

**SOUND TRANSIT  
STAFF REPORT**

**MOTION NO. M2005-120**

**Contract Amendment for the Central Link  
Light Rail Vehicle Procurement**

Meeting:	Date:	Type of Action:	Staff Contact:	Phone:
Finance Committee	11/3/05	Discussion/Possible Action to Recommend Board Approval	Ahmad Fazel, Link Director	(206) 398-5389
Board	12/8/05	Action	<b>Justin Garrod, LRV Project Manager</b>	(206) 398-5384

Contract/Agreement Type:		Requested Action:	
Competitive Procurement	✓	Execute New Contract/Agreement	✓
Sole Source	✓	Amend Existing Contract/Agreement	✓
Agreement with Other Jurisdiction(s)		Budget Amendment	

**PROJECT NAME**

Central Link Light Rail Initial Segment

**PROPOSED ACTION**

Authorizes the Chief Executive Officer to execute a contract amendment with Kinkisharyo International, L.L.C./Mitsui & Co. Inc. Joint Venture to eliminate the existing economic price adjustment for inflation and its associated inflation index and substitute a negotiated, fixed inflation price of \$11,000,000 for the base contract (procurement of 31 light rail vehicles) to be paid in three equal payments at each of the next three scheduled progress payments. The amendment does not change the previously Board authorized total not-to-exceed contract amount of \$131,798,794.

**KEY FEATURES of PROPOSED ACTION**

- The proposed action would authorize a contract amendment to replace the economic price adjustment clause with a fixed inflation price, thereby capping Sound Transit's cost exposure due to inflation.
- The original light rail vehicle contract was executed in constant 2004 dollars and provides for an economic price adjustment that adjusts contract progress payments for inflation based on a specified railroad equipment industry index. In light of the unusually rapid increase of the reference index since the time of contract award, Sound Transit seeks to cap the inflation risk posed by this contract. This motion would authorize the deletion of the economic price adjustment and associated inflation index and the substitution of a fixed inflation price of \$11,000,000 for the original base contract.
- The fixed inflation price will have been paid in full upon completion of the next three project milestones.

- Prices for the “Options” for Sound Transit to purchase additional vehicles beyond the 31 provided for in the original contract would be fixed and not subject to the economic price adjustment clause.
- In its motion authorizing award of the original contract (Motion No. M2003-123), the Sound Transit Board authorized inflation expenditures for the base contract in the amount of \$9,579,808. While the proposed \$11,000,000 fixed inflation price exceeds the original projected budget for inflation, the fixed inflation price is considered reasonable as determined by an independent economic analysis that projected best and worst-case scenarios for inflation costs over the life of the contract, and established a conservative mean inflation cost exposure of over \$12,000,000.
- This amendment will not increase the previously Board-authorized total not-to-exceed contract amount of \$131,798,794. The difference between the original authorized budget for inflation and the proposed fixed inflation price (\$1,420,192) will be funded from Board-allocated contract contingencies, bringing the revised total amount for inflation to \$11,000,000.

### **BUDGET IMPACT SUMMARY**

Current Project Phase: Final Design  
Projected Completion Date: December 2009

<b>Action Outside of Adopted Budget:</b>	<b>✓</b>	<b>Comments on Checked Items</b>
This Project		
This Phase		
This Task		
Budget Amendment Required		

<b>Key Financial Indicators:</b>	<b>✓</b>	<b>Comments on Checked Items</b>
Contingency Funds Required		
Funding required from other parties (other than what is in financial plan)		

Not checked = action is assumed in current Board-adopted budget. No budget action or adjustment to financial plan required.

### **BUDGET and FINANCIAL PLAN DISCUSSION**

The proposed action will not increase the previously Board authorized expenditure amount and therefore will not have any impact on the budget. While the negotiated inflation price of \$11 million is approximately \$1.4 million more than the original authorized inflation expenditure of \$9,579,808, the additional \$1.4 million will be funded from the previously authorized contract contingency.

### **M/W/DBE – SMALL BUSINESS PARTICIPATION**

As a transit vehicle manufacturer, Kinkisharyo/Mitsui must certify that it complies with the requirements of 49CFR, part 26, by submitting documentation in its proposal that it has a DBE Program that is currently approved by the FTA.

### **EEO Commitment**

As a condition of the contract, Kinkisharyo/Mitsui will comply with equal employment opportunity provisions and nondiscrimination provisions in accordance with federal laws and policies.

## **PROJECT DESCRIPTION and BACKGROUND for PROPOSED ACTION**

On January 22, 2003, Sound Transit advertised and issued a Request for Proposals (RFP) for Light Rail Vehicles for the Initial Segment of the Central Link Light Rail Project. A two-phase negotiated, best value, competitive procurement process was used for selection of the light rail vehicle manufacturer. Upon completion of this process, Sound Transit decided to proceed with issuing a Request for Best and Final Offer (RFBAFO). Sound Transit found all proposals were qualified for consideration in the RFBAFO.

