The Honolulu Rail Transit Project

Public-Private Partnership Development Program
Program Structure

Executive Matters and Legal Affairs Committee
April 16, 2019
Discussion Outline

- Project Status / Remaining Work
- DBFOM Project Delivery Method
- P3 Project Objectives & Scope
- P3 Contractual & Payment Structure
- Risk Transfer
- P3 Solicitation Process
- Funding and Financing Overview
Remaining Civil Works to be Procured
City Center Guideway and Stations and Pearl Highlands Garage and Transit Center
Selection of the DBFOM delivery method was based on a comprehensive analysis:

- Retained EY to conduct a P3 commercial feasibility assessment
- Reviewed comparable projects and relevant case studies
- Developed a P3 structure specific to the HRTP
- Conducted a comprehensive risk assessment involving staff and outside experts in risk mitigation

Mayor & City Administration agreed to the joint procurement
City Council approved Resolution 18-139 CD1 FD1 endorsing the DBFOM
On 27 September 2018, the HART Board approved selection of a Design-Build-Finance-Operate-Maintain (DBFOM) project delivery
On 28 September 2018, HART and the City launched a joint procurement for the P3 Project with issuance of part 1 of the RFP
Project Delivery Method Purpose and Objectives

To define a project delivery structure that...

- Reduces the possibility of cost increases through enhanced fiscal discipline
- Promotes schedule certainty by financially based performance requirements
- Provides a “life-cycle” approach linking construction with operations
- Improves risk management by optimally allocating risks and responsibilities
- Encourages robust global competition by bundling construction and O&M
- Promotes incorporation of technical innovation and best practices
- Integrates the mutual goals of HART and the City for improved mobility and long-term sustainability
P3 Project Objectives

1. To provide a life-cycle approach

2. To optimize the management of risks

3. To ensure budgetary discipline and adherence to schedule

4. To promote innovation and use of best practice

5. To design, build, operate and maintain one of the most significant infrastructure assets undertaken on behalf of the citizens and visitors to Hawai‘i
Key Reasons for a Separate P3 Rail Procurement

- Rail infrastructure developers and investors are reluctant to assume market and revenue risk related to the timing and amount of TOD rental income.
- Real estate investors generally seek higher rates of return than infra developers.

- Most rail infrastructure developers would likely seek to pass TOD assets through to a real estate investor rather than retain long-term development risk.
- Development rights to any TOD assets would likely be sold to the investor at a discount upon award of the rail P3 contract award, diminishing value for the City/HART.

- Inclusion of TOD real estate assets in the P3 project scope may reduce participation in the procurement.
- If the P3 RFP requires or favors integration of complex TOD concepts at HART stations, some proposers may opt out entirely.
P3 Project Scope

- Award of the DBFOM agreement is anticipated in early 2020
- DBFOM agreement is anticipated to expire 25 years from the scheduled date for full opening (i.e. 2050)
Typical P3 Contractual Structure

Features to Note

1. Recourse of funders limited to SPV assets and cash-flow
2. Creation of new SPV business from scratch
3. Analysis of SPV's contractual rights: cashflows – in this case only via agreement with government entity (i.e. not revenue from end user/consumer)
Managing the Existing DBOM
Nomination of HRHJV as a Subcontractor to the DBFOM Developer

- It is intended that HART and the City will nominate Hitachi Rail Honolulu Joint Venture (HRHJV) as a subcontractor to the DBFOM Developer.
- HRHJV will enter into core systems subcontract(s) with the DBFOM Developer for the nominated core systems scope:
  - Core Systems D&C scope for the City Center Guideway and Stations Segment
  - Core Systems O&M scope for the first 10 years of operations, commencing on interim opening
- The core systems subcontract(s) will be based on a term sheet negotiated by HART and the City with HRHJV and given to all priority-listed offerors.
- The existing contract between HART and HRHJV will be modified to exclude the core systems scope included in the P3 Project.
- At the end of the initial 10-year period, the DBFOM Developer may extend the subcontract with HRHJV, procure a new core systems operator and maintainer or self-perform (subject to City approval).
P3 Contractual Structure with HRHJV
Operations and Maintenance

Current Owner Core Systems Contract Scope

- Administration and management of the System;
- Operation of the Systems, including the provision of stations and service attendants;
- Maintenance of the Systems, including the track system, ATC system, traction power, access control system, communications system, rolling stock, intrusion detection system, system-related station equipment, and all systems and facilities/infrastructure at the MSF;
- Maintenance and cleaning/custodial of non-public station areas housing Systems equipment, as well as for pavement areas, sidewalks, and secured areas of non-public areas within the HRTP, including the MSF;
- Maintenance of TPSS and GBS facilities and other stand-alone facilities housing system equipment (except Joint Traffic Management Center);
- Cleaning and janitorial, as well as emergency call-out cleaning, at stations, HRTP parking lots, parking facilities, and HRTP kiss/park ‘n’ rides, as well as for pavements and grounds at said locations;
- Security at the MSF and yard;
- Providing a Capital Asset Replacement Program
- Providing Power/Utilities Demand Analysis for systems; and
- Providing to the City performance and payment bonds of 10% of operations and maintenance during five years of Interim Opening and then 15% five years (operations and maintenance bonds to be received prior to acceptance of design-build work).
Operations and Maintenance
P3 Developer Scope

