
Draft Procurement and Project Delivery Approach

for the
Honolulu High-Capacity Corridor Project



City and County of
HONOLULU, HAWAII



March 15, 2007

Purpose

- Through collaboration with the City and County of Honolulu (City)...work to define and develop the most effective approach to procure and deliver the Honolulu High-Capacity Corridor Project in achieving the Project *Objectives*.



Objectives

- Development and delivery of a *world class* rapid transit system
- Accelerated delivery of the rapid transit system...delivered on time and within budget
- Delivery of the rapid transit project under a public-private-partnership framework...through private participation in joint development and/or project financing
- Public ownership in the Project through contracting and employment opportunities
- Achieve the optimum and earliest build-out of the rapid transit system alignment



Success Criteria

- A delivery Team with the depth and breadth of relevant experience and the financial capacity to provide the necessary completion and performance guarantees
- Procurement and delivery approach that embraces early involvement of the Contractor in the Project development phase
- Pricing approach that is open-book, allows for the early identification and mitigation of Project risks, and places Contractor in at-risk position on fee and/or price
- Effective land use planning with developer input to promote transit-oriented development opportunities

Success Criteria (Continued)

- Strong local participation in the Project through packaging and staging of the Work, and hiring and training of locals for staff positions
- Clear understanding and commitment to the technical integration requirements of the Work elements, including Project lifecycle costing
- Owner involvement in the development of the Project under an “alliance” environment with the Contractor, (designer and operator)
- A business interruption mitigation plan during construction embraced by the local business community

