PERFORMANCE BASED SERVICE CONTRACTING
Thank you for attending today’s session!

• Please let us know your name and/or location when you sign in
• We ask everyone to mute their telephone during the presentation
• If you have questions or comments, use the chat tool provided during the presentation
• At the end un-mute your telephone for general questions and answers
• Please mute cell phones to avoid background noise
• Do not touch wireless microphones (Fairfax only)
Kathy Powers
Project Manager

- P.E., CFM
- MS and BS in Civil Engineering
- Past U.S. Navy Civil Engineer Corps Officer
- Past warranted Department of Defense Contracting Officer, and Acquisition Professional
Learning Objectives

• Learn the difference between performance based and prescriptive contracts (traditional)
• Understand the advantages and challenges to performance based service contracting
• Discover a repeatable methodology for writing performance based service contracts
• Learn how to administer a performance based service contract
WHAT IS PERFORMANCE BASED CONTRACTING?
Performance Based Contracting (PBC)

A PBC should describe the **owner’s needs** in terms of what is to be achieved, not how it is to be done. The intent is rather than micromanaging the details of how contractors operate, the owner should **set the results** and give the contractor the freedom to achieve them in the best way.
Outcome Based Contracting

PBC is also called outcome based contracting. Specification should focus on:

- Outcomes **not** inputs.
- Results of the contractor’s work **not** on the work itself.
- The cleanliness of the bathroom **not** how it was cleaned.
Prescriptive vs. Performance Contracts

• Outline exact specifications expected
• Less flexible
• Can sometimes stifle innovation and morale
• Contractors may have little incentive or motivation to do anything beyond what is specified

• Describe expected results
• Flexibility for the vendor regarding achievement of those results
• With a responsible contractor, possible cost efficiencies and improvements
• Contractor may take more pride in work and look for ways to increase effectiveness and efficiencies and add value
Prescriptive vs. Performance Specification Examples

- Mow and edge grass weekly.
- Aerate spring and fall.
- Fertilize in April and October.
- Weed beds quarterly.
- Use only commercial mowers.

- Maintain a smooth, neatly trimmed, acceptable lawn, free of eroded or bare spots and weeds.
- Maintain grass between 2 to 4 inches in height.
- Fertilize, water, edge, eliminate weeds, maintain mulch, and repair or replace damaged plants in shrub and plant beds.
Why Performance Based Contracting?

PBC allocates higher risk to the contractor compared to traditional contract arrangements, but at the same time opens up opportunities to increase his margins where improved efficiencies and effectiveness of design, process, technology or management are able to reduce the cost of achieving the specified performance standards.
Why Performance Based Contracting?

Outsourcing allows the organization to concentrate on their core business. Performance based contracting allows the contractor to bring their extensive experience and cutting-edge technology in their core business to your organization.
Why Performance Based Contracting?

Law and regulation establish a preference for performance-based service acquisition: Federal Acquisition Regulation Subpart 37.6 (Performance-Based Contracting)

*It is the policy of the Federal Government that agencies use performance-based contracting methods to the maximum extent practicable...*
OMB Best PBC Practices

- Drafting SOW
- Solicitations & Award
- Contract Administration

www.whitehouse.gov/omb/procurement_guide_pbsc/
ADVANTAGES AND CHALLENGES TO PERFORMANCE BASED CONTRACTING
Advantages to PBC

- Reduce maintenance costs through the application of more effective and efficient technologies and work procedures.
- Improve control and enforcement of quality standards.
- No detailed specification or process description needed.
- Contractor flexibility in proposing solution.
- Contractor buy-in and shared interests.
- Surveillance: less frequent, more meaningful.
- Allows for measurement of metrics.
Advantages to PBC

Organization does not need to be an expert at how to get what they want; they just need to be experts in knowing what they want.
Disadvantages to PBC

• More challenging to develop and implement PBC: paradigm shift.

• Organizations need to be well schooled in the methodology for arriving at measurable metrics and acceptable quality levels when developing the performance work statement (PWS) or statement of work (SOW).

• Administering PBC can also require a paradigm shift for the organization.
How To Overcome Disadvantages

TRAINING

On-Line Training

Books

www.whitehouse.gov/omb/procurement_guide_pbsc/
WRITING PERFORMANCE BASED CONTRACTS
Performance Based Specification

1: Define specific **requirements**
2: Decide on your organization’s **expectations**
3: Determine **performance standards** or level of service
4: Decide how you will **measure** the contractor’s outcomes
Define Requirements

Need to determine the scope and nature of the services required and describe them clearly.

