The New O‘ahu Jail

Public Private Partnership Project Delivery Model Presentation

11 August 2025

Public Private Partnership 101

P3 Basis

- For More Complex Projects: Potential for Innovative Design and Construction
- Fixed State Contribution; Private Financing for Full Scope
- Established Future Finance and Maintenance Costs
- Performance Specification

P3 Basis

Design-Build-Finance-Maintain

Long-term State investment in community asset

Total cost of ownership, whole of life thinking

Long-term partnership with private sector

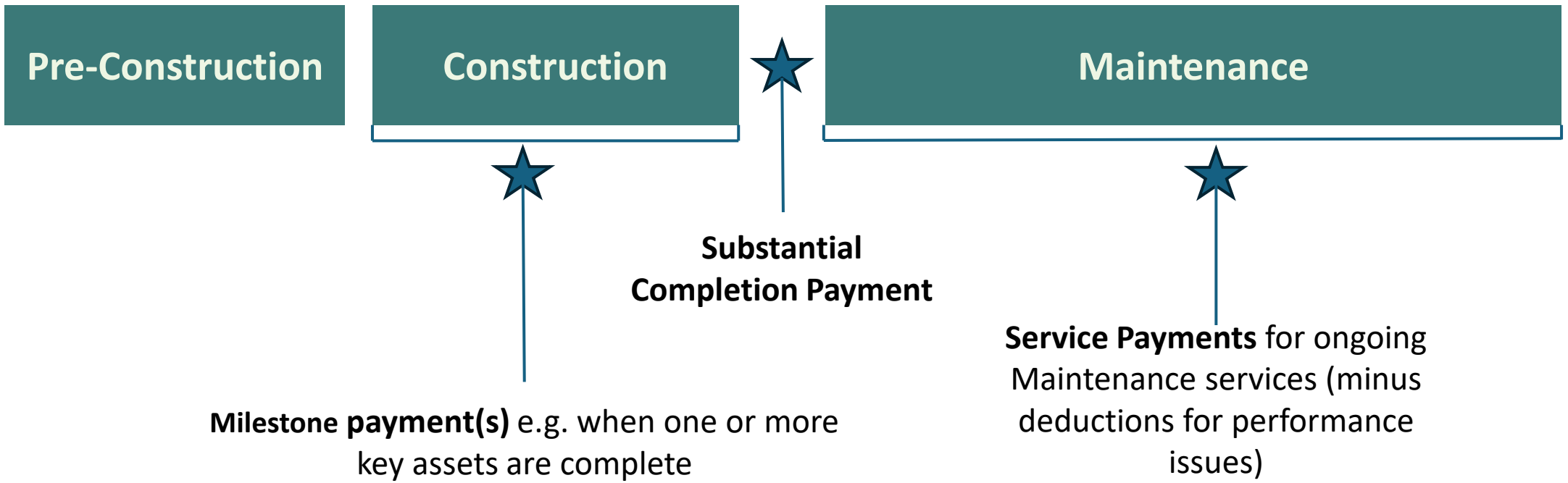
Private sector investment funded by ongoing State payments (performance driven)

P3 Basis

Design-Build-Finance-Maintain

- Award Based on Performance, Scope, and Future Cost
- Developer Assumes Increased Risk for Design, Construction and Long-term Maintenance
- Maintenance Payments Based on Meeting Performance Specifications
- More Motivation for Developer Quality Control
- More Collaboration to Meet Owner’s Immediate and Future Expectations

How and When payments are made



P3s & HAWAII PROCUREMENT CODE

Relevant Statutes

HRS CHAPTER 103D

- “Procurement Code” for Design-Bid-Build and Design-Build Construction
- Lease Agreements not covered

HRS CHAPTER 37D

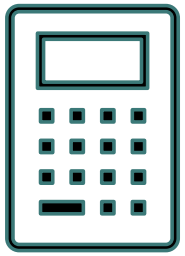
- Financing agreements under Chapter 37D exempt from 103D
- Financing agreements: AG and B&F Director Approval
- Biennium Budget Cycle - Cannot bind future legislatures for payment: Concurrent Resolution
- Consequences for no appropriation of future state funds

P3 ADVISORY SERVICES

Financial

- P3 is not a funding solution.
- P3 is a different way to allocate risk. However this results in a different way risks are costed.

