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RAPID TRANSIT OPERATIONS PROCUREMENT

The Rapid Transit Public/Private Partnership Steering Committee recommends the adoption of the recommendations contained in the following report, June 17, 2004, from the Vice President of the York Region Rapid Transit Corporation and the Commissioner of Transportation and Works:

1. RECOMMENDATIONS

It is recommended that:

1. York Region staff in conjunction with the York Region Rapid Transit Corporation (Rapidco) and York Consortium 2002 proceed with the procurement process by York Region as identified in this report, to select a contractor for the operations of the *Quick Start* service and maintenance of the *Quick Start* vehicle fleet and facilities.
2. Committee endorse the Work Plan as budgeted for in the Year Three Report at a cost not to exceed \$318,000 for the work plan for the period July 2004 to September 2004.

2. PURPOSE

In order to maintain the timetable to implement *Quick Start* services in the fall of 2005, it is necessary to select an experienced O & M contractor to operate a state of the art rapid transit system by the beginning of 2005. This report provides information to Council as the basis for proceeding on this critical selection process for beginning *Quick Start* service at the designated time.

3. BACKGROUND

Quick Start service, the first level of rapid transit investment in York Region, is scheduled to start on four corridors in the Region in September 2005. The high-frequency, high-quality corridor services will use a new fleet of modern buses, which the Region has entered into an agreement to purchase.

Having raised the bar in terms of standards for the procured vehicle fleet, a similar approach has been developed for Operations and Maintenance to enhance the quality of service and thus increase transit ridership. The service will bring innovative technology to the operation of the new fleet; enhanced control centre technology dispatching for high reliability and on-time performance; real-time customer information on vehicles and at stations; and an overall reduction in travel times for York Region residents and employees. The day-in, day-out customer orientation of *Quick Start* is meant to raise awareness and expectations among existing and new riders. York Region must now enter

the process of procuring an operations and maintenance contractor for *Quick Start* who will share this vision and have the proven experience to undertake the challenge of starting up this ambitious rapid transit service.

It is imperative that the selected operator has knowledge, experience and skills that correspond to the innovative technologies that are an intrinsic aspect of the new vehicles to be used for *Quick Start*. It is expected that the successful O&M Contractor will be able to illustrate how they will incorporate industry best practices for BRT to meet the local challenges of York Region bus rapid transit. Specific contract provisions may be considered for increasingly aggressive incentives and disincentives for services and quality and production costs. Opportunities for incorporating ridership/revenue performance standards will also form part of the discussion with the operator. The negotiated incentives/disincentives for measurable results will grow as the service matures and baselines for *Quick Start* performance become established. The *Quick Start* Operator may be invited to participate in marketing, service planning and delivery goals over time, subject to terms satisfactory to the Region, YRT, and Rapidco.

It will be highly desirable to enlist proposals from contractors who are qualified in the operation and maintenance of transit vehicles with high tech equipment. York Region is in the process of acquiring a property for the *Quick Start* maintenance facility, which will allow more opportunity for qualified proponents to enter the York Region arena and enable a higher level of competition and contract efficiency among bidders, be they existing YRT contractors or other new bidders. The new facility will also make it possible for the new fleet to remain distinct from existing bus fleets, increasing the ability to measure YRTP service characteristics and to ensure accountability in the *Quick Start* system.

YRT will administer the *Quick Start* operations and maintenance contract and have been extensively involved in the development of this strategy.

3.1 Schedule and Timing

The schedule for *Quick Start* service start-up is September 2005. Time is therefore short, especially in light of the lead times required for the procurement process and for the set-up activities to be accomplished by the selected contractor. Table 1 provides the schedule of major milestones and builds on the lead times and the practical needs for the *Quick Start* service to commence operations in September 2005.

In order to assure accountability for the overall service, York Region will seek a single contractor to operate and maintain all of the *Quick Start* services. It is recommended that *Quick Start* be managed as a distinct operation for a five-year contract period (plus start-up activities up to the September 2005 service inauguration). This distinct operating method and period will allow the Region to measure the performance in light of the goals and risks of the *Quick Start* service and hold the operator accountable for the quality and results of the operating system. Since state-of-the-art IT systems are such an important part of *Quick Start*, the BRT operator will have access to all necessary systems. This will include the control functions of *Quick Start* (dispatching, monitoring, etc.) that are aided

by these IT systems. Although the O&M strategy for *Quick Start* envisions a stand alone contract, all opportunities to integrate YRT's own needs and O&M functions over time (e.g., vehicle tracking) are being taken into consideration. A joint YRT/YRTP study is underway to confirm the benefits of a unified operations and maintenance program for all Regional transit vehicles, including a central O&M facility at Langstaff in the future.