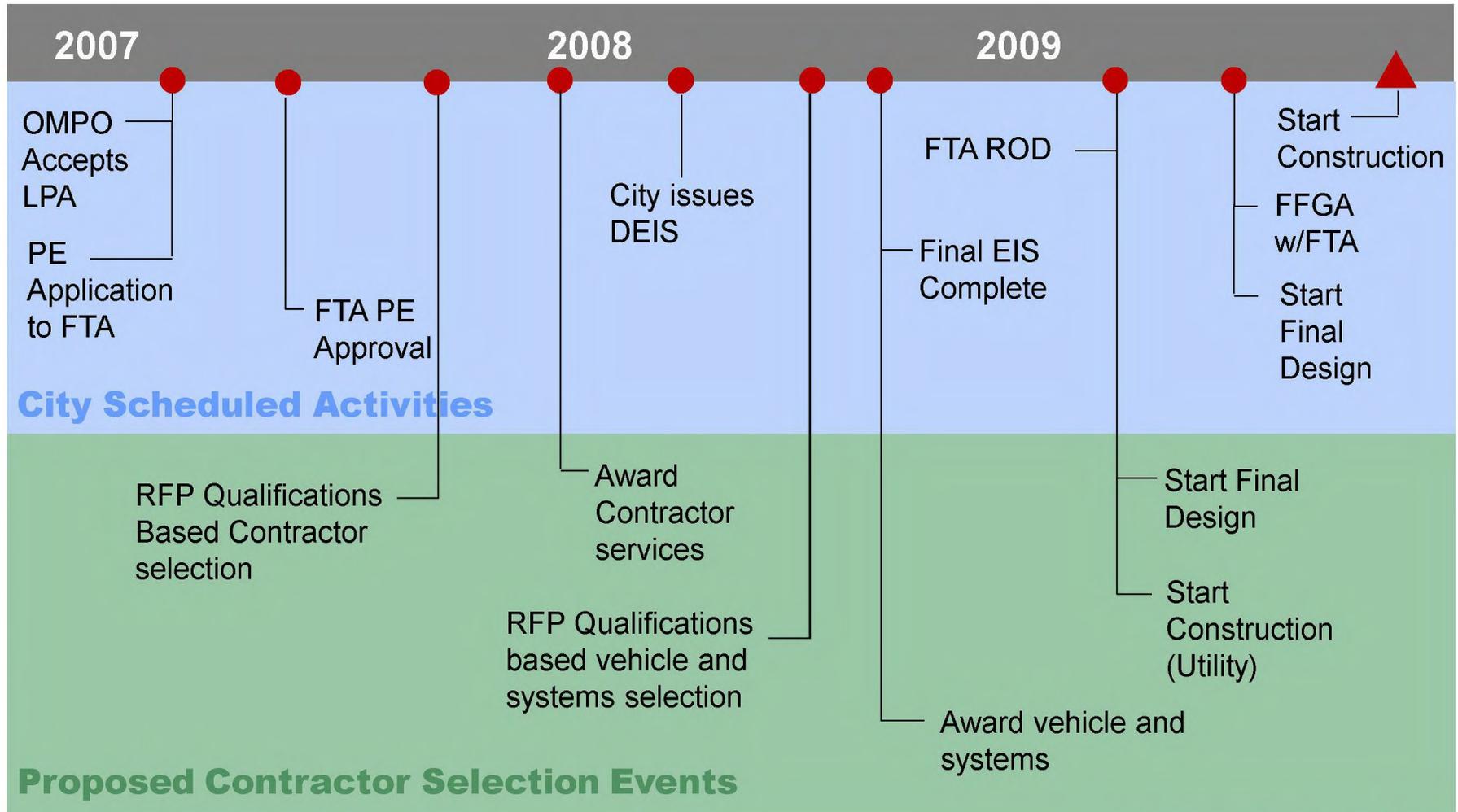
Project Scope

- Full Alignment:
 - 28 mile fixed guideway with Saratoga Avenue/North-South Road in Kapolei as the western terminus, and University of Hawaii-Manoa as the eastern terminus, with a Waikiki Spur
- MOS Segment Options
 - FD1: 20 mile segment with University of Hawaii-West as the western terminus, and Ala Moana Center as the eastern terminus
 - FD2: 20 mile segment with Fort Weaver Road as the western terminus, and University of Hawaii-Manoa as the eastern terminus

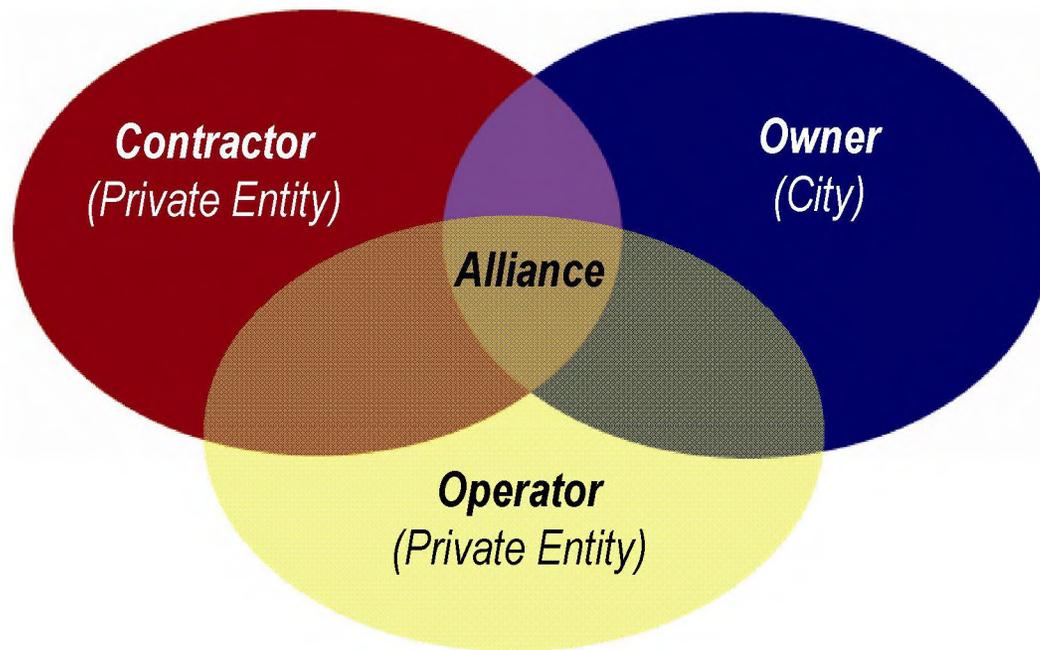
Key Milestone Dates

- PE Application to FTA Spring 2007
- OMPO Accepts LPA Spring 2007
- FTA PE Approval Summer 2007
- City Issues DEIS Spring 2008
- Final EIS Complete Fall 2008
- FTA ROD Summer 2009
- FFGA with FTA Fall 2009
- Start Final Design Fall 2009
- Construction Start End 2009
- Inaugural First Segment 2012

