Assigning risks to the parties best suited to manage them maximizes the potential for each party to generate efficiencies and implement innovations over the life of the project.

5. **Private sector is appropriately engaged:** Through market

sounding, it has been determined that there is high level of interest in this project. Designers, contractors, operators and financiers from around North America and abroad are tracking this project. A transparent, efficient and timely process for procuring this project will maintain private sector confidence and create a competitive and fair procurement process.

6. **Governance and**

Accountabilities: Administration is developing a Public-Private Partnership process based on the Province of Alberta's Public-Private Partnership model. Administration is in the process of adopting the Province of Alberta's framework documents associated with the development and management of Public-Private Partnership contracts. These are the preliminary steps to ensure that an appropriate management structure is created to expedite the decision making process under the day-to-day operations

of the Public-Private Partnership contract.

Business Case Process

The business case for the Southeast and West LRT expansion compared delivering the project by a Public-Private Partnership to the best non- Public-Private Partnership alternative, to determine if and how much Value for Money can be achieved under a Public-Private Partnership. Attachment 2 contains brief explanations of all the delivery methods considered.

Design-Build was determined to be the Public Sector Comparator as it is best able to achieve schedule and cost certainty, while reducing the potential for scope creep and reducing overall system integration risk.

The process and variables used in developing the business case for the Southeast and West LRT are explained in Attachment 3.

Findings

The business case concluded that 5 percent to 10 percent Value for Money of the total life cycle costs (i.e. design, construction and 30 years of operations and maintenance) is likely to be achieved for the Southeast and West LRT under a Public-Private-Partnership agreement.

The optimum Public-Private Partnership commercial structure for this project is a Design-Build-Vehicle-Finance-Operate-Maintain 30-year contract because it allows a Public-Private Partnership

contractor to integrate every key aspect of the project and achieve the highest level of efficiency leading to the optimal Value for Money outcome. Having a single entity responsible for all project phases provides the single greatest opportunity for innovations. Using commercial incentives to ensure performance, combined with a competitive process to procure a Public-Private-Partnership agreement, then provides the best opportunity to achieve maximum efficiency.

The percent Value for Money range calculated for the Southeast and West LRT is similar to those seen on other recent Public-Private-Partnership projects delivered by the Province of Alberta (10 percent to 30 percent for school and roadway projects) and for Vancouver's Canada Line (5 percent).

It is important to reiterate that these findings assume that the Southeast and West LRT would be delivered as a single project with revenue service starting in January 2017. If these factors were to change, then the analysis would need to be revisited accordingly.

If more information is required about the detailed business case, then it must be heard in private. There are commercial details contained within the business case report which should remain confidential because if made public they could jeopardize the City's competitive advantage. The Public-Private Partnership process will remain open and transparent; however, the commercial details should remain confidential.

Focus Area

Assessing the optimal delivery method and life cycle costs for the Southeast and West LRT supports *The Way We Move* (specifically provides input for fast tracking LRT construction), while ensuring Edmonton's financial sustainability.

Budget/Financial Implications

Budgetary

There are no immediate budgetary implications. Should the Southeast and West LRT be approved for delivery by a Public-Private Partnership, then a separate report would be brought forward requesting funds for preliminary engineering, performance specification development, document development and the consultants/advisors necessary to deliver the project.

The funding for the business case was provided by Transportation Planning's operating budget. The development and implementation (e.g. specification development, procurement, preliminary engineering, etc) of a Public-Private Partnership contract will require significant internal and external resources. The resources required for the development and implementation of a Public-Private Partnership will be funded by the project's capital budget. The project budget will include costs associated with the capital construction, operations and maintenance, along with major rehabilitations over the 30-year proposed contract.

Financial

Public-Private Partnership decisions must consider impacts to the City's debt

capacity and the Debt Management Fiscal Policy C203C.

The amount of City debt is governed by limits imposed through the *Municipal Government Act* and further restricted through Council's approved Debt Management Fiscal Policy. The most restrictive limit is the total debt limit, which is two times eligible City revenues. In 2010, \$0.7 billion of debt room remains. By 2011, \$1 billion is projected to be available. The debt room increases as the City's eligible revenue streams grow. Any decision on debt allocation for LRT construction should allow for some flexibility to fund future projects.

Public-Private Partnerships will be recorded in accordance with the recommendations of the Public Sector Accounting Board based on the nature of the transaction and the related contractual commitments.

Legal Implications

Any Public-Private Partnership contract that includes the financing to purchase capital property over a period that exceeds five years is considered to be a borrowing under section 241(a) of the *Municipal Government Act*, R.S.A. 2000, c. M-26. Accordingly, a borrowing bylaw would be required for such a Public-Private-Partnership contract.

Attachments

1. SE and W LRT Delivery Method - Business Case Summary
2. Description of Delivery Methods Considered
3. Business Case Process

Others Approving this Report

- L. Rosen, Chief Financial Officer and Treasurer

Others Reviewing this Report

- R. Boutilier, General Manager, Transportation Department
- D. H. Edey, General Manager, Corporate Services Department