- Providing all current Owner Core Systems Contract scope;
- Providing maintenance of guideway and station infrastructure;
- Providing maintenance of elevators and escalators at stations after expiration of current Elevator and Escalator contract. (CSC is responsible for monitoring of elevators/escalators and providing call-out of elevator/escalator maintenance subcontractor). Additional information provided in RFP Part 2;
- Providing Public information/customer relations;
- Providing security, as further described in RFP Part 2;
- Providing landscaping, as further described in RFP Part 2; and
- Providing all costs of bus services when rail system has a service disruption.
Operations and Maintenance
Scope Retained by City

- Oversight of P3 Developer operations and maintenance activities;
- Administration of fare vending system, revenue collection and replenishment;
- Fare inspection and enforcement; and
- Public information and customer relations.
## P3 Payment Structure

<table>
<thead>
<tr>
<th>Capital Payments (HART)</th>
<th>O&amp;M Payments (City)</th>
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</thead>
<tbody>
<tr>
<td>• For City Center Guideway and Stations and Pearl Highlands Parking, Transit Center and Ramp capital construction costs</td>
<td>• For operation and maintenance services from interim opening, interim opening phase 2 and full opening</td>
</tr>
<tr>
<td>• One or more progress payments paid during the design and construction phase 2020-2025</td>
<td>• Periodic O&amp;M availability payments payable from interim opening (with step-ups for increased services at interim opening phase 2 and full opening)</td>
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<tr>
<td>• Periodic capital availability payments payable 2025-2030</td>
<td>• Subject to deductions for failure to satisfy performance requirements</td>
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</tbody>
</table>
Transferring Completion Risk to the DBFOM Developer

Where DBFOM Developer is late – revenue (via capital and O&M availability payments) is lost. DBFOM Developer will seek to pass this risk to DB contractor by way of liquidated damages.
Availability payment (i.e. the DBFOM Developer’s revenue) is subject to performance deductions where certain outputs are not achieved e.g.: availability of the HRTP, KPIs for cleanliness, asset management performance, customer satisfaction performance etc.
## Value-for-Money Risk Transfer

Transfer only those risks that DBFOM Developer is best placed to manage.

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<thead>
<tr>
<th>POTENTIAL RISKS</th>
<th>SHIFTED TO THE P3 CONTRACTOR (Y/N/Partial)</th>
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<tbody>
<tr>
<td>Conflicts and delays from unknown archaeological conditions</td>
<td>N (but note shifted to the P3 Contractor to the extent foreseeable)</td>
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<tr>
<td>Conflicts and delays from unknown utility conditions</td>
<td>N (but note shifted to the P3 Contractor to the extent foreseeable)</td>
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<tr>
<td>Conflicts and delays from geotechnical and soil conditions</td>
<td>N (but note shifted to the P3 Contractor to the extent foreseeable)</td>
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<tr>
<td>Conflicts and delays from differing site conditions (including deviation from as-builts)</td>
<td>N (but note shifted to the P3 Contractor to the extent foreseeable)</td>
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<tr>
<td>Conflicts and delays from environmental/hazardous waste not caused by the contractor</td>
<td>N</td>
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<tr>
<td>Construction Costs</td>
<td>Y</td>
</tr>
<tr>
<td>Construction Schedule</td>
<td>Y</td>
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<tr>
<td>Utilities relocation/undergrounding</td>
<td>Partial</td>
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<tr>
<td>Right of way acquisition</td>
<td>N</td>
</tr>
<tr>
<td>Supervening/relief events</td>
<td>Partial</td>
</tr>
<tr>
<td>Interface Risk</td>
<td>Y (note that contracts for escalators and elevators and fare collection will remain with the City)</td>
</tr>
<tr>
<td>O&amp;M Costs</td>
<td>Y (except for any scope specifically excluded from the P3 and subject to escalation)</td>
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<tr>
<td>Defects in existing assets/vehicles</td>
<td>Partial</td>
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<tr>
<td>System performance/service quality</td>
<td>Y</td>
</tr>
<tr>
<td>Long-term asset condition/asset management</td>
<td>Y</td>
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<tr>
<td>Ridership/Revenue Exhibit</td>
<td>N</td>
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Part 1 – Qualifications

Part 2 – Technical and Price Proposals

**RFP Part 1:** Issued September 2018; qualifications proposals received 12 April 2019 and under evaluation in accordance with the criteria set out in RFP Part 1

**RFP Part 2:** Basis of Award; award of the DBFOM agreement will be based on “Best Value” in accordance with the criteria set out in RFP Part 2; to assure maximum transparency, offerors will be required to provide separate pricing for capital construction and financing funded by HART and O&M funded by the City – affordability caps included
Joint Procurement by HART and the City

HART

- Authorized to plan, design, develop and construct the fixed guideway system

City

- Authorized to plan, operate and maintain the city's multimodal transportation system

- HART is the lead agency for the RFP solicitation
- Both HART and the City as the “City Parties” will execute the DBFOM agreement with the DBFOM Developer
- DBFOM agreement will clearly define the respective liabilities and obligations of HART and the City, in compliance with their respective authorizations under law
HART will fund the capital costs of the P3 Project

HART’s principal sources of capital funding are from GET, TAT and the federal FFGA

- Approximately $4.7bn is anticipated in GET and TAT funding from 1 April 2020 to 2030

The City will fund O&M of systems and rolling stock and non-systems elements of the P3 Project including facilities and stations

HART/City are exploring making TIFIA and Federal Surface Transportation PABs financing available to DBFOM Developer
Mahalo!