Proposed Schedule-Major Events



Early Contractor Selection – Alliance Basis

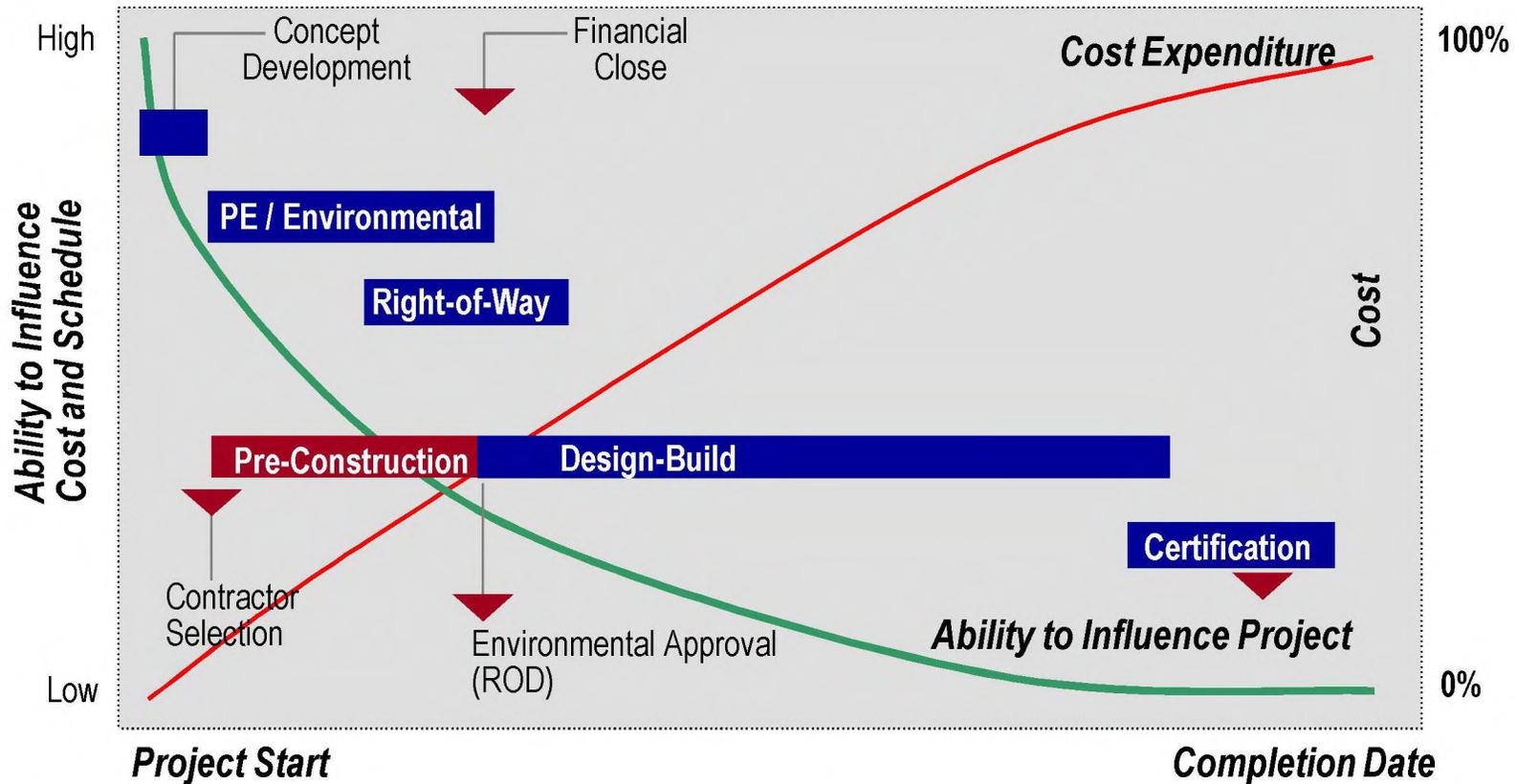


The alliance and early collaboration between the parties is critical to Project success:

- Project costing/ pricing
- Work planning and packaging
- Technical and financial integration- optimization
- Risk identification, mitigation and sharing
- Project staffing and communications
- Integrated roles, responsibilities



Early Contractor Selection – Cost Influence



Benefits:

- **Enhanced collaboration on project leading to:**
 - ✓ Clearer and more concise scope definition
 - ✓ Early definition of risks
 - ✓ Certainty in cost and pricing
 - ✓ Certainty in work execution and completion

Goals:

- Early involvement of contractor prior to completion of FEIS



Early Contractor Selection Benefits

- ✓ Early integration of construction planning activities with design activities leading to better Project definition
- ✓ Increased price and schedule certainty early in the project development process
- ✓ Early identification, definition and mitigation of Project construction risks
- ✓ Enhanced definition of Project ROW and easement requirements through early construction planning
- ✓ Enhanced system integration and lifecycle costing activities

Early Contractor Selection Benefits (Continued)

- ✓ Enhanced coordination and collaboration with public utilities mitigating cost and schedule impacts
- ✓ Early traffic management planning and coordination with City agencies
- ✓ Increased public and local business understanding and buy-in to the Project
- ✓ Early definition of work packages to support local contracting objectives
- ✓ Early definition of project staffing needs and local employment opportunities



Early Contractor Selection Benefits (Continued)

- ✓ Labor planning and training to support Project workforce needs
- ✓ Timely constructability and value engineering activities to reduce costs and enhance functionality
- ✓ Support to the FTA's expedited approval of the ROD and FFGA through risk management
- ✓ Expedited start of critical construction activities... utilities and guideway construction, and vehicle fabrication
- ✓ Enhanced technical and commercial integration with critical transit-oriented development

Early Contractor Selection Benefits (Continued)

