

PREAMBLE to Wedges 2-5 Request For Proposal

1. Overview. In order to realize economies and efficiencies inherent in completing the remainder of the Pentagon Renovation Program, the Government has elected to consolidate all four remaining wedges of above ground renovation into one acquisition and resulting contract. The Government's approach to this contract has been to structure a framework that will support a successful partnership between the Contractor and the Government that will enable the completion of the Renovation within cost, on schedule, and to acceptable levels of quality and performance. As a reflection of the symbiotic nature of the relationship the Government seeks to maintain over the life of the contract, its very underpinnings rely on each of the parties to *interact* in essential ways. The Government has, to the greatest degree possible, stated its requirements on a performance basis, thus allowing and expecting the Contractor to determine, using standard commercial best-practices, what design solutions are appropriate. The Contractor is expected to aggressively seek out innovative solutions to maximize budget and performance in response to these performance-based requirements. The Government expects to be involved in design decision-making as these solutions are determined, but recognizes the Contractor's essential role. The Government, in turn, has established an incentive structure that will readily and meaningfully reward these behaviors, but reward must be earned--there is no guaranteed profit or fee. Trust that each partner will act in accordance with these expectations is essential to maintaining the relationship that will enable this contract to succeed.

The expected period of performance for the contract is in excess of ten years. Although the contract has been written in contemplation that changes will undoubtedly occur, there is no reasonable expectation between the parties that the contract in fact addresses all possible changes that will occur. In fact, the parties understand that it would be impossible to write such a contract. What is needed instead, and what this contract does address, is the nature of the relationship between the parties.

2. Background. For purposes of the Renovation the Pentagon has been divided into five wedges of approximately 1 million square feet each. The construction of Wedge 1 got underway in 1997 using a traditional design-bid-build approach. Tenant fit-out was designed after the award of the construction contract and based heavily on individual tenant's requirements and desires. The Program concept was to complete each of the remaining four wedges, individually competed over time, in the same manner. In 1999 the Government found itself addressing a budget challenge for the completion of the Renovation. In response the Program was completely re-conceptualized. Every aspect of the approach was re-evaluated and much was changed.

Most fundamentally, all the remaining wedges were consolidated under one acquisition. It was decided that this competition would utilize the design-build delivery method and performance-based requirements. As part of this approach the Government determined that a universal space planning solution was needed, to allow future design flexibility. The business arrangement, including the reward structure, was devised to incentivize superior performance and maximize the budget. The rationale for these decisions is straight-forward: they all held promise of cost avoidance.

3. Project Characteristics. As a result of the design-build delivery method, the Contractor is the single point of responsibility for performance of contractual requirements. By utilizing performance-based requirements the Government has appropriately shifted the responsibility for making most design decisions to the Contractor. The Government recognized early on that this would necessitate changes in its internal practices. This contract reflects a significant departure from traditional Government-dictated design processes and practices and associated program controls, and substitutes to the greatest degree possible the Contractor's standard commercial

practices. In exchange, it's the Contractor's responsibility to adapt these commercial practices, if necessary, to provide the Government with an acceptable level of insight and participation, during design and construction, as befits an informed consumer. An acceptable level of insight and participation will allow the Government to achieve the following:

- Be assured that the Contractor is meeting performance and other contract requirements.
- Ensure established requirements are adequate to produce the desired functionality.
- Ensure conclusions and input can be made about appearance and other preference items.
- Be kept informed, and be able to keep others informed.
- Allow scheduling and coordination of government furnished property, IM&T installation, OGCs, outages, etc.
- Preclude avoidable conflicts and impacts on tenants.

These decisions were made to allow the Contractor the greatest degree of freedom to, using innovation and creativity, pursue optimum solutions to our performance-based requirements.

The tenant turnover rate is very high in the Pentagon. Entire organizations come and go; changing missions dramatically alter the type and use of space as well. Wedge 1 construction experience has shown that making early tenant fit out design decisions can be very costly when the inevitable tenant changes occur, especially if there are core and shell implications. The parties understand that it is impossible for the Government to identify particular tenant needs for all four wedges at this point in time. The Government has identified the types of space for the renovated Pentagon. It's the Government's responsibility to interact with the tenants and convey requirements to the Contractor. The Contractor in turn will devise a universal space plan that will enable both parties to delay tenant fit-out design decisions as long as possible with minimal core and shell impacts and allow future changes with reduced cost impact. These changes in requirements will occur. It is the Contractor's responsibility to assist the Government in addressing these changes and to make recommendations or take actions to minimize the impacts, both through the universal space planning approach and through whatever innovative means are available.

Because of the extended period of performance, the Contractor's responsibilities include managing the contract budget as events transpire over time. Although economic fluctuations will be addressed through the market basket mechanism, technology and process changes can be expected and must be addressed within the original pricing structure of the contract. The Government expects that as technology improves, learning occurs, and efficiencies are realized, costs per wedge in constant dollars will decrease. The Government intends that all available contract funds be applied to improving the performance and maintainability of the renovated Pentagon. The contract structure provides for cost sharing of underruns as a means of incentivizing innovation and problem-solving and to provide for some budget flexibility. The Government will share in overruns up to the ceiling amount as well. However, it's the Contractor's responsibility to manage the contract budget such that all contract requirements are met, performance and utility are maximized within the available budget amount, Government requests and desires are satisfied as the budget allows, and little or no underrun occurs. The requirements for cost and earned value reporting will give both parties the necessary insight to allow prudent and timely decisions to be made regarding levels of performance and finishes. Given the tremendous control the Contractor exercises over the budget for this project, the Government will consider the relationship between the parties to be fundamentally flawed if either has to resort to a near-continuous stream of relatively small dollar change requests or orders to realize progress.

4. Guiding Principles. The goal of the Pentagon Renovation Program is to upgrade the Pentagon into a modern, flexible, and safe office environment that will endure well into the 21st century. The Contractor shall institute and foster an innovative, effective, and efficient management program able to address changes and developing conditions while continuing to maintain appropriately high levels of quality within budget constraints.

The Pentagon Renovation Program Office will serve as Government's single face to the Contractor on contractual and requirements issues and act as the intermediary between the Contractor and tenants/building operators. While interaction between the Contractor, building operators and tenants are necessary, the Contractor shall not take technical direction or guidance from any organization other than the Pentagon Renovation Program Office. The Contractor will attempt, to the greatest degree possible within budget constraints, to satisfy tenant/operator requests made through the Program Office.

The Contractor and the Government will form a unified, collocated team that will jointly manage project activities as described in this document. Both parties, to the greatest degree practical, will adapt their processes whenever appropriate to provide for common processes within the unified teams. The team is jointly responsible for solving all problems that arise.

The Government will continue to provide, via the award fee process and plan, its performance expectations to the Contractor as they may change over time. The Government will reward behavior in accordance with the plan. The Government will not reward behavior in contravention to its stated performance expectations. The Contractor must understand that both parties will view the contract and the relationship similarly--if the Government is greatly pleased with the Contractor's performance, the Contractor will be greatly pleased with the Government's reward. The converse is obviously true as well.

5. Conclusion. The project described in this contract is unique in many ways. It stands to reason that traditional construction practices are not necessarily the best for a non-traditional project. Because of its strong belief that the relationship between the parties will ensure either the project's success or failure, the Government has written this contract to establish that relationship, rather than to document every transaction that will occur over its life. The Government has departed significantly from its standard approach to construction projects in an attempt to make this relationship effective and keep it healthy. The Contractor must also be flexible enough to adapt to change and undertake new ways of doing business to make this relationship work.