

9.0 Executive Summary

This Milestone Report for the Public-Private Partnering Strategy for the LAX-Palmdale (LAX-PMD) High Speed Ground Access Study is the ninth in a series of eleven. This report, prepared by Aldaron, Inc. and IBI Group for the Southern California Association of Governments, lays out a strategic approach to garnering the public and private resources (financial, political, institutional, technical) that will be needed if the high-speed ground transport (HSGT) system is to be deployed in the LAX-PMD corridor or elsewhere in the SCAG region. The intent is to provide public and private sector leaders with a framework and guide for developing a robust public-private partnership (PPP), one that has the strength and flexibility to stay the course and evolve over a period of years.

This Milestone 9 Report of the LAX/PMD High Speed Ground Access Study consists of eight components:

- 9.1 Partnering Strategy Introduction
- 9.2 Strategic Approach
- 9.3 Resources Required
- 9.4 Characteristics of Successful Public-Private Partnerships
- 9.5 Barriers to Successful Partnerships
- 9.6 FRA Requirements
- 9.7 Alternative Strategies
- 9.8 Recommended Strategy

Partnering Strategy

Public-private partnerships (PPPs) are characterized by shared investment, risk, responsibility and reward. The only essential ingredient is some level of private participation in a traditionally public provided service. Private participation may include private businesses, non-governmental organizations (NGOs) and community-based organizations (CBOs). PPPs are ever more popular across the globe as it becomes increasingly clear that governments alone cannot provide for the infrastructure needs of growing populations.

Encouraging private sector participation is one way to do more with less public funding. A PPP brings together the best resources available to support a traditionally public domain service.

The private sector often has advantages in:

- conceiving and running a business;
- promoting innovation;
- access to financial markets;
- utilization of technology;
- efficiency; and,
- entrepreneurial spirit.

The public section often has advantages in developing urban infrastructure in a manner that:

- achieves social responsibility;
- respects the environment; and
- considers political sensitivity.

The combination of these private and public sector characteristics has the potential to capitalize on the strengths of each sector while overcoming their weaknesses.

The PPP should be developed within an existing institutional and political context. This context needs to be understood and adjusted as necessary to become a fertile environment for incubating this new entity. The political context is that high speed ground transport (HSGT) and the use of a public-private partnership to implement it need support by local governments, elected officials, consumers, NGOs and CBOs to be viable. The institutional context is comprised of existing government bodies, potential partnering private businesses, and, depending on circumstances, non-governmental organizations (NGOs), and community-based organizations (CBOs). How these various entities interact with each other is also a part of that context.

The private sector has been reluctant to enter into PPPs in the United States given the high number of stakeholders and the lack of clarity in who can make decisions. This situation exists in the United States as a direct result of the democratic process where everyone has the right to voice concerns and elected leaders have the responsibility to listen. While the benefits of this democracy are enormous, the long lead-time needed to bring a PPP to the stage of revenues and profitability has been a deterrent to PPPs. Stakeholders, and especially the public partners, must recognize that investments up front by the private sector therefore assume more risk and should be adequately compensated. The PPP is not a widely accepted business model because of these inherent risks. Efforts to reduce the lead-time should be instituted to reduce risk and the corresponding additional funds that would accrue to the private sector. This focus on cost-effectiveness would induce more private sector interest and most constituent support. As a major shareholder in the venture, the public sector has a financial interest in promoting efficiency and reducing risk in project delivery.

Strategic Approach

A strategic approach must be used in the partnership development. The key point is that a public-private partnering strategy must be "reality-based" and designed to answer three fundamental questions:

- *Resources:* Will it bring to bear the combination of resources (technical, financial, institutional, political) that will be necessary to ensure timely and cost-effective project implementation and operation?
- *Risk:* Will it provide a suitable and accepted mechanism for appropriate risk-sharing arrangements among the public and private sector partners? The question of "who benefits, who pays?", must be addressed to the satisfaction of all the partnering entities.

- *Flexibility:* Will it recognize that the same stakeholders may not be involved in the partnering arrangement throughout all phases of the project development, financing, implementation, and operation, and that the partnership may need to evolve and change to include different stakeholders at various points?