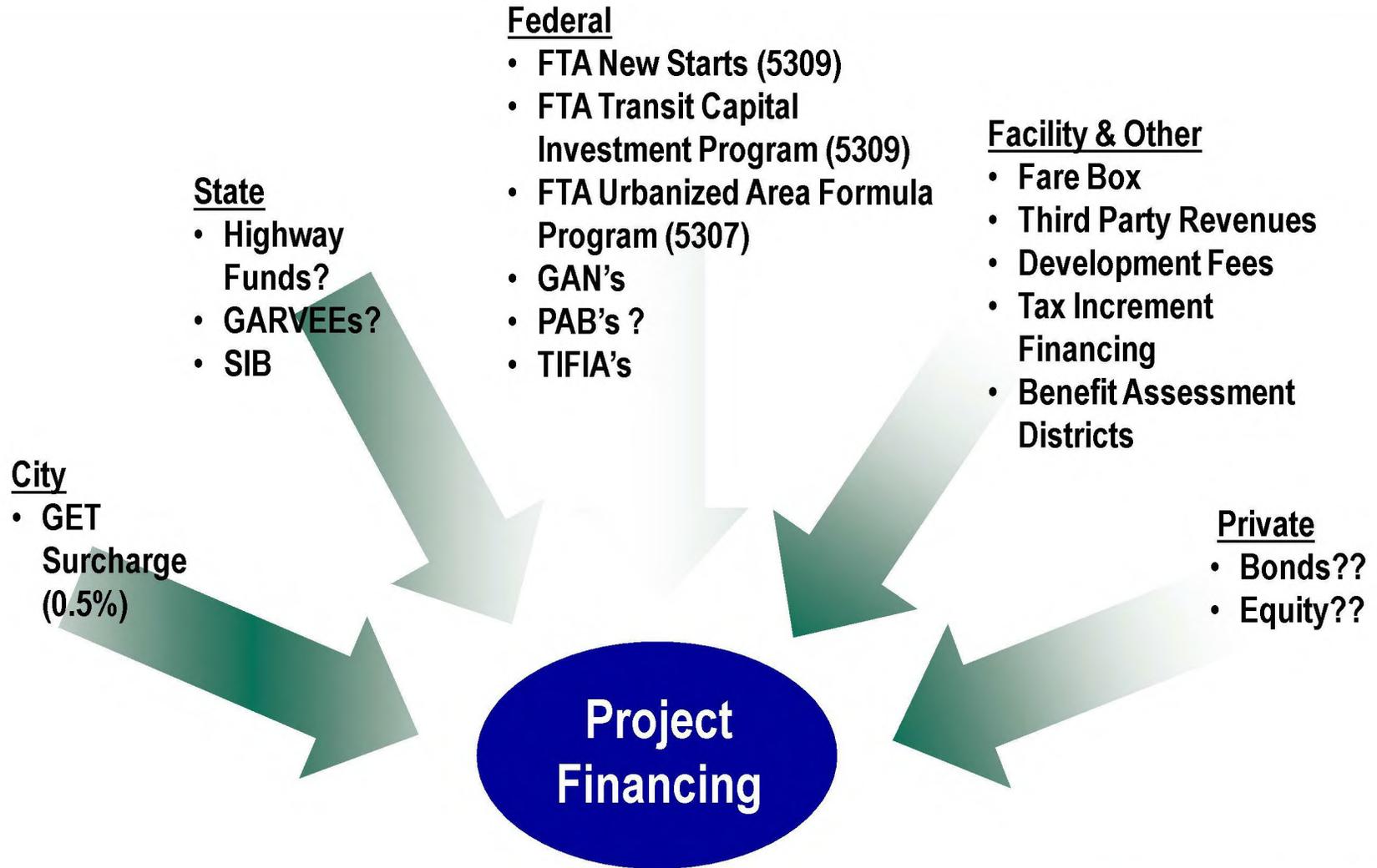
- ✓ Leverage early access to capital markets and knowledge of joint development to support project financing and early completion
- ✓ Build alliances with local colleges and universities for technical collaboration and employment opportunities
- ✓ Higher consistency in Project-wide quality and configuration management activities
- ✓ More effective integration of civil and vehicle-systems activities through early selection of supplier
- ✓ Enhanced Project safety through involvement of Contractor in the design and early planning process

Early Contractor Selection Benefits (Continued)

- ✓ Higher level of assurance in achieving lifecycle cost benefits
- ✓ Fewer change orders through early identification of interface risks between work elements
- ✓ More realistic expectations created and communicated to the public
- ✓ Early and valuable involvement of the developer community in the planning process to optimize TOD creating benefits to Project CAPEX and system ridership
- ✓ Better management and control of inflationary pressures on Project pricing-to-work scope balance
- ✓ Seek to leverage buying power on bulk and long lead time materials



