



BRIEFING: MARCH 15, 2017 BOARD MEETING AGENDA ITEM #3

TO: Chairman Richard and Board Members

FROM: Jeff Morales, Chief Executive Officer

DATE: March 15, 2017

RE: Update on the Early Train Operator Procurement

Background

At its December 2016 meeting the Board approved the release of a Request for Qualifications (RFQ) for Early Train Operator Procurement. The procurement is now underway and the RFQ will be used to shortlist teams for a Request for Proposals that will include a pre-development agreement to provide implementation and advisory services during the first phase of the contract and to provide initial train operations services during the second phase. This procurement is not for the long-term concession for operations after initial ramp-up that has been described in the 2016 Business Plan; the Early Train Operator (ETO) would provide advisory services to continue development of the program, and then will operate through initial operations, including the ramp-up period.

Since the release of the RFQ in December, a number of questions have been received from bidders seeking clarification of some aspects of the procurement. In addition, after discussion at the February 2017 meeting, the Board requested an update and informational presentation from the staff. This presentation is intended to provide additional clarity to the Board and public on this procurement.

Discussion

The 2016 Business Plan lays out the Authority's Business Model for delivering and operating the high-speed rail system. The Business Plan describes three phases of engagement for operators as follows:

- pre-operations phase, where the operator advises on the planning, design, and construction of the system;
- initial operations phase in which the operator mobilizes and carries through an agreed-upon ramp-up period; and,
- long-term phase providing mature operations.

This procurement combines the first two phases above so that there is continuity between the advice offered by the ETO during the pre-operations phase and the initial operations phase that it will perform once the system is completed. The third phase is not included in this procurement. The ETO will be eligible to compete for the long-term operations contract.

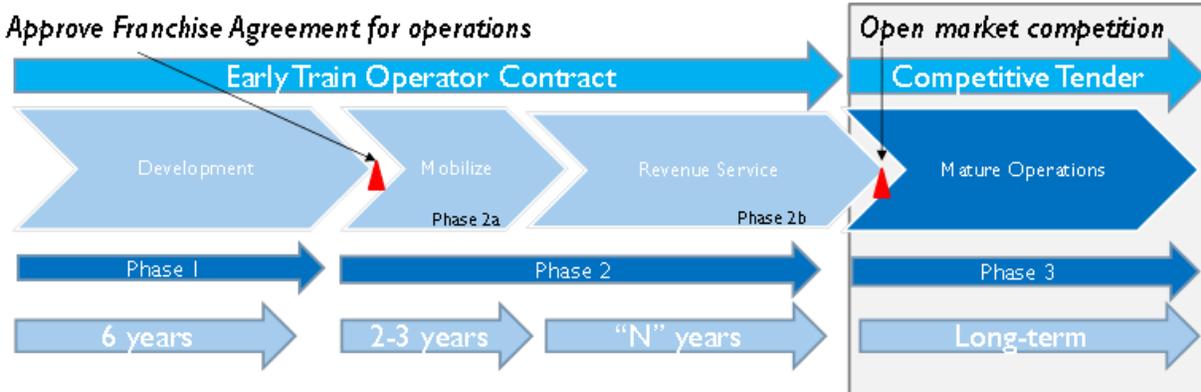
Through this procurement, the Authority intends to enter into a partnership with a world-class operator to assist during the first phase in aspects of the initial development of the system including the procurement of rolling stock, track and systems, and stations; and to eventually become the initial responsible party for operations and management of the Silicon Valley to Central Valley segment of the System during early operations.

The contract that will be awarded under this procurement will encompass two phases for the Silicon Valley to Central Valley segment of the high-speed rail system. The First Phase will be governed by a pre-development agreement pursuant to which the successful ETO will work alongside the Authority and its advisors on the design, development and procurement of the commercial aspects of high-speed rail passenger operations. At an appropriate time during this First Phase, the Authority and the ETO will negotiate and execute a Franchise Agreement and associated Financial Plan to govern the Second Phase of services. The Franchise Agreement and Financial Plan will be presented to the Board for approval prior to execution.

The First Phase of the contract is expected to begin in the fall of 2017 and continue for an estimated six years. Parties are expected to be mutually aligned and incentivized to achieve project success during this initial stage. Notwithstanding this, each party will have the ability to terminate the contract during this phase if certain conditions, precedents or milestones are not achieved on a timely basis, or the parties, acting in good faith, cannot agree to terms of a Franchise Agreement including a Financial Plan for operations.

The Financial Plan will be proposed by the ETO and negotiated in advance of the Second Phase Franchise Agreement with the Authority. The ETO will establish its own financial projections based on the information and the analyses it will have collected during the First Phase as well as the contracts entered into by the Authority for high-speed rail train sets, track and systems. The Financial Plan will address forecasted cash flow needs, the length of period required to complete Second Phase and other financial terms.

Once the Franchise Agreement is executed, the Second Phase of the contract will commence. The terms of the franchise will include the mobilization of a train operating company and the earliest practical commencement of revenue service after trial running. The Franchise Agreement will also include typical service and performance obligations and the agreed Financial Plan. The Second Phase will run until the end of the contract term agreed in the Franchise Agreement and the Financial Plan, but could be terminated earlier once agreed-upon targets are met or if certain industry-standard service and performance metrics are not satisfied. Moving forward with the procurement now is essential to ensuring that the ETO has an opportunity to provide input to the other key procurements before they move forward.



Evaluation and Selection

The RFQ includes a discussion of the requirements for respondents and the evaluation criteria that will be followed by the Authority in developing the list of qualified offerors to receive the Request for Proposals. As further described in the RFQ, the evaluation will include assessment of:

- 1) Past Performance and Experience: The relevant past experience of the Offeror and its Key Personnel in operating high-speed rail or intercity passenger rail services and related services
- 2) Train Operations Team: Organizational and management approach to providing the services and proposed Key Personnel
- 3) Understanding of the Services

The Authority will evaluate the financial capability of Offerors on a pass/fail basis based on certain financial metrics including but not limited to size, cash flow, profitability, and liquidity equivalent to other similar contracts.

It is anticipated that some Offerors will form teams. The Authority has published requirements related to the potential restrictions for the Operator and its subcontractors participating in future procurements on which the Operator has provided procurement advice to the Authority. Offerors can seek guidance from the Authority in writing related to its team and any potential restrictions.

Responses to the RFQ are due on Tuesday, April 4, 2017 and staff currently anticipates presenting the Request for Proposals and short list of Offerors is at the May Board meeting.

Recommendations

This is an information item; there are no staff recommendations at this time.