On December 11, 2003, the Board authorized the Chief Executive Officer to execute a contract with Kinkisharyo International, L.L.C./Mitsui & Co. Inc. Joint Venture (Kinkisharyo/Mitsui) for 31 low floor light rail vehicles for the Link Initial Segment. The contract employs an economic price adjustment for inflation, which adjusts contract progress payments for inflation based on changes to a specified railroad industry index. The contract includes the option for the procurement of up to 31 additional Light Rail Vehicles.

### **Prior Board or Committee Actions and Relevant Board Policies**

<b>Motion or Resolution Number</b>	<b>Summary of Action</b>	<b>Date of Action</b>
M2003-123	Executed a contract with Kinkisharyo International, L.L.C./Mitsui & Co. Inc. Joint Venture, to design, manufacture, and deliver 31 low floor light rail vehicles for the Link Initial Segment, including systems support, spare parts, special tools, and test equipment in the amount of \$108,606,040 with an allowance for an economic price adjustment for inflation of \$9,579,808, an allowance for sales taxes of \$7,336,813, and with a 5% contingency of \$6,276,133 for a total authorized contract amount not to exceed \$131,798,794	12/11/03

## **CONSEQUENCES of DELAY**

Absent the proposed contract amendment, Sound Transit would remain exposed to the current inflation index and a potential cost increase that could surpass the Board-authorized inflation and contingency budgets.

## **PUBLIC INVOLVEMENT**

Not applicable to this action.

## **LEGAL REVIEW**

CMJ 10/31/05

## **SOUND TRANSIT**

### **MOTION NO. M2005-120**

A motion of the Board of the Central Puget Sound Regional Transit Authority authorizing the Chief Executive Officer to execute a contract amendment with Kinkisharyo International, L.L.C./Mitsui & Co. Inc. Joint Venture to eliminate the existing economic price adjustment for inflation and its associated inflation index and substitute a negotiated, fixed inflation price of \$11,000,000 for the base contract (procurement of 31 light rail vehicles) to be paid in three equal payments at each of the next three scheduled progress payments. The amendment does not change the previously Board authorized total not-to-exceed contract amount of \$131,798,794.

#### **Background:**

On January 22, 2003, Sound Transit advertised and issued a Request for Proposals (RFP) for Light Rail Vehicles for the Initial Segment of the Central Link Light Rail Project. A two-phase negotiated, best value, competitive procurement process was used for selection of the light rail vehicle manufacturer. Upon completion of this process, Sound Transit decided to proceed with issuing a Request for Best and Final Offer (RFBAFO). Sound Transit found all proposals were qualified for consideration in the RFBAFO.

On December 11, 2003, the Board authorized the Chief Executive Officer to execute a contract with Kinkisharyo International, L.L.C./Mitsui & Co. Inc. Joint Venture (Kinkisharyo/Mitsui) for 31 low floor light rail vehicles for the Link Initial Segment. The contract provides for an economic price adjustment that adjusts contract progress payments for inflation based on a specified railroad equipment industry index. In light of the unusually rapid increase of the reference index since the time of contract award, Sound Transit seeks to cap the inflation risk posed by this contract. This motion would authorize the deletion of the economic price adjustment and associated inflation index and the substitution of a fixed inflation price of \$11,000,000 for the original base contract, thereby capping Sound Transit's cost exposure due to inflation.

In its motion authorizing award of the original contract (Motion No. M2003-123), the Sound Transit Board authorized inflation expenditures for the base contract in the amount of \$9,579,808. While the proposed \$11,000,000 fixed inflation price exceeds the original projected budget for inflation, the fixed inflation price is considered reasonable as determined by an independent economic analysis that projected best- and worst-case scenarios for inflation costs over the life of the contract, and established a conservative mean inflation cost exposure of over \$12,000,000.


This amendment will not increase the previously Board-authorized total not-to-exceed contract amount of \$131,798,794. The difference between the original authorized budget for inflation and the proposed fixed inflation price (\$1,420,192) will be funded from Board-allocated contract contingencies, bringing the revised total amount for inflation to \$11,000,000.


**Motion:**

It is hereby moved by the Board of the Central Puget Sound Regional Transit Authority that the Chief Executive Officer is authorized to execute a contract amendment with Kinkisharyo International, L.L.C./Mitsui & Co. Inc. Joint Venture to eliminate the existing economic price adjustment for inflation and its associated inflation index and substitute a negotiated, fixed inflation price of \$11,000,000 for the base contract (procurement of 31 light rail vehicles) to be paid in three equal payments at each of the next three scheduled progress payments. The amendment does not change the previously Board authorized total not-to-exceed contract amount of \$131,798,794.

APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on December 8, 2005.

ATTEST:

  
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John W. Ladenburg  
Board Chair

  
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Marcia Walker  
Board Administrator