Public-Private-Partnership – Project Financing



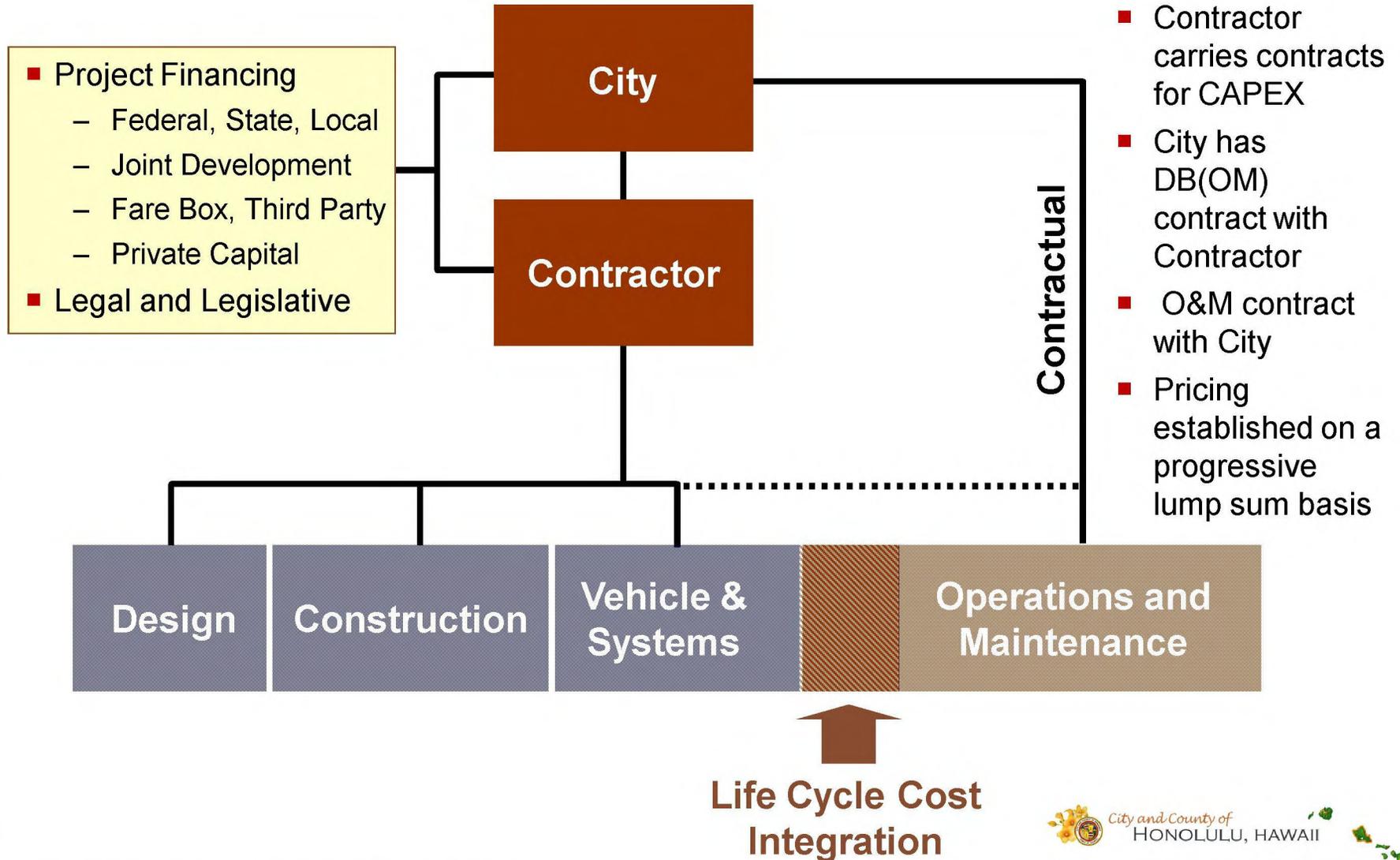
Project Delivery Options

- Given the size and complexity of the Project, recommend the consideration of the following two delivery approaches:

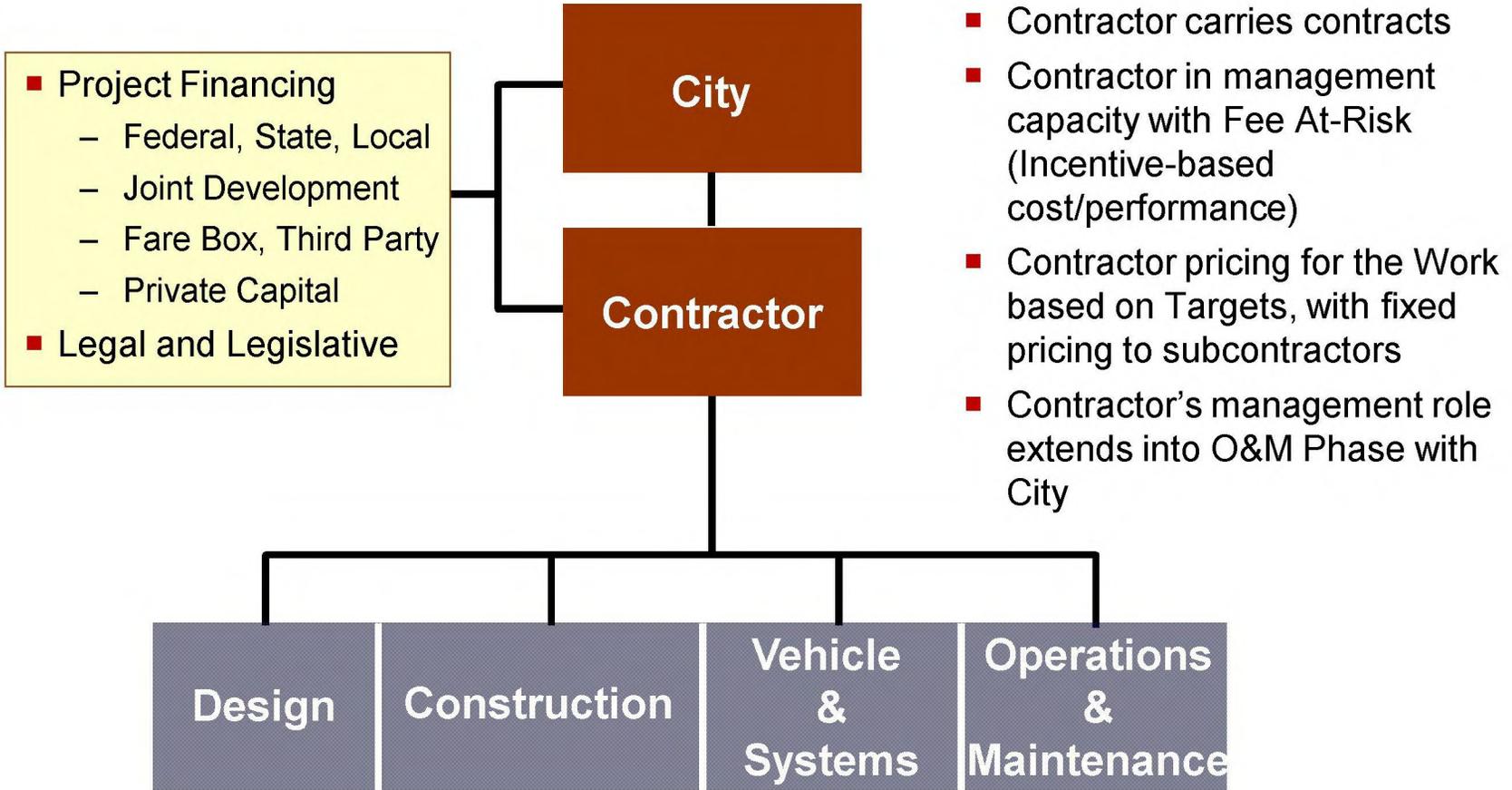
Option 1: Negotiated public-private-partnership using design-build-(operate-maintain) based on progressive lump sum pricing

Option 2: Negotiated public-private-partnership using PM/CM with incentive-based fee pricing

Project Delivery (Design-Build-Operate-Maintain)



Project Delivery PM/CM (Incentive Based)



Single Entity Progressive Lump Sum Concept

- Selection for negotiations based on single entity qualifications
- Begin with at-risk incentive based fee services
- Option to convert to fixed-price packages
- Ability to convert entire program to lump sum when all packages are fixed

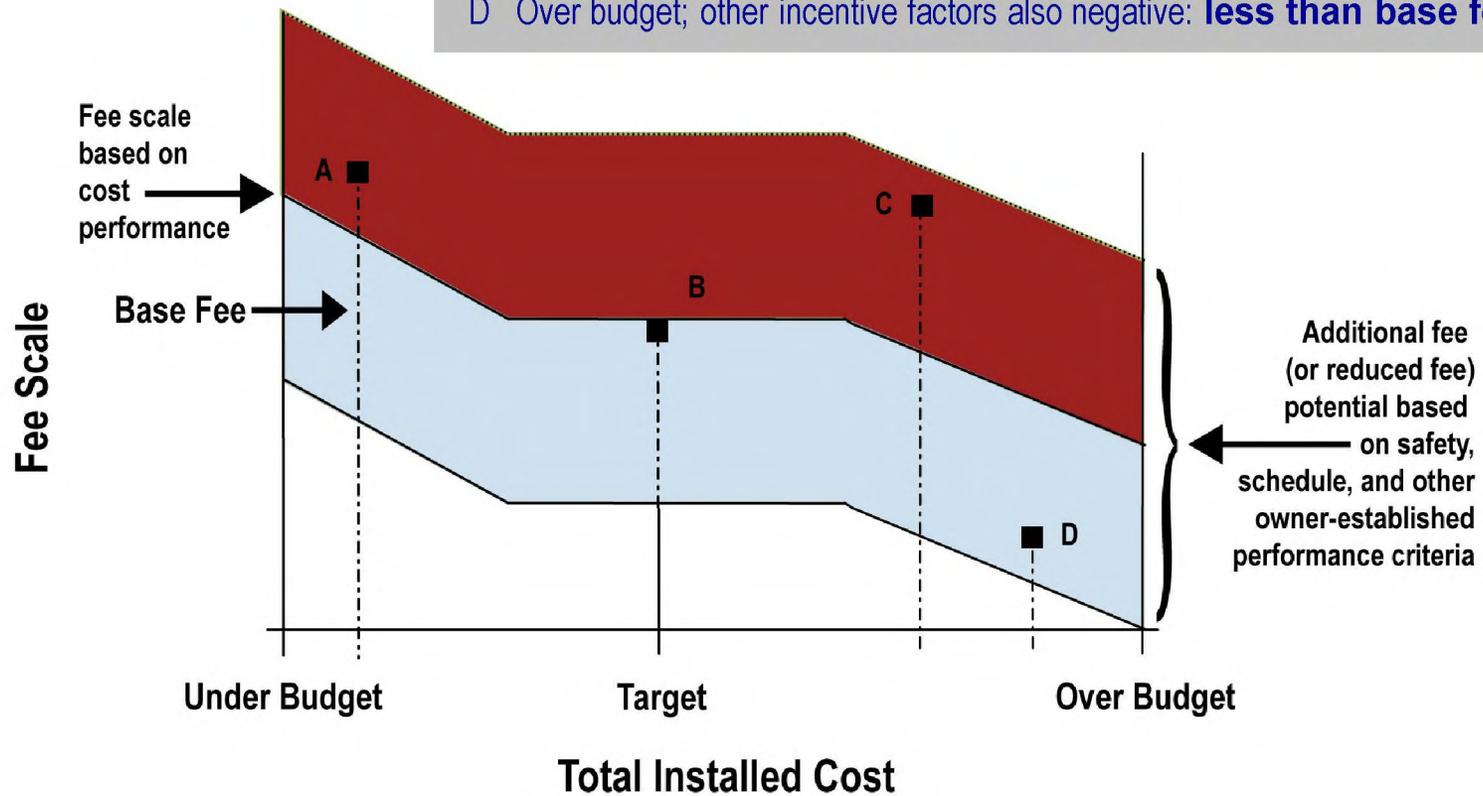
Rather than rewarding for hours spent, the incentive-driven contractor is rewarded for achieving project goals and objectives