FINANCIAL ADVISOR



- Scope of a financial advisor
- timing of when in the procurement and its scope and importance

Legal

- P3 is ultimately a financial contract between State and Developer.
- The Project Agreement is a critical legal document that underpins the project's requirements and the party responsible for delivering on those responsibilities

LEGAL ADVISORS

- State releases maintenance budget control into Project Agreement
- Flexible contract language for 30-year relationship together while meeting overall goals.
- Outline how contractual language protects against updates in technology etc

Technical

- P3 is written as an output specification.
- The state specifies the desired outcomes which is then translated into technical requirements.

TECHNICAL ADVISOR

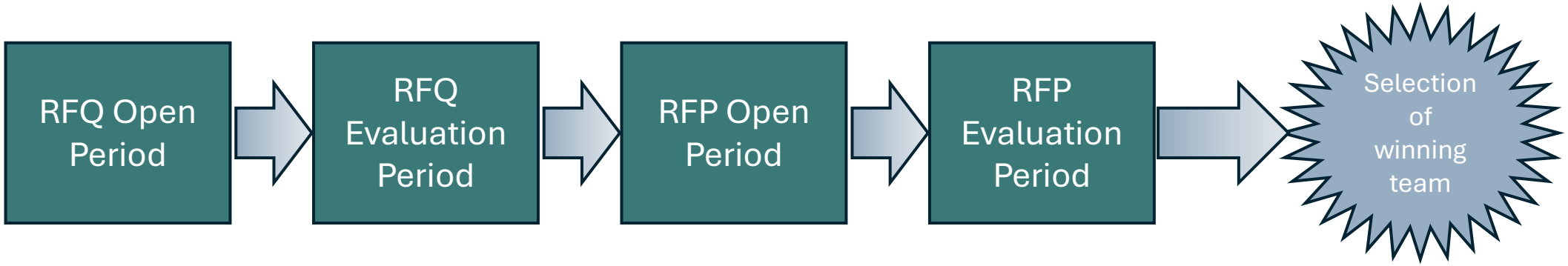
- Will assist in the engineering, architectural and environmental details of the project
- timing of when in the procurement and its scope and importance

PROCUREMENT

Procurement

- Takes time
- Legal, financial, technical, community engagement, insurance, market interest
- Fixed price vs progressive benefits of each and when in the procurement you decide
- Who pays up-front costs?

