

TO: FM DIVERSION AUTHORITY BOARD

FROM: FM DIVERSION AUTHORITY FINANCE COMMITTEE

RE: ERNST & YOUNG PROFESSIONAL SERVICES CONTRACT PROPOSAL

DATE: JANUARY 7, 2015

The Finance Committee discussed the attached scope of services from Ernst & Young to assist in development of long alternative financing options for the FM Diversion project. They have been a part of our working group discussions for the past several months regarding the need to explore and public, private partnerships commonly referred to as P3's and other financing options. They have experience in this area and will also assist in identifying other more traditional funding opportunities including other Federal loan programs. The scope of work has been estimated to cost from \$175,000 - \$350,000 for a three month time period. The Finance Committee is recommending that a contract award be made with Ernst & Young as detailed in the scope of services.

Suggested Motion:

Approve Ernst & Young as our P3 financial advisor and approve a scope of work to be billed on an hourly basis.

APPENDIX 4: Scope and Fee Proposal

As requested, we have developed an initial scope of work to assist the Authority in its decision making process and in interactions with stakeholders regarding alternative finance and delivery approaches. In our experience, the best starting place for a public agency launching an ambitious project approach is to perform a preliminary Alternatives Analysis and potentially develop a Business Case & Strategy document to support the Authority's desired approach. The fundamental analysis behind such an effort is essentially the same, but the desired end product will dictate the level of effort that will be required. As such, we outline below a proposed scope of work that addresses the main components of the work that will be required to advance the Project, and allows flexibility for the Authority to decide now or over time the form that the analysis should take.

We anticipate that this initial phase of our work will include:

- Collect and perform a preliminary analysis of Project data, including:
 - Project technical requirements, Project cost breakdown and anticipated construction schedule (working with the Authority's technical advisor);
 - Existing and anticipated public funding sources and authority to pledge such funds to public and/or private investors
 - Funding and delivery agreements with the US Army Corps of Engineers and related legislation
- Work with the Authority in determining the range of financing and delivery approaches to be analyzed.
- Develop one or more Project financial models to evaluate each approach. The model(s) will allow the Authority to perform sensitivities of various assumptions on the following components:
 - A public finance model, which could include any combination of governmental tax-exempt debt, TIFIA, RRIF and WIFIA loans, and federal, state and local grants; and a combination of pledged security sources, including sales taxes, property taxes and future federal grant receipts.
 - A shadow P3 financial model, which could include any combination of governmental tax-exempt debt, tax-exempt PABs, private equity, taxable debt, TIFIA loans, RRIF, WIFIA loans, and federal, state and local grants; and a combination of pledged security sources, including sales taxes, property taxes and future federal grant receipts.
 - The above model(s) will be informed by our Team's knowledge of municipal and project finance credit considerations, and of federal funding and financing programs.
- Work with the Authority and its technical advisor to develop estimates of relative project costs and risk transfer benefits under various delivery approaches, including DBB, DB, DBOM, and DBFOM, and taking into consideration single and split delivery approaches.
- Work with the Authority and its technical advisor to understand any implications a particular delivery approach may have on long-term Federal indemnifications and FEMA assistance.
- Combine financial, cost and risk inputs to perform a preliminary Value for Money (VfM) or Alternatives Analysis whereby financing and delivery alternatives are compared to an agreed-upon Public Sector Comparator (PSC)
- Assist the Authority in developing documentation of the analysis for its stakeholders. Such documentation could include all or a portion of the following:
 - A description of the Project and its particular challenges
 - A description of the Authority's near-term and long-term goals for the Project
 - A quantitative comparison of the different approaches

- A qualitative comparison of the different approaches, including risks and opportunities
- A preliminary timetable and roadmap for executing a given approach, including steps in a P3 procurement, steps in securing federal loans under the TIFIA, RRIF, and WIFIA programs, and steps for securing a PABs allocation from the USDOT.
- A preliminary list of conditions precedent for executing a given approach
- A strategy for closing a potential funding gap
- The level and form of documentation will depend upon the Authority's and stakeholders' needs, and can take the form of a simpler Alternatives Analysis, or a more robust Business Case for a particular approach or strategy
- During this period, and as long as the contract is in effect, EYIA will be available to assist the Authority in periodic strategy discussions, meetings with federal, state and local stakeholders, or any other financial advisory need of the Project, as determined by the Authority.

Based on our experience undertaking similar work for clients throughout the country and globally, and based on your goal to expedite the process, we estimate that our fees for our services for the initial three months of work will range between \$175,000 and \$350,000. Our estimate of fees is based on the following key assumptions and considerations:

- EYIA's role will be to advise on financial and commercial matters only, and appropriately qualified legal and technical consultants with relevant experience for the Project will be available for us to collaborate with during our work effort, with legal counsel having primary responsibility for procurement and other legal authority matters;
- Our estimate also assumes that an efficient, interdisciplinary project team structure is assembled within the Authority, with EYIA being allowed reasonable flexibility to interact directly with the internal project team members and other consultants, as applicable; and
- Our estimate is based primarily on prior experience with other infrastructure projects and our current understanding of the Project, but may differ depending upon the level of interaction and the direction the Project may take during this time period.

Our proposal is based on an estimate of the time that it will take to perform the initial work and applied to the hourly rates outlined below. The hourly rates we have proposed are at a significant reduction to our standard rates, in line with similar projects for public authorities and we believe appropriate given the status of the Project. Per our discussion, we anticipate the fee model for this engagement would be task-order based hourly billing, using fully loaded hourly rates, with potential future tasks to be negotiated at the appropriate time.

The budget estimate is based on the proposed hourly rates detailed below:

Position	Proposed Hourly Rates*
Senior Managing Director	\$550
Managing Director	\$500
Senior Vice President	\$475
Vice President	\$425
Senior Associate	\$365
Analyst	\$260

* Hourly rates subject to annual escalation at the greater of 3.5% or CPI