



Board Report

File #: 2018-0489, File Type: Contract

Agenda Number: 26.

OPERATIONS, SAFETY AND CUSTOMER EXPERIENCE COMMITTEE SEPTEMBER 20, 2018

SUBJECT: P3010, LIGHT RAIL VEHICLE PROCUREMENT CONTRACT

ACTION: APPROVE RECOMMENDATION

RECOMMENDATION

APPROVE Modification No. 36 to Contract No. P3010 with Kinkisharyo International LLC to reduce the existing 100% performance bond requirements for Contract deliverables to realize a project savings of \$4,386,957, decreasing the total Contract value from \$926,142,679 to \$921,755,722. The Contract decrease does not affect the Life of Project Budget.

ISSUE

As of July 31, 2018, Kinkisharyo International (KI) has successfully delivered 140 out of the 235 P3010 LRVs under Contract, and has satisfied the delivery requirements for the Base Contract and its first two exercised Contract Options. KI's rate of vehicle delivery puts them in position to deliver all Contract LRVs in advance of the Contract completion date of December 2020. The P3010 LRV project is currently meeting its program goals and project schedule.

Maintaining a 100% performance bond is excessive in light of KI's proven performance and is not commensurate with the value of the open obligations remaining on the P3010 Contract. Replacing the existing 100% performance bond with a \$50 million Irrevocable Letter of Credit (LOC), in combination with existing contractual warranties and securities, provide Metro with an adequate level of financial security to meet the open obligations remaining on the P3010 Contract. This approach will offer a savings to Metro by decreasing the total Contract value by \$4,386,957. This savings will be applied as a LOP contingency to cover future contract changes for vehicle enhancements.

BACKGROUND

In October 2010, the Metro Board approved a new solicitation for 235 LRVs to meet Metro's projected Transit Rail Line requirements. In order to ensure on-time performance of the new LRV program to meet vehicle requirements for new rail lines in construction, the Board's solicitation approval included a 100% performance bonding requirement.

DISCUSSION

While a 100% performance bonding security was commensurate with the level of risk Metro faced at

that time of the procurement and award in 2012, such a high level of contract performance security is excessive in light of KI's proven performance. Thus far KI has performed adequately to meet Metro's rail car needs and was instrumental in ensuring that Metro had the vehicle resources to open two new transit lines; the Foothill and Expo Extensions.

Therefore, staff recommends reducing the contractual performance bonding requirement of 100% of the value of the P3010 Light Rail Vehicle (LRV) Contract. The reduction in performance bonding can be accomplished without negatively impacting the financial security and program incentives that Metro holds to ensure project completion of the P3010 LRV program, and this action will save \$4.38 million in the cost to the project. There will be no change to the LOP. The savings will be applied as a LOP contingency to cover future changes to enhance vehicle safety and performance, and passenger comfort. Specifically, staff recommends replacing the existing 100% performance bond with a \$50 million Irrevocable Letter of Credit (LOC). This supplements other financial security measures:

- Metro holds a 5% Contract retention through the completion of the project. Metro currently holds \$48 million; that cash retention will grow to \$69 million by the end of the project, and
- There is an existing LOC equal to 6% of the Contract value for warranty services through 2023.

The recommended changes to the Contract's requirements provide Metro with an adequate level of financial security to meet the open obligations remaining on the P3010 Contract.

DETERMINATION OF SAFETY IMPACT

This board action will not have an impact to safety, vehicle performance or passenger experience.

FINANCIAL IMPACT

Adoption of the recommendation to approve the Contract Modification will provide a savings to Metro by decreasing the contract price by \$4,386,957; from \$926,142,679 to \$921,755,722. This amount does not affect the P3010 project LOP of \$972,000,000. Funding for this project are included in the FY19 budget in Cost Center 3043 - Strategic Vehicle and Infrastructure Delivery, Account 53105 - Acquisition of Revenue Vehicle, Project 206035 - P3010 LRV Project including options.

Impact to Budget

The current source of funds for this action is Measure R, Federal STIP, and Proposition A 35%. These funding sources maximize allowable project fund allocation given approved funding provisions and guidelines.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Approval of this recommendation supports the following Metro Strategic Plan Goal: Provide high quality mobility options that enable people to spend less time travelling. This project will improve safety, service, and reliability, in an effort to provide a world-class transportation system that enhances quality of life for all who live, work, and play within LA County.

ALTERNATIVES CONSIDERED

Should the Board choose not to approve staff's recommendation for the Contract Modification recommended above, Metro would not realize a project savings of \$4.38 million. This alternative is not recommended because a 100% performance bond on the existing mature project will not provide any additional financial security that is not already available through existing Contract retention, Final Acceptance Milestones payments held and a Letter of Credit that would secure and incentivize project completion.

NEXT STEPS

Upon Board approval, staff will execute Contract Modification No. 34, proceed with implementation of the changes outlined above, and continue delivery of the P3010 option order vehicles.

ATTACHMENTS

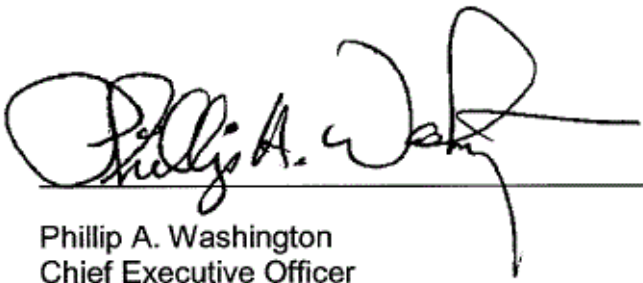
Attachment A - Procurement Summary

Attachment B - Contract Modification Authority (CMA) Summary

Attachment C - DEOD Summary

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