Overview of Procurement Process

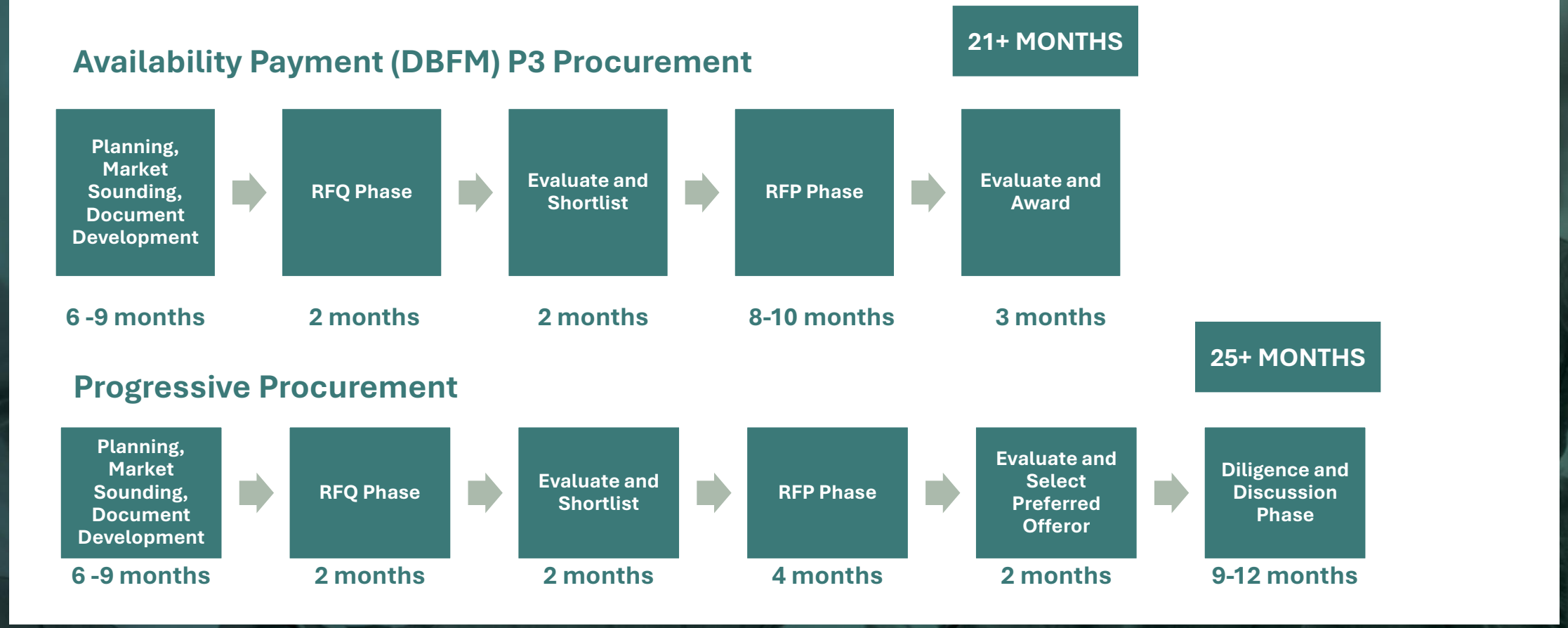


Both the Request for Qualifications (RFQ) and Request for Proposal (RFP) processes are highly involved and complex. It is critical that the State and its advisors take time to develop well-written and scoped RFQs/RFPs

Progressive Procurement

- Drivers
  - Project Complexity: Cost for Developers to Participate
  - Site Diligence
  - Certain items are fixed, others are variable
- Benefits
  - High collaboration before contract executed
  - More defined project before contract executed
- Challenges
  - Less defined project when down-select to one Developer
  - Loss of competitive tension
  - Possible third phase requires additional evaluation committee, owner, consultant, and procurement support

Progressive Procurement vs Traditional



COMMUNICATION

COMMUNICATION PLAN

- A P3 communication plan outlines how information will be shared between partners and stakeholders throughout a project's lifecycle.
- It ensures everyone is informed, engaged, and aligned on project goals, progress, and potential issues.
- Effective communication is crucial for successful P3 projects, as it helps manage expectations, build trust, and mitigate risks.

Key components include:

1. Purpose and Objectives
2. Roles and Responsibility
3. Stakeholder Identification and Analysis
4. Communication Methods and Channels
5. Crisis Communication
6. Monitoring and Evaluation

PROJECT CHAMPION

- Need buy in from State Leadership especially a Project Champion in this space
- Project communication plan needs to include strategy for keeping State Leadership informed.
  - Timing of news release tiered to be issued to leadership ahead of hitting press
  - Provide talking points

MARKET CONDITIONS

MARKET SOUNDING

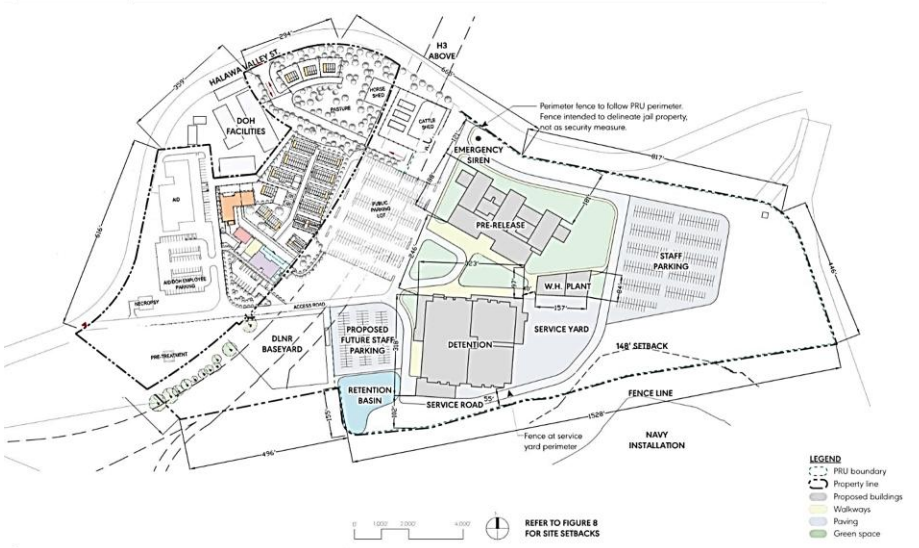
- Sound industry early. What in scope or approach will encourage or scare off developers?
- Flexible contract language for 30-year relationship together while meeting overall goals.
- Risk management and allocations – risks should be assumed by best party to manage – talk this through with the industry, don’t try and solve it in a vacuum