Characteristics of successful PPPs include the fact that they must :

- Be reality-based;
- Be goal driven;
- Be built on a solid organizational and managerial foundation;
- Have a continuing emphasis on performance;
- Be inclusive of a wide spectrum of stakeholders; and
- Have the flexibility to adjust to changing circumstances and resource requirements.

Resources Required

The resources required for a successful public-private partnership are central to the partnering strategy, and it is this need for resources that guides the partnering framework. The resources include:

- Financial resources;
- Political resources;
- Institutional resources; and,
- Technical resources (e.g., legal, planning and engineering, intellectual capital, technology transfer).

These different types of resources will be required, in varying degrees, during the entire project development and implementation process. Public-private partnerships must appreciate the need and plan for these different kinds of resources if they are to succeed.

Some quantity of all of these different resources may be built into the initial PPP structure. Others will have to be acquired over time, and such acquisition may be foreseen (e.g., the capital draw down schedule of the project implies the need for different amounts of money to be available during different periods) or unforeseen (e.g., a change in political leadership may undermine public support for the project).

In building a successful PPP, it is essential to find that initial combination of partners that has the wherewithal and determination to make the project a “going concern” at the outset but is also adequate to secure commitments to the project’s resource requirements over time. These resource commitments will be made in the light of risk/reward calculations of each partner.

There will also be a strategy associated with what type and level of resources will be required of various partners. This leads to assumption of risk calculations and a requisite level of control expected by each partner. For instance, as a major shareholder in the joint venture, the public sector would be better positioned to monitor and control the activities of its private sector partner than as a minor shareholder with less resources committed. The best use of resources will result in the lowest cost provision of services, minimized risk and efficient provision of services.

Characteristics of Successful Public-Private Partnerships

The main criteria for successful public-private partnerships relate to:

- *Resources.* The PPP will need to establish agreement on the proper level and kinds of resources each partner is expected to contribute.
- *Risk-Sharing Arrangements.* Deciding on who will assume the risks in the delivery of a service or in the development and implementation of transportation infrastructure is a crucial question in developing the public-private partnership. Risks should be allocated to the partner who is in the best position to assume these risks
- *Responsiveness to Changing Circumstances/Requirements.* The PPP must be able to respond to changing political and market conditions and may even need to evolve itself over the lifetime of the project to include different partners. All memoranda of understanding and contracts must be structured in a way so that the partnership operations can be responsive to changing environments.
- *Solid Foundations.* There must be a solid foundation in existence for the partnership through a long-term commitment by the partners to achieving the objectives of the PPP and a sense of mutual cooperation. All partners must embrace the idea that performance can be improved through joint action and they must accept the notion of shared risks and benefits.
- *Organizational Structure.* Partnerships must be structured well in order to achieve their objectives. Linkages need to be developed between and within organizations in order to establish the proper relationships to facilitate a collaborative environment essential to implementation and operational success. Broadening the participatory base to include a wide diversity of stakeholders in the development process will also be essential for building public acceptance and support of such a major investment of public funds.
- *Management Strategy.* The management mechanisms required to operate and monitor the performance of the partnership need to be clearly defined and established, along with an ongoing process that translates strategy and policy considerations into specific action plans and programs. The management philosophy will establish the culture and goals for the partnership, which will be further translated into operating procedures.

Barriers to Successful Partnerships

This discusses at length the issues and challenges associated with forming and maintaining successful public-private partnerships. As such, these sections can be used as something of a handbook to guide the development of a partnering framework.

Public-private partnerships can be the most complex agreements negotiated by government, thus, how they are structured is the most critical component for long-term viability and success. Some of the key barriers are discussed in detail in Section 9.5 of the report including:

- Differences in corporate culture;
- Lack of clarity as to goals and expectations;
- Misunderstanding of required resources; and
- Inability/unwillingness to assume risks.

FRA Requirements

This briefly discusses Federal Railroad Administration (FRA) criteria for funding MAGLEV projects under Section 322 of TEA-21. Section 322 authorized \$950 million for a Maglev Deployment Program, after determining through years of study the viability of maglev as a technology for improving the transportation system. The intent of the Deployment Program is to evaluate, plan and construct a maglev rail system in the United States. Section 322 provides that the portion of the project not covered by funds under Section 322 may be covered by any nonfederal funding sources including private (debt and/or equity), state, local, regional, and other public or public-private entities, as well as by federally-provided Surface Transportation Program, and Congestion Mitigation and Air Quality Improvement Program funds, and from other forms of financial assistance under TEA-21, such as loans and loan guarantees.

