

WELCOME!

Regional Investment Initiative Readiness Assessment

July 2024



CAL POLY

AGENDA

- Why a readiness framework?
- Elements of readiness framework
- Key inputs
- Which projects are "ready": scoring system

WHY READINESS ASSESSMENT?

- Final check to screen projects and identify the ones with sufficiently high implementation likelihood

WHAT IS THE ASSESSMENT BASED ON?

- A systematic rubric to assess key implementation milestones and resources across projects

HOW TO MAKE SURE THE PROJECT IS READY FOR THE READINESS ASSESSMENT?

- Study the rubric once publicly posted, ensure all required documents are submitted, and utilize the provided templates for input data.

AREAS OF READINESS ASSESSMENT

PLANNING

**FINANCE
OPERATION**

CONSTRUCTION

**RISK
ASSESSMENT**

Planning Readiness

- Complete the land acquisition process or confirm the owner's authorization.
- Ensure compliance with the California Environmental Quality Act (CEQA) and other environmental permits, if applicable.
- Develop and approve the project plans.
- Obtain the necessary building permits.

Planning: Information Sources

Required documents to be submitted

- **Site Acquisition:** copy of the title or a notarized statement from the existing property owner authorizing the applicant; a narrative for land selection justification
- **Environmental Permits:** CEQA exemption or a certified ND, MND, or EIR and any other required environmental permit; if these documents not available submit copy of initial study, or proof of project review initiation
- **Design:** approved architectural and engineering plans; if plans not approved development plan application submittal
- **Construction Permit:** a copy of the construction permit (Table A); if the permit is not obtained, any approved applications, a copy of signed application and a copy of application fees; if the application process is not initiated, feasibility study report including scope of project, consistency with local policy, and likelihood of receiving environmental permits.

Planning: Readiness levels

- Level 1 (up to 10 points): The project is well-defined and has a feasible scope, but land is not acquired.
- Level 2 (up to 20 points): Land acquisition process is completed.
- Level 3 (up to 15 points): Application process is initiated.
- Level 4 (up to 25 points): CEQA and other environmental planning permits determination/review is completed.
- Level 5 (up to 20 points): Project approval by the lead agency.
- Level 6 (up to 10 Points): Construction permit is obtained.

Planning: Readiness

Total Score	Status	Ready?	Implication/Action
10	Land is not selected, but the project is well defined and sounds feasible.	No	No approval until land acquisition process is completed
20	Land acquisition process is completed, and site selection is justified. However, the application process is not initiated, and the consistency with local policy is not documented, and it is not likely to be CEQA exempt	No	No approval until application process is initiated
40	The application process is not initiated, but the consistency with local policy is documented, and the project is likely to be CEQA exempt. Or The application process is initiated but the project is not consistent with local policy	No	No approval until application process is initiated, or the GP amendment and/or rezoning to be approved
60	The consistency with local policy is documented and envisioned timeframe for the CEQA and other relevant environmental permits to be approved is less than 6 months	Borderline ready	
80	Plans approval by lead agency is not obtained but CEQA mitigation measures and conditions of approval prepared	Ready	
100	Construction permit is obtained	Ready	

Finance Readiness

- Realistic financial assumptions (in particular, on cost estimates)
- Aligned sources and uses of funds
- Realistic plans for securing and receiving funds
- Aligned timeline of inflow and outflow funds (including obtaining required permits for fund usage)
- Sufficient precautionary reserves

Finance: Information Sources

- **Required documents:**

- Key financial assumptions
- Itemized expenditure projection
- Table of funds sources and uses (or a CapEx plan)
- Operational budget (OPEX) or revenue projection
- Cash-flow (in-flow and out-flow) projection table
 - Alternatively, a detailed proforma
- Timeline of financing.

- **Preferred documents:** Cost/benefit or feasibility analysis, Term sheets from banks/investors, and Market study report

Readiness Decision: Finance

Total Score	Status	Ready?	Implication/Action
5	Only basic financial information provided	No	No approval without additional information
30	Sources and uses of funds match and are realistic	No	No approval without additional information
60	Capital and operational budgets are realistic and balanced	Borderline ready	Encourage to provide risk management plan
90	Capital and operational budgets are realistic and balanced + additional scores from risk assessment documents	Ready	Ensures major risks and mitigation plans are included
100	OPR grant closes a critical gap in an otherwise ready project	Ready	Prioritizes ready projects using OPR funds to fill gap

Construction Readiness

- Include detailed construction budget information, complete project scope, indirect costs, and contingencies in the proposal.
- Clearly outline the overall construction schedule, required milestones, and procurement timeline.
- Plan construction logistics, including site conditions, temporary utilities, and material storage arrangements.
- Develop comprehensive safety plans, including risk analysis, safety equipment and tools, and emergency plans.

Construction: Information Sources

- **Construction Budget:** Detailed breakdown, project scope, indirect costs, and contingencies.
- **Construction Schedule:** Overall schedule, milestones, and procurement timeline.
- **Site Logistics Narratives** (preferred): Construction logistics, site conditions, temporary utilities, and material storage.
- **Safety Risk Narratives** (preferred): Comprehensive safety plans, risk analysis, safety equipment, and emergency plans

Levels of Construction Readiness

- **Level 1 (up to 35 Points) - Construction Budget**
 - Covers entire project scope and includes all direct and indirect costs.
 - Reflects current market conditions and aligns with industry benchmarks.
- **Level 2 (up to 35 Points) - Construction Schedule**
 - Covers entire project scope.
 - Realistic activity durations and sequential logic.
- **Level 3 (up to 15 Points) - Site Logistics Narratives**
 - Addresses construction risks related to site utilization.
 - Explains efficient site organization for construction operations.
- **Level 4 (up to 15 Points) - Construction Safety Narratives**
 - Identifies all safety risks.
 - Explains safety risk mitigation.