Formulate a statement that clearly defines:

1) What do you want?
2) How much, when and where?
Requirements Example

1. What services do you want included in the contract? Example grounds maintenance.

- Lawn care – mowing, edging, watering, weeding, irrigating, fertilizing, seeding, patching
- Pest management
- Snow and ice removal
- Garden care – planting, weeding, mulching
- Tree/bush care
- Leaf removal
- Ornamental fountain maintenance

2. Where?
After you have determined requirements the next step is expectation. The RFP should clearly state what your organization’s expectations are.
Expectations Example

• Maintain all facilities at the APPA Custodial Service Level 2.5. Levels of service 4 and 5 will not be tolerated. [Service Level 2.5 is defined as routinely at the level 2 while only occasionally sinking to level 3.]

• Requests for service are responded to and resolved in a timely fashion.

• Utilize green and recycled products to the fullest extent possible and submit annual data in a complete and timely manner.
Performance Standards

• Establishes the minimum level of service acceptable to meet customer requirements.
• Provides a framework for monitoring actual services requirements and targets.
• Use internal standards: relevant organizational or FM standards and/or standards that may have been part of previous contracts or “at existing/current levels”.
• Use external standards: conformance to regulatory requirements, international standards, health and safety laws and regulations, industry standards and manufacturers’ recommendations.
# Performance Standards Example

## APPA Service Levels

<table>
<thead>
<tr>
<th>Level</th>
<th>Maintenance</th>
<th>Custodial</th>
<th>Grounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Showpiece Facility</td>
<td>Orderly Spotlessness</td>
<td>State-of-the-Art</td>
</tr>
<tr>
<td>2</td>
<td>Comprehensive Stewardship</td>
<td>Orderly Tidiness</td>
<td>High Level</td>
</tr>
<tr>
<td>3</td>
<td>Managed Care</td>
<td>Casual Inattention</td>
<td>Moderate Level</td>
</tr>
<tr>
<td>4</td>
<td>Reactive Management</td>
<td>Moderate Dinginess</td>
<td>Moderately Low-Level</td>
</tr>
<tr>
<td>5</td>
<td>Crisis Response</td>
<td>Unkempt Neglect</td>
<td>Minimum Level</td>
</tr>
</tbody>
</table>
Measure Outcomes

How are you going to measure the contractor’s performance?

- Customer satisfaction
- KPIs
- Metrics
- Reports
Measure Outcomes

A performance metric is a measure of an organization's activities and performance.

- DM vs PM
- PM Completion Rates
- Customer Satisfaction
- Work Order Completion Times
- Unscheduled Downtime
- Workforce Productivity
# Metrics Examples

<table>
<thead>
<tr>
<th>Metric Description</th>
<th>Std.</th>
<th>Metric Description</th>
<th>Std.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility Condition Index (FCI)</td>
<td>&lt;0.05</td>
<td>Stockroom Turns / Year</td>
<td>2 – 3</td>
</tr>
<tr>
<td>Deferred Maintenance Backlog</td>
<td>Trend</td>
<td>Annual Training Hours</td>
<td>&gt;40 hrs.</td>
</tr>
<tr>
<td>On-the-job Wrench Time</td>
<td>&gt;60%</td>
<td>Maint. Cost / Replacement Cost</td>
<td>3 - 4%</td>
</tr>
<tr>
<td>PM / CM Ratio</td>
<td>70 / 30</td>
<td>Percent Return Work</td>
<td>&lt;5%</td>
</tr>
<tr>
<td>Unscheduled Maintenance Downtime</td>
<td>&lt;2%</td>
<td>Mean Time Between Failures</td>
<td>Trend</td>
</tr>
<tr>
<td>PM Schedule Compliance</td>
<td>&gt;95%</td>
<td>% Failures Assessed: Root Cause</td>
<td>&gt;75%</td>
</tr>
<tr>
<td>CM Schedule Compliance</td>
<td>&gt;90%</td>
<td>Maintenance OT Percentage</td>
<td>5-15%</td>
</tr>
<tr>
<td>Unscheduled Man-Hours</td>
<td>&lt;10%</td>
<td>% WO Covered by Estimates</td>
<td>&gt;90%</td>
</tr>
<tr>
<td>WO Turn-Around Time</td>
<td>Trend</td>
<td>On-Site Supervisor Time</td>
<td>&gt;65%</td>
</tr>
<tr>
<td>Emergency Response Time</td>
<td>&lt;15 min.²</td>
<td>Stockroom On-Time Delivery</td>
<td>&gt;97%</td>
</tr>
<tr>
<td>Stockroom Service Level</td>
<td>&gt;97%</td>
<td>Material / Part Performance</td>
<td>&gt;98%</td>
</tr>
</tbody>
</table>
Dashboard Reports