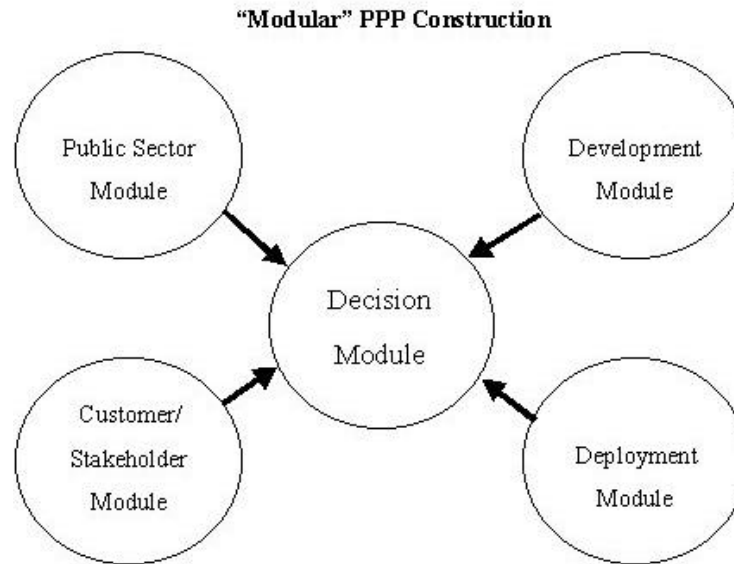
Although the LAX-PMD High Speed Ground Access Study is not being funded under current Section 322 authorized funds, it would be wise to follow a project development course that would not preclude receiving funds under future Section 322 authorizations. The partnering strategy developed in this Milestone 9 report has been designed to ensure that the SCAG region can comply with FRA funding requirements.

Alternative Strategies

The alternative strategies present both pre-deployment and deployment phase partnering concepts. A “modular” partnership model designed to provide the flexibility and scope needed to advance the idea of HSGT in the LAX-Palmdale Corridor is recommended. The notion of “partnership” being suggested goes far beyond more narrow legal definitions and includes any and all entities and stakeholders who may bring resources, financial or otherwise, that may be needed to help assure the financial and operating viability of the project. A framework consisting of four “Partner” Modules (PMs) and one Decision Module, as described below and depicted in Exhibit 9.0-1, is being suggested. At this point, these modules

include entities that might potentially be part of a greater HSGT development partnership. The extent and nature of their participation will be determined by subsequent events.

Exhibit 9.0-1



- The Decision Module would be comprised of a limited number of public and private partners from the four Partnership Modules. The Decision Module would act, in effect, as a managing board of directors overseeing the overall progress of the project and dealing with critical resource, project specification and political issues.
- The Partnership Modules, as described below, would be functional groupings of partnering organizations whose interest, resources, competencies and/or authorities would serve to achieve specified objectives as determined by the Decision Module.

Within this broader framework, specific partnerships may form. In the “Deployment Module,” for example, A&E firms, constructors, and technology suppliers may form a consortium to respond to the ultimate competition to design, build and operate the system. Another example is partnerships that may form between local governments and the development community with regard to development at and near stations (cf. the “Development Module”). Our intent at this juncture is to be as inclusive as possible so as to include the entire of universe of players who may reasonably expect to contribute something to and profit from the partnership. To satisfy the FRA requirement of a public-private partnership, some subset of this universe will ultimately form the core partnership that will actually deliver the project.

Decision Module

In any partnership, someone has to be in, usually a board comprised of a subset of all the partners. The board should be constituted to make sure that all key interests and competencies are represented. One critical question that will need to be addressed is: how does the public interest get protected without undermining private sector profit objectives, thereby undermining the very reason why the partnership was formed in the first place.