Table 1
O&M Procurement Milestones

Date	Action
June 2004	Council Approval of O&M Contract Process
June 2004	Issue prequalification notice
August 2004	Select short list of qualified bidders
September 2004	Issue RFP to qualified bidders
October 2004	Receive bids
January 2005	Recommendation for Award
January 2005	Council Approval of O&M contract award
April 2005	Fleet starts to arrive
September 2005	Start of operations

3.2 Role of ATC

While the York 2002 Consortium initially included the firm of ATC, an international transit operations and maintenance contractor, that firm has had very little involvement in the initial planning or design-build activities of YRTP to date. The Region has been notified in writing that ATC has withdrawn from the Consortium in order to eliminate any potential conflict and may decide to compete for the O&M contract on equal footing with other bidders in accordance with a competitive procurement process.

3.3 Stage One Agreement

The Region has received the appropriate legal agreements and acknowledgements from York Consortium 2002 that securing the O&M operator does not constitute proceeding to the full design, build and operation of the full service portion of the York Region Rapid Transit Project, within the meaning of the Stage 1 agreement and staff and legal counsel are therefore satisfied with moving forward on the work outlined in this report.

4. ANALYSIS AND OPTIONS

4.1 Operations and Maintenance Contract

YRTP and YRT are examining several types of basic operations and maintenance contracts, both in theory and in practical scopes of work from other transit systems in North America and internationally. The goal is to define a scope of work that will meet the needs of the *Quick Start* service and attract interested proponents to the process of selecting a *Quick Start* contractor. While each of the contract forms has different ways of defining work arrangements, accountability procedures, production measurements, incentive schedules, sharing of planning functions, and negotiating formats, in all cases,

York Region will retain control of routes, service levels and fares on *Quick Start* and in the Region as a whole. The basic outlines of the contract types follow:

4.1.1 Cost Plus Fixed Fee Contract

Costs of production, which includes personnel, equipment, facility maintenance, fuel and related operating costs, are fully reimbursed, and the operator is paid a fixed fee for personnel provided, overhead, and profit. The public authority assumes both production and ridership risks. This form is in wide use in North America, especially where the contracting agency does not have experience in transit operations or where the transit operation does not attract a pool of potential bidders.

4.1.2 Gross Cost Contract

As part of the tendering process, the contractor bids a fixed total annual price for the production of the service specified in the Request for Bids/Proposals for the life of the contract. A variation on this approach is to bid a per hour or per kilometer all inclusive price that would be multiplied by the annual hours/kilometers requested by the Public Authority on an annual basis, within a threshold of the predicted baseline at the time of the tender; this allows some flexibility to the public authority to modify service levels.

Under a gross cost contract the production risk is assumed by the contractor, while the revenue risk is assumed by the public authority. The Public Authority maintains control over all policy aspects (service, fare, information, etc.).

4.1.3 Gross Cost Contract Plus Incentives/Disincentives

This approach is based on the Gross Cost Contract strategy to encourage cost containment, but adds significant financial incentives and disincentives to encourage higher levels of quality assurance. The production risk is assumed by the contractor, while the revenue risk is assumed by the public authority, but the extensive use of incentives/disincentives considerably reduces the revenue risk borne by the public authority, and the public authority maintains complete control over all policy aspects (service, fare, information, etc.), and also acquires considerable ongoing knowledge of service quality through the performance monitoring process.

There is a broad range of potential indicators that can be used to monitor service including: safety, availability, accessibility, service reliability, cleanliness and comfort, customer care, environmental performance. Typically these contracts specify minimum requirements (backed by performance bonds or liquidated damages), and various performance thresholds per performance area, for allocations of incentives and disincentives. More ambitious strategies specify gain-sharing plans where ridership gains from service initiatives or marketing campaigns are shared between the contractor and the public authority beyond certain levels.

4.1.4 Net Cost Contract

The contractor bids a fixed annual net cost (i.e. subsidy) for the life of the contract, and bears, theoretically, all production and revenue risks. This can lead to efforts to maximize profits by both containing costs and maximizing revenue opportunities. Net cost contracts are used primarily for small start-up intercity bus services (esp. in France)

or regional interurban rail (UK and Germany), where significant control of planning and marketing responsibilities are delegated to the O&M operator. They are at this time rarely used in North America.

4.2 Current YRT Contracting Practice

YRT now has four O&M contracts in place, covering the four operating divisions of the Regional network. These four contracts represent a form of Gross Cost Contract. Three contracts, executed in 2003 and covering the operations of YRT in the Richmond Hill, Vaughan and Aurora/Newmarket areas, pioneered the introduction of performance-based contracts to the York Region transit network. These contracts include financial performance incentives/disincentives that were implemented to improve contractor performance and service quality.