OCCC
DESIGN BUILD FINANCE MAINTAIN (DBFM)

OCCC OVERVIEW

ADDRESSING OCCC NEEDS

- Remedy existing inefficiencies at the current Oahu Community Correctional Center (OCCC) which struggles to meet the current and evolving needs of DCR
- DAGS and DCR plan to replace OCCC with a modern and restorative-focused facility according to the following **primary objectives:**



Concept Plan

- Significantly improve how individuals are housed and treated at OCCC
- Eliminate the need for costly temporary repairs
- Expand the number of transitional beds and treatment and program spaces
- Ensure cultural equity and provide therapeutic facilities and services
- Promote positive changes via new treatment programs, expanded medical and mental health services, and similar assistance
- Improve living and working conditions for occupants and staff
- Reduce recidivism

VALUE FOR MONEY OVERVIEW & RECOMMENDATION

WHAT IS VALUE FOR MONEY ANALYSIS? WHAT IS BEING RECOMMENDED?

- A **Value for Money analysis** (VfM analysis or VfM) for the New Oʻahu Community Correctional Center (New OCCC or Project) initially considered multiple delivery options before conducting a detailed **qualitative and quantitative analysis** of the two viable methods, resulting in a recommendation of the **most effective Project delivery method** in terms of costs to the public.

- The recommended Project delivery method will enable the State of Hawaiʻi (State) to **procure, design, construct, operate, and maintain a high-quality Project** for minimal cost (in relative terms) over the entire Project lifecycle.

- What it is ***not***:
  - It does not establish the need for the project
  - It is not an assessment of the project's affordability

COMPONENTS OF THE DELIVERY METHOD RECOMMENDATION

Qualitative Analysis
The qualitative advantages of DBFM outweigh the disadvantages relative to other viable delivery options.

Qualitative Value

Project Controls/Management/ Coordination, Project Schedule (Duration and Certainty), Risk Transfer Benefits (Cost Savings/Certainty), Project Cash Flows, Bonding Capacity, Long-Term Asset Performance/Value, and Innovation and Sustainability

+

Quantitative Analysis
The risk transfer-related benefits and efficiencies offered by DBFM translate into measurable cost savings over the entire project lifecycle, or "Value for Money".

Quantitative Value

Over a 30-year timeframe, DBFM has a **$108.5 million VfM** compared with design bid build (DBB)

=

Design-Build-Finance-Maintain

SUMMARY RECOMMENDATION:
The net qualitative advantages of a DBFM procurement supported by a positive VfM of $108.5 million

DELIVERY METHODS CONSIDERED AND EVALUATED

DELIVERY METHODS CONSIDERED: THE TWO FINALISTS

Delivery Model Option	Viable (Y/N)	Recommendation
Design-Bid-Build (DBB)	Yes	**Do not recommend.** Based on results of quantitative and qualitative analysis.
Design-Build (DB)	Yes	**Do not recommend.** State direct funding (without Project financing) represents a significant up-front fiscal commitment. State is responsible for facility maintenance, which it has historically been uneven in providing.
Design-Build-Finance (DBF)	Yes	**Do not recommend.** Addresses up-front financial obligation by the State. Maintenance still the responsibility of the State, which will not generate lifecycle savings that will compensate the State for higher financing costs.
Design-Build-Finance-Operate-Maintain (DBFOM)	No	**Not viable.** State needs to retain responsibility for the operation of the functional services of the facility, negating use of this delivery method.
Design-Build-Finance-Maintain (DBFM)	Yes	**Recommend using for the New OCCC.** Provides private financing to alleviate large up-front funding obligation of the State. Provides maintenance and hands over a well-maintained facility at the end of the contract. Financing costs are offset by savings gained elsewhere in the Project's lifecycle such as third-party maintenance contract.

The DBB, the State's traditional delivery method, and the DBFM delivery model were both selected for further analysis.

DELIVERY METHODS CONSIDERED: DESIGN-BID-BUILD (DBB)

This industry standard delivery model relies on distinct team members with separate roles. It is a linear process that follows these steps: Design, then Bid, and finally Build.

