



Moving Public Transportation
Into the Future

Effective Contract Management

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Today's Objectives

- ◆ Provide FTA sub-recipients with the tools necessary to successfully contract for services that will:
 - Improve service quality
 - Reduce overall costs
 - Meet the needs of the system and riders
 - Expand or add new services
 - Meet compliance of Federal and State rules
 - Reduce contractor conflict



What to Contract

There are various forms of procurement to include assets, labor, specialty services, training services, maintenance services etc...

Are we looking at a purchase or contract for service?

Is this a one-time or continuous need?



When to Contract

- ◆ There are many factors that may trigger a transit system to consider procuring contracted services or new asset...
 - Performance
 - Capacity to perform
 - Safety
 - Customer Service
 - Image
 - Dysfunction

When to Contract

How do we evaluate system performance?

- ◆ Performance measures
- ◆ Rider Feedback
- ◆ Public Meetings
- ◆ Compliments/Complaints
- ◆ Employee Feedback
- ◆ Peer Analysis
- ◆ Data Analysis
- ◆ Review from State or FTA



When to Contract

What is the recourse for declining or poor performance?

- ◆ Identify areas of poor performance
- ◆ Develop prioritized solutions
- ◆ Implement solution(s)
- ◆ Determine effectiveness of solution
- ◆ Move to next solution if first is ineffective

When To Contract

When should contracted service be considered?

- ◆ Solutions within existing constraints or framework have been considered, evaluated, and, in some cases, implemented with negative results.
- ◆ A new service is needed and is different than existing services.



When to Contract

When should contracted service be considered?

- ◆ The cost or performance of an existing service dramatically increases
- ◆ A new regulation required is outside of our capacity
- ◆ A new service provider, vendor or product could lower costs if used.



When to Contract

What are examples of third-party contracts?

- ◆ Specialty services outside of systems capacity or comfort level.
 - Copier maintenance service to complimentary ADA paratransit service
 - PM or Major maintenance service – engine, transmission, electrical, AC, body work
 - Technology
 - Scheduling and dispatching
 - Communications and surveillance equipment
 - Website and online communications



What to Contract

- Software and hardware support (IT)
- Accounting/Audit/Collections
- Marketing
- Legal
- Fuel
- Maintenance and office supplies
- Tires
- Management
- Planning
- Training
- Safety
- Vehicles
- Modal services



Exercise

You run a ten vehicle general public demand-response system covering two rural counties.

- ◆ Your ridership numbers have steadily dropped 7%, 9% and 12% over the last three years.
- ◆ Your vehicles are in good condition (20% spares) and drivers well trained and very happy with little turnover.
- ◆ Your dispatcher is a whiz with the Excel based scheduling program and averaging .5 passengers per service hour (48 pas a day).
- ◆ Your service is Monday thru Friday 8-5.



Exercise

- ◆ Where is improvement needed?
 - ◆ What might you consider to help?
 - Purchase?
 - Contract out?
 - ◆ How will the solution impact your system?
- ◆ Your ridership numbers have steadily dropped 7%, 9% and 12% over the last three years.
 - ◆ Your vehicles are in good condition (20% spares) and drivers well trained and very happy with little turnover.
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Elements of Contracting

- ◆ Evaluate the project suitability and attractiveness for potential proposers
 - Develop technical plans and financial models
 - Announcement for pre-proposal conference
 - Hold pre-proposal conferences to allow for questions from proposers
 - Hold pre-proposal conferences to gain insight on alternative ways to deliver the service
 - Make changes and corrections to the original specifications
 - Proposal amendments issued



Elements of Contracting

- ◆ Determine best procurement option
 - Request for Information(RFI) prior to issuing a Request for Proposal (RFP)
 - Request for Qualifications (RFQ) prior to issuing the RFP or in the RFP
 - Issue the RFP



Elements of Contracting

- ◆ Responsibility of proposer
 - Responsible contractors possessing the ability to successfully perform under the terms and conditions of a proposed procurement.
- ◆ Criteria might include:
 - Integrity of the contractor;
 - Contractor's compliance with public policy;
 - Contractor's past performance; and
 - Contractor's financial and technical resources.



Elements of Contracting

◆ Contract Pricing

- Pricing too low will fail to attract private sector competition
- Price set too high will negate the financial benefits of contracting
- The contract pricing will be influenced by the cost comparison of private and in-house operations
- Pricing should consider expenditure fluctuations and service quality



Elements of Contracting

◆ RFP Content

- Describe service requirements completely including:
 - Schedules
 - Service miles
 - Service hours
 - Service standards
 - Safety standards
 - Data management
 - Assets required/provided



Elements of Contracting

◆ RFP Content (cont.)