Readiness Decision: Construction

Total Score	Status	Ready?	Implication/Action
30	The construction budget and schedule are not complete.	No	No approval without a substantial revision of the construction budget and schedule.
50	The construction budget and schedule are not satisfactory	Only partially	Encourage revising the construction budget and schedule
70	Capital and operational budgets are realistic.	Ready	Encourage revising site logistics and safety narratives
90	Overall construction plans are realistic. Risks are identified and risk mitigation strategies are discussed.	Ready	The proposed project is ready to move forward with a minimum level of risk.
100	The proposed project is ready to move forward with a minimum level of risk.	Ready	Approved

Risk Analysis

- Ensure the project does not face major unanticipated forces (e.g., community opposition) that may challenge or jeopardize its implementation.
- Early risk assessment encourage projects to prepare and hedge against future adverse events
- Requires effective strategies for hedging, risk management, and mitigation

Risk factor: deviation of performance or resources from the baseline predictions can jeopardize project success

Examples of Major Driving Forces

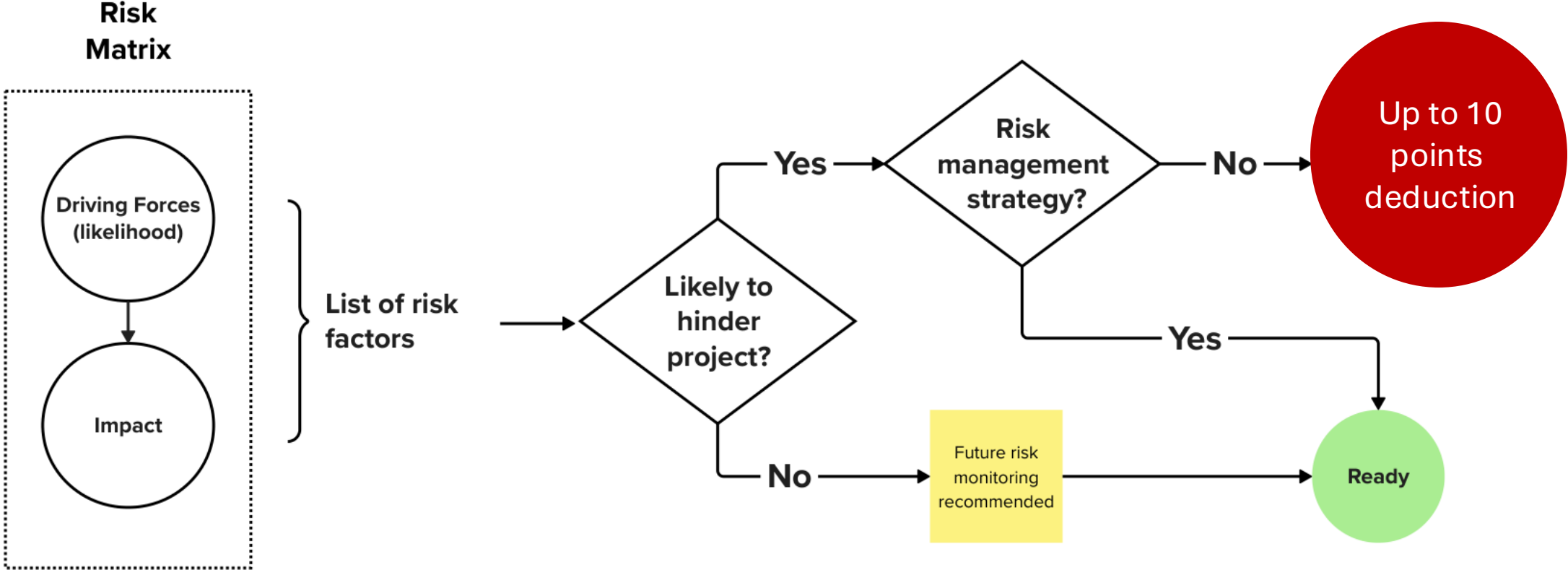
- Approval or construction delays
- Raw materials cost fluctuations
- Interest rates change
- Labor cost surge
- Main funder/financier default
- Market demand recession
- Technical and operational failures

**Adverse
Impact on
Project
Probability of
Success**

Sample Risk Matrix for a Hypothetical Project

	Risk Factor	Brief Description of Impact on Project	A Likely Negative (Adverse) Scenario	Net Impact on Financial Indicators of the Project
	Changes in construction materials cost	The project budget includes \$800,000 construction items. Construction materials constitute a major share of the cost of this item. A sudden increase in the price of construction materials will negatively impact the construction budget of the project.	Given CPI data, it is likely that construction materials cost increase by 15% in the next two years	Project construction budget will need to increase by \$90,000 if we face surges in construction materials cost.
	Delay in environmental permits	We cannot start the project before the environmental permit is received. If construction is delayed for more than one year, we may lose funding from sponsor A of the project.	Historically, 80% of the environmental permit requests for similar projects are processed in less than 12 months. However, there is a 20% chance that it will take more than one year.	Financier A has committed to providing \$200,000 to the project. If the project loses this funding item, we may need to either see a new financier or downsize staff expenses by \$200,00

Identify at least 3 risks



Risk Assessment Flowchart

Key Takeaways

- Readiness as a framework to examine and communicate **resources** and **risks** of the projects
- Four key areas: planning, construction, finance and operation, and risk assessments
- Key inputs
 - **Planning and construction:** site info, permits, design, construction plan
 - **Finance and operation:** key assumptions, capital and operational budgets, sources of finance, cash-flow projections (or proforma)
- Key outputs: Readiness scores, and feedback