4.3 Recommended *Quick Start* Contract Approach

As the first phase of Rapid Transit development in York Region, *Quick Start* will begin with a new generation of advanced vehicles, with a distinct image and many innovative features to make travel comfortable, reliable and fast. As the newest member of the family of transit services in the Region, *Quick Start* is intended to raise expectations among the travelling public. Therefore it makes sense to preserve this distinction also through the use of the single operator for the *Quick Start* service and by conducting the *Quick Start* phase as a separate operation for the first five-year operating period to ensure consistency across the four BRT corridors. This will also entail the use of separate maintenance and satellite facilities for the service, a practice that will pinpoint operational and maintenance accountability for the *Quick Start* fleet. The facility will have the capability to continue use as a satellite facility in an integrated BRT and YRT service plan in the future.

Since *Quick Start* is a new service, it will not have a baseline of experience and service measurements for a certain period of time. The *Quick Start* contract will contain provisions that will launch the Rapid Transit service as a high-quality innovative service and promote a growing level of excellence in operations, operational planning and ridership growth. To counteract the uncertainties and risks to the Region and operator of the new service start-up and to establish an environment where innovations can be introduced into the O&M process, the Region, YRT and YRTP envision a *Quick Start* contract with three stages. The first stage would encompass the ramp-up period up to the introduction of services starting in September 2005. The *Quick Start* operator may also be invited to provide enforcement of the proof of payment fare policy. A second stage, from the start of service to approximately 18 months of operations, would be characterized by a gross cost contract and would allow baselines to be established on operating costs, maintenance costs, ridership and revenue and other performance measures. The third stage would encompass ongoing O&M tasks with full incentives and disincentives in place and would also establish procedures to periodically recalculate the baseline for them. This stage provides the opportunity to adjust the contract based on the performance of the operator to date. This last phase could include input from the contractor on service planning and marketing efforts with the goal of integration of *Quick Start* and YRT conventional services. The implementation of *Quick Start* will provide an

opportunity for the introduction of an integrated approach to the development of O&M contracts with an increasing trend over time to include a more aggressive approach to incentives/disincentives for all O&M contracts administered by YRT.

4.3.1 Procurement Process

The procurement process for the Operations and Maintenance contractor (with respect to purchasing) will be jointly handled by Regional staff (including YRT), Rapidco staff and York Consortium 2002. *Attachment 1* identifies the main individuals involved in the procurement process. The services of a Regional Process Auditor are being requested to oversee the procurement. A Request for Qualifications will be published, for which notices will appear in the appropriate transit trade press. The prequalification document will also be made available to known operations and maintenance entities. A weighted listing of the evaluation criteria will be a part of the request notice. Evaluation of submissions will yield a short list of qualified bidders who will be requested to attend individual industry review meetings, where more information specific to *Quick Start* requirements will be disseminated to all. These qualified bidders will receive a Request for Proposals, which will entail submitting proposals on a complete scope of work, presently in preparation. Submissions from this step will again be evaluated and negotiations will be held with bidders. This process will continue until a satisfactory final contract can be concluded. The final contract will be brought to Council for award. The new contractor will then begin start-up activities leading to the beginning of *Quick Start* operations.

4.3.2 Evaluation Criteria

The most important areas of interest when selecting a shortlist of final invitees to become the *Quick Start* operator are experience in operating and maintaining transit systems including ITS, financial capability to undertake the *Quick Start* program, indications of ability to provide high-quality transit service, a proven record of safe operation and maintenance of transit vehicles, and assessment of responders' conceptions of business innovation and best practices.

4.3.3 Schedule for Procurement

The schedule of steps in the procurement process corresponds to the dates indicated in *Attachment 2*.

5. FINANCIAL IMPLICATIONS

The Operations and Maintenance contract is not part of the Design Build budget. However, YRTP has estimated that *Quick Start* operating costs forecast will be estimated in the Rapidco business plan for the 2005/2006 fiscal year. The actual cost of the services provided by the contract operator will be a function of the terms negotiated with the successful bidder, based on the final *Quick Start* service plan and will be included in the 2005 budget. Work to date to develop this strategy by York Consortium to participate in the procurement leading to the selection of the operator have been covered in the Year Two Budget. Costs for future services of York Consortium are included in the Year

Three work program which is the subject of a separate report on this agenda.

6. LOCAL MUNICIPAL IMPACT

There are no local municipal implications associated with this report.

7. CONCLUSION

Approval is being sought to proceed with Operations and Maintenance Contract procurement process.

(A copy of the attachments referred to in the foregoing has been forwarded to each Member of Council with the June 17, 2004 Rapid Transit Public/Private Partnership Steering Committee agenda and a copy thereof is on file in the Regional Clerk's Office.)