



Performance Contracting for Construction — The Michigan Experience

A New Approach To Building the Future

The American Society of Civil Engineers warns that one-third of our nation's major roads are in poor or mediocre condition. Demand on our nation's transportation infrastructure outpaces supply by a factor of three. These two factors combine to guarantee increased roadway construction and maintenance over the next 20 years.

To help prepare for this demand, the Federal Highway Administration (FHWA) is working to identify, develop, and promote new methods to reconstruct highways and bridges that are safer, faster, and more effective. One such tool is Performance Contracting for Construction (PCfC), a results-oriented approach that allows transportation agencies to define a desired project outcome while allowing the contractor to determine how to accomplish the work to meet quality, functional, and cost goals that can be evaluated using clear, observable performance measures.

FHWA is providing states with resources and tailored technical assistance to facilitate implementation of PCfC. As part of this effort, FHWA is seeking up to six states to pilot a Draft Implementation Framework designed to help agencies jump-start this process for suitable projects.

The Michigan Pilot Project

The Michigan Department of Transportation (DOT) had been interested in performance contracting as a means to accomplish necessary roadwork cost effectively and with minimal disruption to travelers and maximum safety for both workers and travelers. Having learned through an HfL announcement that a PCfC workshop was available, Michigan officials decided to participate as a pilot state. As part of this process, Michigan selected the planned "M115 Roadway Improvements and Bridge Replacements on M115 from Lake Station Avenue to Clare/Osceola County Line" reconstruction project as its pilot.

The Michigan M115 project will include reconstruction of approximately 5 ½ miles of roadway and replacement of two bridges.

"The candid and informative interaction among the instructors and the workshop participants made this one of the most enjoyable and productive workshops I have attended. The instructors did an outstanding job leading a group of contractors, State DOT and FHWA stakeholders through a systematic and practical approach for developing performance based contracts."

— Tom Fudaly, Engineering and Operations Manager
FHWA - Michigan Division

"I would consider [the Highways for Life (HfL) and Performance Contracting workshop] a 'must attend' for anyone planning an HfL project. I particularly liked the session that covered the contractor's perspective. The guest speaker from the contracting industry gave us a unique perspective on performance based contracting. The workshop proved very helpful in our development of MDOT's HfL project."

— Jack Hofweber, P.E., M115 Project Manager
MDOT

For more information on the PCfC Implementation Framework or to learn how to become a pilot state, contact:

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Why Michigan Chose To Become a Pilot State

By using performance contracting as an innovative approach on the M115 roadway construction project, Michigan DOT will take advantage of the special consideration offered to funding applicants under the U.S. Department of Transportation's (USDOT) HfL program and technical assistance provided by USDOT for the Implementation Framework. As a pilot state, Michigan contractors and government officials received targeted assistance from subject matter experts. Michigan also hopes to expand its contracting toolset in light of anticipated declines in the availability of capital funding between FY07 and FY11 coupled with increasing construction and maintenance requirements. Michigan DOT and its contractors are hoping that PCfC can offer a more flexible and cost-effective way to accomplish specific goals while helping the state reduce administrative costs and maintenance requirements through the use of warranties that require contractors to guarantee their materials and workmanship.

The Michigan Workshop Experience

FHWA sent a team of subject matter experts, including Dr. Mark Robinson, Sid Scott, Mary Huie, and Chris Schneider, to Michigan for a 3-day hands-on workshop to acquaint contractors and government officials with PCfC and the Implementation Framework. Contractors and government officials spoke about the opportunities and the challenges they felt this approach could offer. Top opportunities government officials highlighted included improved quality of workmanship, the potential for reducing resource and administrative burdens while improving overall cost effectiveness, and the public benefits of reduced delay coupled with more rapid project completion. Top opportunities from the contractors' perspective included gaining the ability to analyze cost and time benefits or savings, the elimination of acceptance testing due to the use of performance warranties, and the opportunity for collaborative design efforts due to the best-value approach.

Dr. Robinson and Mr. Scott led the group through an examination of the challenges and ways they could address them through this approach. Perceived challenges included contractor concerns about having enough project control to offset their risks and the need for Michigan DOT to establish performance measures that are both clear and reasonable. Challenges identified by the government included concerns about whether this process would be more or less claim susceptible and determining the stages or types of innovation in which work should be permitted or encouraged. By the end of the workshop, both government officials and contractors were comfortable with the approach, and had a shared understanding of what to expect in using it.

Where Are They Now?

The Michigan DOT has submitted its application for HfL funds for this project and has completed its solicitation package. The draft package was reviewed by the Michigan Infrastructure and Transportation Association, Michigan DOT staff, and FHWA before being finalized. The formal request for proposal was advertised on October 22, 2007, and the contract is due to be awarded by February 1, 2008. The formal request for proposal was issued on October 22, 2007 and the contract was awarded on April 3, 2008.

Are You Interested in Becoming a Pilot State?

FHWA is currently seeking up to six states interested in piloting the PCfC Implementation Framework in FY2008.

Special consideration is offered to states proposing PCfC as an innovative approach for the HfL program. Pilot states also enjoy focused technical assistance workshops provided by FHWA to acquaint them with the PCfC Implementation Framework. State agencies and contractors have direct access to subject matter experts, and perspectives from both are provided in a one-on-one environment. Breakout sessions are held to orient attendees to all aspects of the process, discuss individual and collective concerns, and identify benefits and drawbacks. In addition, attendees learn to identify projects that are good candidates for performance contracting as well as those that are not.