Pros	Cons
Control – High degree by the State	Risk – Design assumed to be 100% complete; Errors or omissions may lead to change orders
Familiarity – Understood by all parties	Quality – State awards bid typically based up on low bid, not qualifications
Procurement Duration – Based on feedback, State's experience is that DBB is faster to reach contract award	Maintenance – State's responsibility with uneven history of adequately managing this
	Funding – State will need to fund directly and up-front via public sources

Conclusion from the VfM: Viable but not recommended. Notable downsides are that this requires the State to fund the Project with 100% public financing. State is responsible for facility maintenance, which it has historically been uneven in providing.

DELIVERY METHODS CONSIDERED: DESIGN-BUILD (DB)

Design-Build (DB) delivery combines design and construction into a single contract with a DB team consisting of a designer and a contractor.

Pros	Cons
Contractor Selection Criteria – State can select the contractor based on technical considerations, rather than just price	Funding – Also requires State to fund directly and up-front via public sources
Risk Transfer – Shifts many design and construction risks to the DB contractor	Maintenance – State's responsibility with uneven history of adequately managing this
Cost – Competitive bids based on performance requirements allows for creative solutions that reduce cost	Design Control – Less control over the design as it is consolidated in the DB contractor
	Procurement Duration – State indicates that DB is slower to reach contract award than DBB

Conclusion from the VfM: Viable but not recommended. State direct funding (without Project financing) represents a significant up-front fiscal commitment and 100% public financing. State is responsible for facility maintenance, which it has historically been uneven in providing.

DELIVERY METHODS CONSIDERED: DESIGN-BUILD-FINANCE (DBF)

The Design-Build Finance (DBF) delivery method adds a private financing component to the DB delivery model. The benefits of adding private financing include:

Pros ***(inclusive of Pros from DB)***	**Cons** ***(inclusive of Cons from DB)***
Funding – Adds use of private financing to reduce need for upfront capital and spread out the State's payment obligations	Private Financing Costs – Private financing typically has higher financing costs than those associated with public financing options.
Debt Repayment – Private parties responsible for repayments of privately-issued debt (with no recourse to the State)	Extended Approval Process – Requires legislative action pursuant to HRS Section 37D
Public Debt Capacity – Private financing has no negative impact on the State's bonding capacity	
Risk Management – Private investors (debt or equity) provide an additional source of diligence and oversight.	

Conclusion from the VfM: **Viable but not recommended.** Addresses up-front financial obligation by the State. Maintenance still the responsibility of the State, which will not generate lifecycle savings that will compensate the State for higher financing costs.

DELIVERY METHODS CONSIDERED: DESIGN-BUILD-FINANCE-OPERATE-MAINTAIN (DBFOM)

The DBFOM model, typically referred to as a "public-private partnership" (P3), extends the DBOM responsibilities to include financing, essentially DBF + DBOM combined. Many of the Project delivery risks which the Developer is better positioned to manage, are transferred to the Developer, thus enabling the State to procure the Project as a service rather than as a State-managed capital project.

Pros ***(inclusive of Pros from DBF)***	**Cons** ***(inclusive of Cons from DBF)***
Risk Transfer – Project design, construction, and O&M risks transferred to Developer	Stakeholder Opposition – Political risk resulting from increased private sector involvement
Performance – If the Developer does not provide the requested service as specified in the contract, the State doesn't pay for those services	State Control – Limitations on State's flexibility with respect to the facility (due to long-term contract)
Funding – Project financing helps State with funding needs for design, construction, and O&M and provides another source of Project oversight	Project Complexity – Additional risks due to the complex procurement process