At-Risk Incentive Based Fee

Possible Fee Scenarios

- A Under budget; other incentive factors positive: **more than base fee**
- B On budget; other factors neutral: **base fee**
- C Over budget, but other factors very positive: **base fee or greater**
- D Over budget; other incentive factors also negative: **less than base fee**



Incentive-Based Contracts

✓ **DOE...Performance-Based Management System**

- This Contract is a management and operating contract, which holds the Contractor accountable for performance. This Contract uses clearly defined standards of performance consisting of performance objectives and performance incentives and award term incentives as indicated in with measures and targets for each area established on a fiscal year basis and incorporated into the Performance Evaluation Plan...

Incentive-Based Contracts

✓ DOD...Cost incentives (FAR 16.402-1)

➤ “(a) Most incentive contracts include only cost incentives, which take the form of a profit or fee adjustment formula and are intended to motivate the contractor to effectively manage costs. No incentive contract may provide for other incentives without also providing a cost incentive (or constraint)

(b) Except for award-fee contracts (see 16.404 and 16.405-2), incentive contracts include a target cost, a target profit or fee, and a profit or fee adjustment formula that (within the constraints of a price ceiling or minimum and maximum fee) provides that—

(1) Actual cost that meets the target will result in the target profit or fee;

(2) Actual cost that exceeds the target will result in downward adjustment of target profit or fee; and

(3) Actual cost that is below the target will result in upward adjustment of target profit or fee.”



Incentive-Based Contracts

✓ DOD...Performance incentives (FAR 16.402-2)

➤ “(a) Performance incentives may be considered in connection with specific product characteristics or other specific elements of the contractor’s performance. These incentives should be designed to relate profit or fee to results achieved by the contractor, compared with specified targets.

(b) To the maximum extent practicable, positive and negative performance incentives shall be considered in connection with service contracts for performance of objectively measurable tasks when quality of performance is critical and incentives are likely to motivate the contractor.... “