- Establish the proposal format
- Establish submittal timeline requirements
- State the evaluation criteria
- State the deadline for the procurement process
- Protest procedures
- Applicable certs and assurances



Elements of Contracting

- ◆ RFP – Not to include
 - Geographic preference
 - Specific name brand if procuring asset (use “like brand”)
 - Specifications only achieved by one company
 - Exclusionary specifications
 - Excessive bonding agreements



Elements of Contracting

- ◆ Length and components of the procurement process
 - The amount of time that an RFP is open for responses can encourage or deter proposers from responding
 - Allow sufficient time for potential proposers to:
 - Solicit and receive the RFP
 - Attend pre-proposal conference meetings
 - Transparency to questions/answers
 - Integrity of communications



Elements of Contracting

- ◆ Proposal Evaluation Criteria
 - Technical capacity (50%)
 - Service qualifications
 - Specifications
 - Coverage area
 - Coverage hours
 - Experience (25%)
 - Company
 - Proposed staff
 - Cost effectiveness (25%)
 - Lowest cost over the life of the contract
 - Greatest value
 - Additional criteria might include DBE, Creative approach, References



Elements of Contracting

- ◆ Fair Cost Comparison
 - Comparison of proposer's cost to the market price and/or cost of providing in-house service
 - Cost analysis attempts to project long term cost
 - FTA provides best practice guidance for cost and price analysis



Elements of Contracting

- ♦ **Best Value** describes a competitive, negotiated procurement process in which the recipient reserves the right to select the most advantageous offer by evaluating and comparing factors in addition to cost or price such that a recipient may acquire technical superiority even if it must pay a premium price.
- ♦ A “**premium**” is the difference between the price of the lowest priced proposal and the one that the recipient believes offers the best value.



Elements of Contracting

- ◆ Contract Pricing (cont.)
 - Fixed price or gross cost contracts set a single fixed price for the life of the contract
 - Decreases the risk to the transit agency
 - Less attractive to the proposer due to the financial uncertainty and risks
 - Proposer will build risk factors into the bid price
 - Unit price (mile, trip, hour)
 - Consider productivity, efficiency



Elements of Contracting

- ◆ Contract Pricing (cont.)
 - Net cost pricing is when the operator is paid a fixed subsidy based on ridership projections
 - Net cost pricing encourages operators to provide better service which attracts more ridership and therefore more revenue



Elements of Contracting

- ◆ Price Considerations
 - Transit contracts should take into consideration for extraordinary and universal escalation of some costs like fuel, supply chain issues impacting maintenance and in-turn service delivery.



Elements of Contracting

- ◆ Performance Incentives
 - Reliability performance payments
 - On time performance
 - Trips per service hour
 - Miles per trip
 - Performance audits
 - Customer service complaints/compliments
 - Accidents/incidents



Elements of Contracting

◆ Performance Penalties

- Penalties are applied when the operator fails to meet the standard performance standards detailed in the RFP and contract
- Liquidated damages
- Penalties may be a result of
 - Poor performance
 - Compliance issues
 - Customer complaints
 - Excessive safety events



Elements of Contracting

- ◆ Penalties and Rewards
 - Penalties and rewards are intended to optimize performance
 - Must be judiciously administered
 - Can enhance the likelihood that the contractor maintains quality service
 - Excessively high penalties and unreasonable penalties impose additional cost on both the contractor and transit system



Elements of Contracting

- ◆ Contract Renewal Options
 - Specified term
 - Contract stays in place unless the terms of the contract are breached during the term of the contract
 - Basic term plus renewal options
 - Contract stays in place unless the terms of the contract are breached during the term of the contract and the contract can be extended for additional time at the discretion of the transit agency



Elements of Contracting

◆ Contract Duration

- Cost are likely to be higher for shorter contract durations because proposers must recover fixed costs over a shorter period of time
- Cost are likely to be higher for shorter contract durations when a new service provider has start up costs
- Shorter contracts are more appropriate when the transit agency provides capital equipment thereby reducing the capital cost to the contractor



