

Managing Performance Risk



Doug Parker

IBI Group, Associate

Toronto, ON



2011 Fare Collection Workshop

Doug.Parker@IBIGroup.com

IBI Group Introduction



- Areas of practice
 - Urban Land
 - Building Facilities
 - Transportation Networks
 - Systems Technology
- About 2700 staff
- 75 offices in North America and internationally

IBI Group Perspective



- Consultant
- Contractor
 - Software developer
 - Systems integrator
- Subcontractor
- System Manager

My Perspective



- Transportation Systems
- 22 years
- With transit about 20 years
- Typical role
 - Planning and specifications
 - Procurement and implementation assistance

Performance Risk Introduction



- Achieve completion after partial payments
- Encourage timely completion by original contractor
- Allow completion with different contractor for a default

Options



- Retain leverage for completion
 - Milestone Payments
 - Withholding
- Influence timely completion
 - Liquidated Damages
 - Bonuses/Penalties
- Protect against default
 - Bond
 - Letter of Credit

Retain Leverage for Completion

- Milestone Payments
 - Partial progress payments
 - Cash flow to reduce financing
 - Link with deliverables
 - # of payments related to project duration
 - Retain leverage for system acceptance
 - Subject of negotiation



Retain Leverage for Completion



- Withholding
 - Retain a small percentage on all progress payments
 - Release upon system acceptance
 - Reduces need to ensure leverage with progress payments alone

Influence Timely Completion

- Liquidated Damages
 - Pre-estimate of damages due to delayed completion
 - Enforcement involves negotiation on delay attributable to contractor
 - If accumulated amount approaches contractor profit, loss of incentive

Influence Timely Completion

- Bonuses/Penalties
 - Can be for more arbitrary amount than liquidated damages
 - Can also lead to negotiations over contention of agency caused delays

Protect Against Default



- Performance Bond
 - Agency collects up to value, or surety completes
 - Requires complete default
 - Contractor purchases (0.5% - 2%), may require assets as collateral
 - Value often stepped down based on progress
 - Includes Payment Bond for subs and suppliers

Protect Against Default



- Letter of Credit
 - Non-revokable on demand payment commitment from bank (if work not completed before expiry)
 - Is a loan to contractor if invoked, working capital held as collateral
 - Often 10% or less of value
 - Costs about 1% per renewal
 - Can be stepped down based on progress

Bonding and LOC Issues



- Costs passed on to agency
- Some vendors have constraints
- May result in less effective party as prime
- Partial software cannot be readily completed by others

Bonding and LOC Constraints



- Parent reserving assets for acquisitions, or with cash flow trouble
- Joint venture partners not able to support in proportion
- Consulting firms with limited assets to secure bonds

THANKS!

The logo for IBI Group, featuring the letters "IBI" in a large, bold, serif font above the word "GROUP" in a smaller, all-caps, sans-serif font. The logo is enclosed in a thin white square border.

IBI
GROUP

Doug.Parker@IBIGroup.com