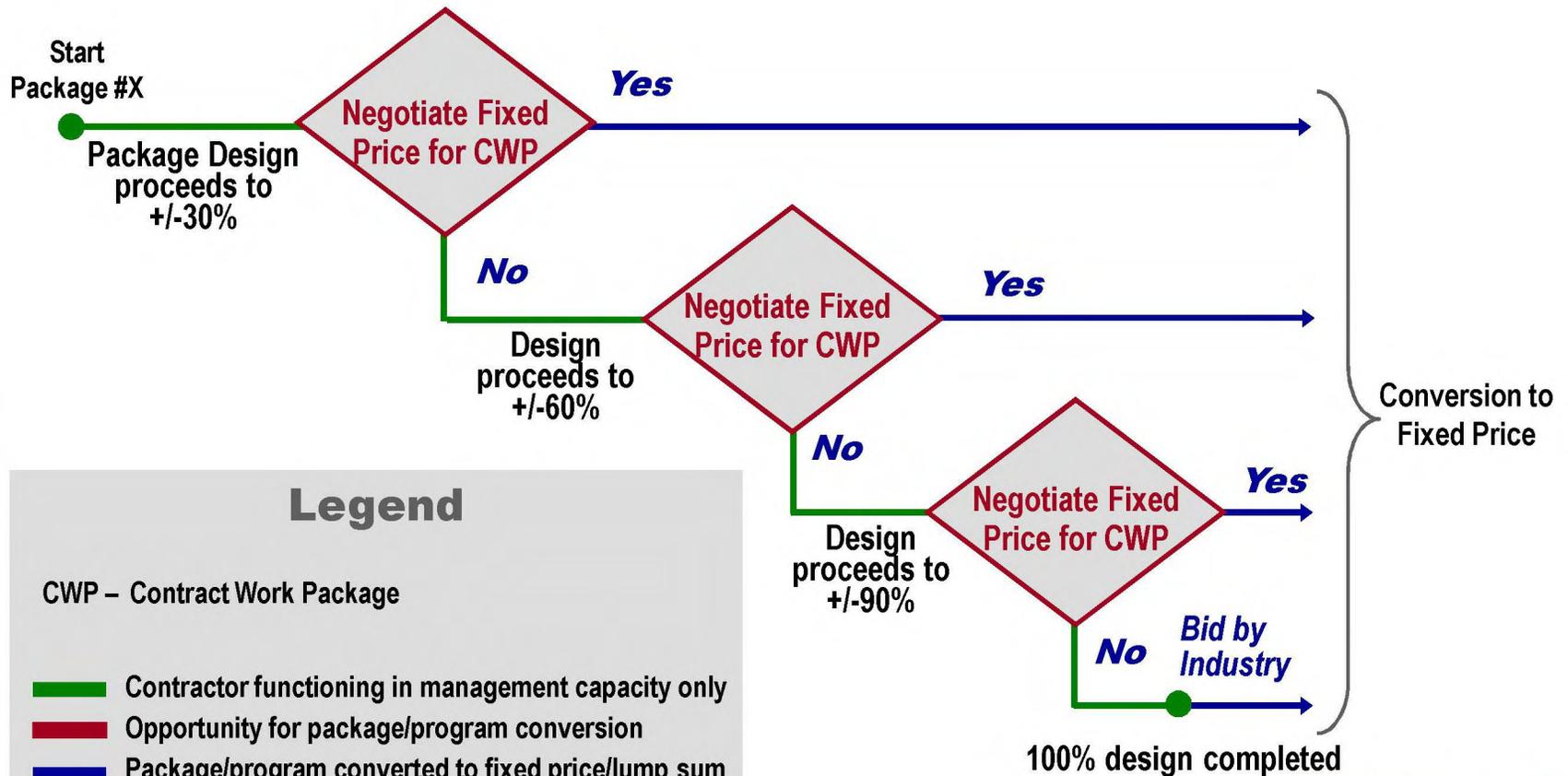
Incentive-Based Contracts

- ✓ **DOD...Cost-plus-award-fee contracts (FAR 16.405-2)**
 - “A cost-plus-award-fee contract is a cost-reimbursement contract that provides for a fee consisting of (1) a base amount fixed at inception of the contract and (2) an award amount that the contractor may earn in whole or in part during performance and that is sufficient to provide motivation for excellence in such areas as quality, timeliness, technical ingenuity, and cost-effective management. The amount of the award fee to be paid is determined by the Government’s judgmental evaluation of the contractor’s performance in terms of the criteria stated in the contract...”



Lump Sum Price Development

Individual Contract Work Package Process



Lump Sum Price Development (Continued)

- Contract Work Packages (CWP) identified early in the planning process based on, among other things:
 - Capacity and capability of local contractor community
 - CWP scope of work, characteristics, complexity and interface assessment
 - Timing requirements of CWP to Project schedule
- Includes initial determination by City and Contractor as to whether each CWP performed as design-bid-build or design-build pending assessment mentioned above
- Pricing established for each CWP on open-book basis as design progresses (i.e. 30-60-90%), along with CWP Risk Analysis

Lump Sum Price Development (Continued)

- At each design level review (i.e. 30-60-90%), City and Contractor discuss options on proceeding with the CWP....
 1. Negotiate fixed price for CWP, Contractor proceed to execute scope of work, or...
 2. Proceed to next level of design for further CWP definition and pricing, and conduct negotiations of fixed price...
 3. And so on...to 100% design and final price negotiations
- During this process, changes to whether CWP issued as DBB or DB would be revisited, and
- Whether City wishes to negotiate lump sum price for Project

Qualifications Based Procurement Benefits

- Opportunity to assemble the best team for the Project on other than price
- Ability to maintain ownership, involvement and control over Project success, while still obtaining certainty in price and schedule
- Higher certainty in achieving Project Objectives through early collaboration and planning with Contractor

Qualifications Based Selection Criteria

- ✓ Proven safety record
 - ✓ Company Experience Modification Rate (EMR)
 - ✓ Reported safety statistics
 - ✓ Past safety program experience
- ✓ Bonding capability
- ✓ Company financial capacity
- ✓ Experience on large, complex and relevant projects
- ✓ Commitment to civil and systems integration
- ✓ Approach and consideration to life-cycle costing

Summary

- Employ a self-described public-private-partnership (PPP) procurement (reference: FTA PPP Pilot Program)
- Leverage a risk-based Project delivery approach fitting to the PPP procurement
- Solicit early Contractor involvement with the Project development activities
- Utilize private financing obtained through joint development, third party revenues, etc...
- Embrace transit-oriented development in the early planning process