Partner Modules

The four Partnership Modules (PMs) are as follows:

- The Public Sector Module: with the exception of local governments (see the Development Module) and public transit providers (see Customers/Stakeholders Module), this module includes public sector entities that may contribute resources to the project and/or have a role in project approval, review and permitting.
- The Development Module: this includes local governments plus private sector entities (e.g., developers, landowners, retailers) that might be involved in development packages around stations. Local governments may also have a role in tax increment financing or benefit assessment financing mechanisms.
- The Deployment Module: this includes firms who might comprise a consortium that would respond (in either a franchise or JPA model) to a competitive procurement for the design, construction and operation of the system.
- The Customer/Stakeholder Module: this includes potential “customers” of the system (other than riders) such as small package delivery companies, telecom companies and major employers. It also includes public and private transit operators, taxi and vanpool companies, and other stakeholders who have a vital interest in the quality of life in the SCAG region (e.g., environmental and environmental justice groups, neighborhood associations, chambers of commerce, etc.).

Partnering strategy is discussed at two levels:

- Pre-deployment Phase (Section 9.7.2): An overall institutional structure that appropriate for the “pre-deployment” stages of the project to advance the two key strategic objectives identified below; and,
- Deployment Phase (Section 9.7.3): Specific structural arrangements in both the public and private sectors that may be considered as actual project deployment nears.

With regard to pre-deployment partnering strategies, three alternatives are considered:

- Alternative 1: LAX-PMD Corridor: the goal of the PPP would be restricted to implementing HSGT in the LAX-Palmdale corridor irrespective of (and conceivably in competition with other corridors in the SCAG region).
- Alternative 2: Regionwide HSGT Implementation: the PPP would be constructed to pursue HSGT implementation in all corridors judged to be financially, technically and politically feasible/desirable.
- Alternative 3: "Master" PPP with Corridor-specific "Subsidiaries": this would be, in effect, a hybrid approach whereby an umbrella or master partnership would be formed with a regionwide HSGT mission but within which would form corridor-specific "subsidiaries" (or possibly franchises). Two variants of Alternative 3 are discussed: Alternative 3A envisions the regionwide PPP evolving from the "bottoms-up" efforts of individual corridor-specific partnerships. Alternative 3B involves forming the regionwide partnership at the outset in more of a "top down" approach.

It must be said at the outset that there is not necessarily a "correct" approach to formulating a PPP. Fundamentally it is a policy call, and a final recommended approach could only be developed based on input from SCAG and other key stakeholders. At this juncture, the key strategic objective is to begin the dialogue at the policy level that will lead to a consensus approach (which, like battle plans in war, will inevitably change almost at the outset).

Recommended Pre-Deployment Strategy

None of these alternatives is without significant issues and challenges, as the discussion of the requirements for and obstacles to successful public-private partnerships in this Milestone 9 report has hopefully made clear. A preferred partnering strategy can be identified only in consultation with both current and potential public and private partners, not only in the LAX-PMD corridor, but also in the SCAG region.

However, based on the foregoing discussion, Table 9.8 qualitatively assesses each pre-deployment alternative in terms of resources/risk and flexibility criteria.

Table 9.0-1
Summary Evaluation - Pre-Deployment Partnering Alternatives

Alternative	Resources/Risk	Flexibility
1: Corridor Specific	✓	✓✓✓
2: Regionwide	✓✓	✓
3A: "Bottoms-Up" Hybrid	✓✓✓✓	✓✓
3B: "Top Down" Hybrid	✓✓✓	✓

On balance, it is suggested that Alternative 3A offers the best balance of resource potential, manageable risk and flexibility over time.

At this juncture, the key task is to develop this broader “umbrella” partnership allowing for varying degrees of commitment by a variety of public and private actors consistent with their perceived interests, resources and willingness to take on risk. Moreover, this umbrella partnership should focus on two initial strategic goals:

- To advance the idea of high speed ground transport in the LAX-Palmdale corridor, and in the SCAG region in general, from “could happen” to “should happen” (and, eventually, to “must happen”) in the minds of key public and private sector leaders and institutions; and,
- To secure the financial and political resources necessary to build and sustain the partnering framework during these early stages of system development.

This Milestone 9 report suggests an eyes-open, “reality-based” approach to forming public-private partnerships. It should be emphasized once again that the decision on the best pre-deployment partnering strategy is a judgment call to be made by policy-makers, with the advice of key private sector and community stakeholders. It is hoped that this Milestone 9 report provides the basis to start that collaborative consultative process.