Elements of Contracting

- ◆ Contract Duration (cont.)
 - Longer contracts have greater risk to the transit agency and contractor because it is harder to project costs over the longer period
 - Normally contracts, including extensions, last (3 year + (2) 1 year extensions) 5 to 8 years
 - FTA no longer restricts transit service contracting to 5 years (only rolling stock contracts are limited to 5 years)



Elements of Contracting

- ◆ Service Specifications
 - The RFP and contract must clearly identify and define the transit system's service specifications
 - Route alignments (fixed route)
 - Annual service miles
 - Annual service hours
 - Vehicle type and appearance
 - Customer service
 - Other services such as marketing



Elements of Contracting

- ◆ Service Specifications Evaluation
 - The transit system must have a monitoring system in place to evaluate contractor attainment of service specifications
 - Monthly reports from contractor
 - Rider complaints
 - Rider satisfaction surveys
 - The contract must specify when incentives and penalties will be applied



Elements of Contracting

- ◆ Provision of Vehicles, Equipment, and Facilities
 - When the transit system provides capital equipment and facilities the capital risk to the contractor is reduced
 - Can result in more bids due to reduced costs on the operations side
 - Can result in more bids because the proposer does not have to secure capital assets to start service



Elements of Contracting

- ◆ Provision of Vehicles, Equipment, and Facilities (cont.)
 - The RFP and contract need to clearly define and guarantee vehicle specifications, equipment specifications, and facility specifications regardless of who is providing the assets
 - The contractor must know how many vehicles and what types of vehicles are needed and/or will be provided
 - Affects the contractor's maintenance and operation plans



Elements of Contracting

◆ Insurance Coverage

- The contract must specify the minimum insurance coverage required by the contractor
 - Consideration must be given to requirements for interstate travel
 - Consideration must be given to state requirements
 - Consideration must be given to ensure coverage is adequate to protect the federal asset if applicable



Elements of Contracting

◆ Performance and Bid Bonds

- It is a best practice to require contractors to post bid bonds (5%) and performance bonds (100%) or equivalents
 - Bonds are financial instruments that guarantee payment to the transit system if the bidder defaults
 - Bid bonds are submitted with the proposal
 - Cover the cost to re-award the contract and costs of service during the extra time needed to award and start the service should the bidder fail to start the service
 - Bid bonds are returned to losing bidders
 - Bid bonds are returned to winning bidders upon service start up



Elements of Contracting

◆ Bid Bonds

- Bid bonds serve two primary functions
 - Demonstrate the contractor's business soundness
 - Simplest and most reliable indicator of the contractor's ability to perform
 - Compensates the transit system for any losses resulting from contractor default
 - Effective method for the transit agency to minimize risks



Contract Oversight

- ◆ Performance Standards Considerations
 - Performance standards should measure safety and service quality
 - Safety standards include
 - Vehicle maintenance records – on time performance
 - Accident and incident reporting
 - Staff training reports



Contract Oversight

- ◆ Performance Standards Considerations (cont.)
 - Service standards include
 - On time performance
 - Trip completion
 - Vehicle condition and cleanliness
 - Driver courtesy
 - Passenger complaint rates



Contract Oversight

- ◆ All public transit services require supervision. Monitoring ensures service quality is met, practices are cost effective and safe.
- ◆ Transit contract monitoring
 - Customer satisfaction surveys
 - Levels of service provision
 - Customer complaints
 - Rider evaluators



Contract Oversight

- ◆ The transit system is responsible for contractor oversight and compliance with state and federal requirements
- ◆ The transit system must have a monitoring method in place to ensure contractor compliance
 - Monitoring processes and efforts should be documented
 - Should include on-site visits with the contractor
 - Include on-board observations and document review
 - Financial and performance reports
 - Corrective actions for any compliance findings with contractor

Contract Oversight

Reviewer:

How do you know
their customer
complaints are
below 1%?



Transit Official:

The contractor told
us they were.

Contract Oversight

Reviewer:

How do you know the contractor's customer complaints are below 1%?



Transit Official:

- We receive all customer complaints.
- We have access to all recorded customer complaints.
- We conduct random reviews of digitized call logs.
- CSR Manager is a transit employee.



Contract Transition

◆ End of Contract Period

- Begin planning for next RFP at least 6 months prior to expiration of contract
- Identify changes needed for next procurement
- Ensure contract fulfilled to the end especially if incumbent is not selected
- Manage data belonging to transit system to avoid sabotage of data for next contractor (rare but happens)
- Consider service changes at same time as new contract.



QUESTIONS?



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