- **% Total Maint. Cost vs. Budgeted**: Current Value: 10.00%, Target: 60% Variance: -50.
- **Actual vs. Estimate Cost Variance**: Current Value: 0%, Target: 5% Variance: -5.
- **% Overtime vs. Regular Hours**: Current Value: 13.00%, Target: 5% Variance: 8.
- **% PM Work Orders Completed vs. Open**: Current Value: 34.00%, Target: 95% Variance: 81.
- **Mean Time between Failure**: Current Value: 32 days, Target: 90 days Variance: 58.
- **Work Orders Waiting for Approval**: Current Value: 20 Work Orders, Target: 10 Work Orders Variance: 10.
- **Backlog Hours**: Current Value: 203.00 hours, Target: 60 hours Variance: 123.
Contract “Musts”

- Fixed Fee
- Competitively Bid
- Best Value Award
- Partnering
ADMINISTERING PERFORMANCE BASED CONTRACTS
Contract Administration

• **Definition:** any action from the time a contract is awarded until its closeout. It is the process of ensuring that the intent, requirements, and terms and conditions of the contract are met.
Purpose for Contract Administration

• Assess Performance
• Compliance
• Document Outcomes
• Ensure Continuing Relevance
Quality Control (QC) versus Quality Assurance (QA)

• Is there a difference between QC and QA?
• Is the contractor responsible for both?

• Answer to both questions: **YES**

QC: Input vs. QA: Output
Quality Control (QC)

Quality Control: the measures put in place by the contractor to control the quality of the input like training, proper procedures, utilizing quality materials & tools; etc

Quality Control Plan: A self-inspection plan that describes the internal staffing and procedures that will meet the quality, quantity, timeliness, responsiveness, customer satisfaction, and other service delivery requirements in the statement of work.
Quality Assurance (QA)

Quality Assurance is the evaluation of the quality of the output; this includes inspections, data monitoring, customer surveys, metrics, status reports, etc. The contractor must establish a QA plan, tell you what that plan is and follow it.

Why QA? So any discrepancies in the quality or timeliness of the work can be quickly addressed and resolved.
QA/QC Goal

The Contractor establishes procedures and processes that will produce quality outcomes.
The Contractor establishes procedures and processes to check the quality of the outcomes.
The Contractor establishes procedures and processes to “fix” poor quality.
Owner’s Responsibility: Monitoring

What are you monitoring?
1. The contractor’s processes
2. The contractors procedures
3. KPIs and/or metrics

What are you looking for?
1. Adherence to their “plan”
2. Success of their QA/QC.
Why Monitor?

- Ensures contract terms are met
- Provides early problem detection
- Helps prevent or reduce fraud
- Helps avoid conflicts when misunderstandings or unexpected requirements arise
- Encourages regular communication
- Reinforces partnership
What is Monitoring?

Reviewing metrics together.
Spot checking for accuracy of the metrics.
Reviewing their inspection reports.
Talking to your customers.
Spot checking completed tasks.

The monitoring process is unique for every contract. The question is what will it take for you to know (have a “warm & fuzzy”) that you are getting what you are paying for.
Partnering is critical in PBC.

Partnering should not mean eliminating the control mechanisms that are necessary in order to have a strong claims avoidance strategy.

Must identify the partnering expectations.

The quest for trust, respect and co-operation replacing traditional confrontation, the delicate balance required to accommodate flexibility, performance incentives and opportunities for innovation.
Partnering
BEYOND SERVICE

CONTRACTS

Road Management & Maintenance Contracts
Performance-Based Road Contracts

- The *traditional* way of contracting out road maintenance is *based on the amount of work being measured*.
- *PB* road contracts *define minimum conditions of road and assets*.
- Payments are based on how well the contractor manages to *comply with the performance standards* defined in the contract, and not on the amount of works and services executed.
BEYOND SERVICE CONTRACTS

Energy Saving Performance Contracts

Performance Agreement

REDUCED ENERGY COST
Energy Saving Performance Contracting

• Based on energy cost savings - outcome
• Widely used for public-sector energy retrofit projects
• Typically involves 3 parties: Owner, Energy Services Company (ESCO) and Lender
• Typically, annual savings are guaranteed by ESCO to cover all costs during term of the loan
• Typical project term of 10-20 years
Summary

• PBC is on the rise.
• PBC requires a paradigm shift.
• PBC decreases costs and increases quality.
• PBC is not just for service contracts anymore.
Contact Information

**FEA-U Info:**
- Mayra Portalatin, SFP, LEED AP O+M  
  mayra.portalatin@feapc.com

**Today’s Presenter:**
- Kathy Powers, PE, CFM  
  kathy.powers@feapc.com  
  703-591-4855

Mark your calendars for...

Next FEA-U Sessions
- August 21: Fall Protection
- September 18: Data Centers

Access demo at: [www.feapc.com](http://www.feapc.com)  
Click FM Diagnostics icon

Thank you!