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30-Year DBFOM for Doyle Drive in San Francisco

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The first project to move forward under California's new P3 law will be the replacement of Doyle Drive, after an analysis showed a DBFOM would create more value than a traditional procurement. Private financing could also dissolve concerns that available public funds might not cover any cost overruns, while freeing up $170 million in precious state cash for other projects.

Tolling the new road, called the Presidio Parkway, was vehemently opposed by leaders in Marin County, home of many commuters who use the 1.6-mile southern approach to the Golden Gate Bridge. Instead, the work is being funded by a mixture of federal, state and local money. Under the P3 scenario, the California Department of Transportation will be responsible for making availability payments for 30 years.

The California Department of Transportation (Caltrans) and the San Francisco County Transportation Authority (SFCTA)—the project co-sponsors—intend to issue a request for qualifications in February. An RFP cannot be released until the California Transportation Commission determines that the project meets the criteria set in SB 4 for public-private partnerships. If approval is granted in February or March, the request for proposals could be released in April, at the earliest. The preliminary timeline calls for selecting a winning bidder by August, and executing a final lease in December, before Gov. Arnold Schwarzenegger leaves office.

The state has hired Nossaman LLP for legal and Sperry Capital and KPMG as financial advisors for Caltrans's P3 program.

Work on the Doyle Drive replacement, which is to be called the Presidio Parkway, has been divided into two phases, each costing about $500 million. The project will replace Doyle Drive with a new six-lane freeway south of the Golden Gate Bridge. Phase I is already under construction. Under the P3 scenario, the team hired to design, build and finance Phase II would receive a milestone payment when the project is completed in 2013. The team will then operate and maintain the project for 30 years and receive annual availability payments.

The state's new P3 advisory commission heard details of the analysis on Jan. 21, and then recommended sending the project to the transportation commission. The draft report on delivery options was prepared by a joint venture of Arup and Parsons Brinckerhoff, under a contract to the SFCTA. Arup prepared the financial results and Parsons Brinckerhoff forecast operations and maintenance costs and provided input into construction costs.

"Our analysis shows that a P3 application is not only feasible, but presents a great opportunity to achieve best value for money, deliver the project on schedule, and lower life cycle-costs [more] than any of the alternatives," said José Luis Moscovich, executive director of the SFCTA.

A big part of the benefit seen for the DBFOM approach comes from assured preventative maintenance of the new road over the 30-year term of the concession. The existing Doyle Drive has suffered from inadequate maintenance due to Caltrans' budget woes.

Moscovich pointed out that phase I must be completely finished before contractors can get access to the site to begin phase II—whether or not the project is procured through a P3. If the P3 doesn't pan out, "we can still go back to a traditional delivery and not affect the schedule. And that's our fallback," he said.

Commission member Antonio Vives stressed that the private sector must be given very clear parameters for what will constitute a winning proposal, so that the presence of a "Plan B" doesn't discourage potential bidders.

"If they do not see a very strong possibility of winning, or if they see that your decision might be semi-arbitrary . . . they will either bid very high costs or they will not bid if they think there's a possibility you will go back" to a traditional procurement, said Vives, a veteran of the Inter-American Development Bank.

The estimated transaction costs in the Arup/PB report include $3 million for losing bidders, and bid and development costs up to financial close of $10 million for the winner.

Life-Cycle Benefits

The Arup/PB analysis calculated the net present value (NPV) of procuring the project through a DBFOM at $482 million, and at $626 million for a traditional design-bid-build. The result is a positive "value for money" of $144 million, or 23%. A design-build-finance procurement without O&M has a net present value of $632 million— "a wash," with the design-bid-build (DBB) option, according to Ignacio Barandiaran, chairman of the Arup/PB joint venture.

The NPV was calculated using many assumptions, including: securing a $300 million, low-interest federal TIFIA loan; a discount rate of 8.5%; the ability of the P3 team to achieve lower construction costs; a milestone payment of $150 million in 2013, and availability payments starting at $35 million the first year and rising to $41 million by the 30th year. For a DBB procurement, the analysis included an 80% chance that cost overruns could boost the base price of the project by 29%.

The estimated DBB cost for both phases is $955 million, which is the amount of funding that has been identified from 12 federal, state and local sources. However, the funding does not cover an additional $90 million that project planners would like to have for a risk contingency budget. According to the analysis, $879 million is currently committed.

Maintenance Budgets

"The total cost of achieving optimal levels of operations and maintenance is $24 million (in NPV terms) over the 75-year design life of the facility using DBFOM delivery compared to $30 million (in NPV terms) under DBB delivery," according to the Arup/PB analysis.

The P3 partner will be responsible for maintenance. However, it may choose to subcontract certain tasks to Caltrans, such as tunnel monitoring, and to the Golden Gate Highway and Transportation District.

According to the consultants' report, Caltrans's maintenance budget is fiscally constrained. In consultation with Caltrans, it has therefore been assumed under a public sector provision of maintenance services that annual maintenance expenditures on the 1.6-mile highway would be capped at $468,000 per year in 2009 dollars, corresponding to twice the state's per lane-mile average for similar facilities.

Under DBFOM, a routine maintenance program is assumed to be fully funded at $685,000 per year (in 2009 $) to allow for required activities, including, most importantly, all preventive maintenance tasks necessary to maximize the life of roadway assets.

Liquidity Boost

By deferring construction payments through a P3, California would have an additional $170 million in its State Highway Operations and Protection Program. However, Caltrans would also be responsible for making the availability payments during the full term of the concession. Caltrans and its funding partners are working on arrangements to fund these payments, according to Dale Bonner, secretary of the Business, Transportation and Housing Agency.

A success on the Doyle Drive project would be an important win for P3 proponents in the state. The new law authorizes an unlimited number of projects through Dec. 31, 2016 (PWF 9/09, p. 13). Gov. Schwarzenegger (R) leaves office Jan. 3, and could be replaced by someone who is less enthusiastic about public-private partnerships.