Los Angeles County
Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

213.922.2000 Tel
metro.net

Metro

APRIL 1, 2020

TO: BOARD OF DIRECTORS

FROM: PHILLIP A. WASHINGTON PAW
CHIEF EXECUTIVE OFFICER

SUBJECT: PUBLIC-PRIVATE PARTNERSHIPS AND METRO'S REPRESENTED WORKFORCE

ISSUE

On February 27th we had an initial meeting to discuss how public-private partnerships (P3s) may impact Metro's represented workforce. At that time, you requested we put together a short brief explaining how P3s drive value.

DISCUSSION

Based on my experience, and the experience of transportation agencies around the world, I am convinced that P3s can offer value to Metro and our customers. Properly structured, P3s have been shown to help deliver projects earlier, prevent cost and schedule overruns, achieve cost savings, and ensure that projects perform for customers for decades to come.

Unfortunately, in some cases, officials have sought to use P3s as an excuse to hire lower wage labor. I want to state unequivocally: that is never what Metro will do or allow to happen. I have no interest in reducing the wages and benefits of Metro's represented workforce, which is the foundation of a strong transit system.

ATTACHMENT

The attached factsheet outlines three key ways Metro is focused on leveraging P3s as we look to deliver value through P3s.

ATTACHMENT- FACTSHEET

How Do Public Private Partnerships (P3) Create Value?

P3s are not magic, but when used appropriately, they have been shown to create value for a major infrastructure project compared to traditional project delivery. A common misconception is that P3s deliver value by reducing the cost of labor. While *some* agencies *have* pursued this approach, Metro has <u>zero</u> interest in driving value from reduced labor costs. Such savings are minimal compared to other value drivers, and often undermine quality of work and performance. Metro intends to ensure that the total compensation package offered to labor under a P3 will be equivalent to what they receive under current Collective Bargaining Agreements.

On the other hand, a P3 can *create* value for labor through project acceleration. If a project can be accelerated through a P3 delivery model, this enables labor to grow their membership and gain new jobs many years earlier than they would have otherwise.

The following are some additional ways that Metro believes P3s **CAN** create value:

1) ***Transfer of risk to the party best able to manage that risk.*** Building and operating a transit system carries many risks, each of which has a real cost, both to Metro and to customers. In traditional project delivery, virtually all risks on a project remain with the public sector. For example, if a Metro transit project opening is delayed because operational testing takes longer than expected, we retain that risk and must cover those costs. However, under a P3, the private developer is solely responsible for operational testing. They do not get paid unless they meet the opening date that Metro sets, creating a strong incentive to meet that date. If they are late, the associated delay costs are their sole responsibility.

   <u>By transferring the risk to the private sector, Metro gains certainty regarding schedule and price, can avoid cost overruns, and reduces high contingency requirements, all of which save money.</u>

2) ***Reduction in total cost of ownership.*** In traditional project delivery, the public sector and private partner do not typically optimize the design and construction of a new transit line for operations and maintenance. Since a design-builder is not responsible for a project's performance after substantial completion, it may make choices that will reduce costs during construction but increase costs substantially over the life of the project. The P3 Developer's long-term operating and maintenance obligation, based on a fixed performance payment from Metro against which deductions are applied if the P3 Developer does not achieve its performance and service targets, creates an incentive for the P3 Developer to design and build a transit line that is more efficient to operate and maintain over the long term. This efficiency is not related to wages or benefits.

   <u>P3s reduce the total cost of ownership for Metro and provide significant value to riders by guaranteeing high performance and reliability over the long term.</u>

3) ***Innovation and Alternative Technical Concepts (ATCs).*** In traditional project delivery, a project goes out to bid with a design that is 30% complete with a highly detailed set of

technical requirements. This ensures the project is built in a very specific way that supports Metro's means and methods of design, operations, and maintenance. In a P3 project, the project goes out to bid with a conceptual design and technical specifications that describe the performance outcomes, but do not direct the P3 Developer as to the means and methods that it should use to achieve those outcomes. This creates more flexibility for how the project is designed, built, maintained, and operated. Also, this enables the bidders to introduce innovative design and operational approaches, including more cost-effective ways of achieving the same outcome in construction, maintenance, or operations. In those cases where Metro chooses to include more prescriptive specifications, performance-based contracts also allow the P3 Developer to suggest Alternative Technical Concepts (ATCs), which can achieve a similar result: more cost-effective ways of achieving the same result.

<u>While they is no guarantee they will occur, innovations or ATCs introduced by the private sector in P3s have a strong track record in reducing costs and accelerating project delivery, as well as strengthening operational performance and long-term maintenance.</u>