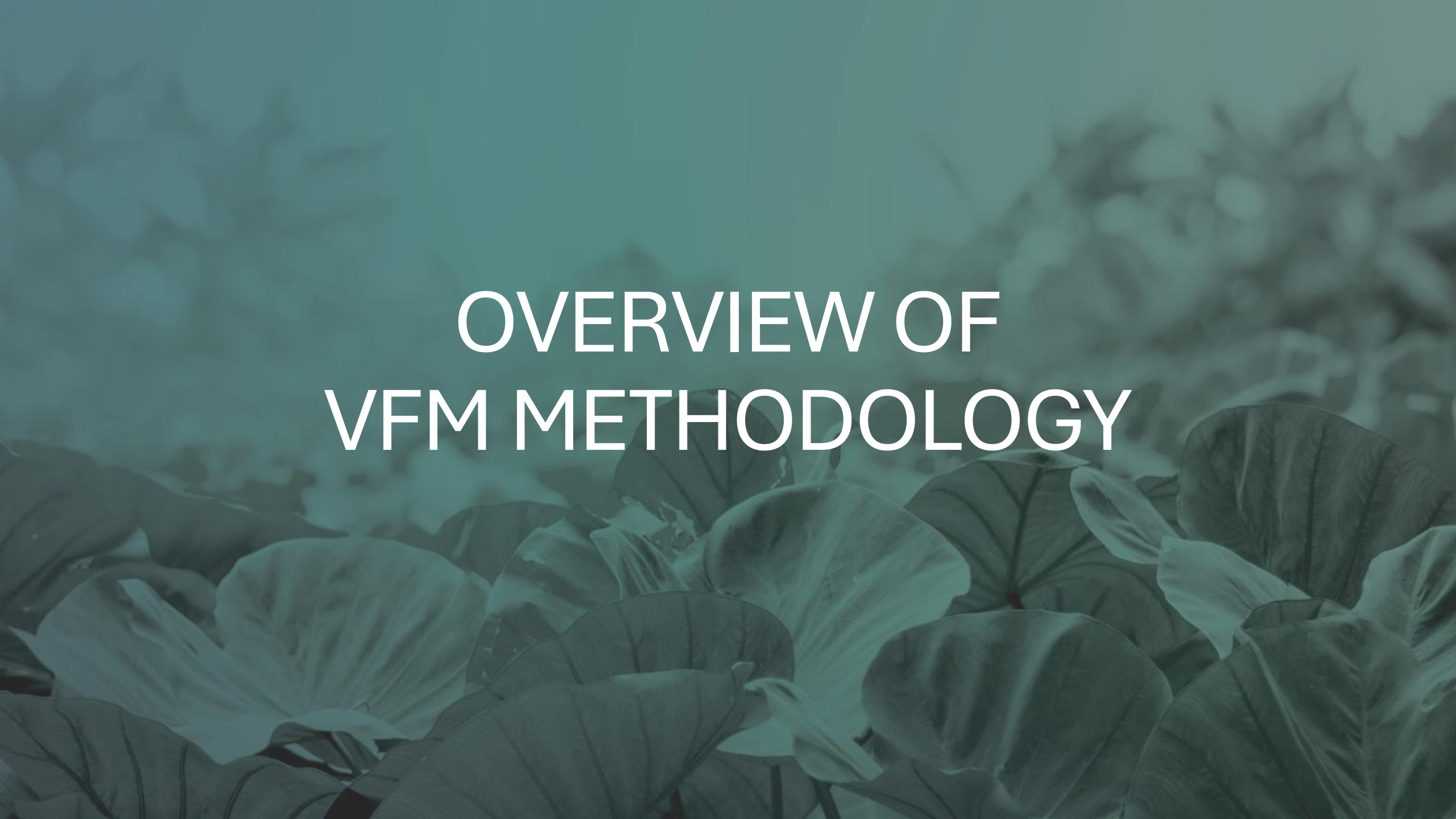
Conclusion from the VfM: **Not viable.** State needs to retain responsibility for the operation of the functional services of the OCCC, negating use of this delivery method.

DELIVERY METHODS CONSIDERED: DESIGN-BUILD-FINANCE-MAINTAIN (DBFM)

The New OCCC requires the analysis of a variation of the DBFOM model since the State is required to hold the operational responsibilities related to inmate management and rehabilitation. Under a DBFM, the State retains responsibility for the operations of all correctional programs. The Developer's role is to design and build a well-designed, efficient, and secure facility that supports the State's correctional mission, as well to provide limited facilities management services and full maintenance services related to the infrastructure.

Pros ***(inclusive of Pros from DBFOM)***	**Cons** ***(inclusive of Cons from DBFOM)***
Operations – The State retains control and responsibility for correctional and rehabilitation services	Coordination – potential interface risk between the Developer and the State regarding facility operations

Conclusion from the VfM: **Recommended**. Provides private financing to alleviate large up-front funding obligation of the State. Provides maintenance over a pre-determined concession period and Developer hands over a well-maintained facility at the end of the contract. Financing costs are offset by savings gained elsewhere in the Project's lifecycle such as a third-party maintenance contract.



OVERVIEW OF VFM METHODOLOGY

VFM METHODOLOGY

Capital Cost Estimate

Base Capital Cost

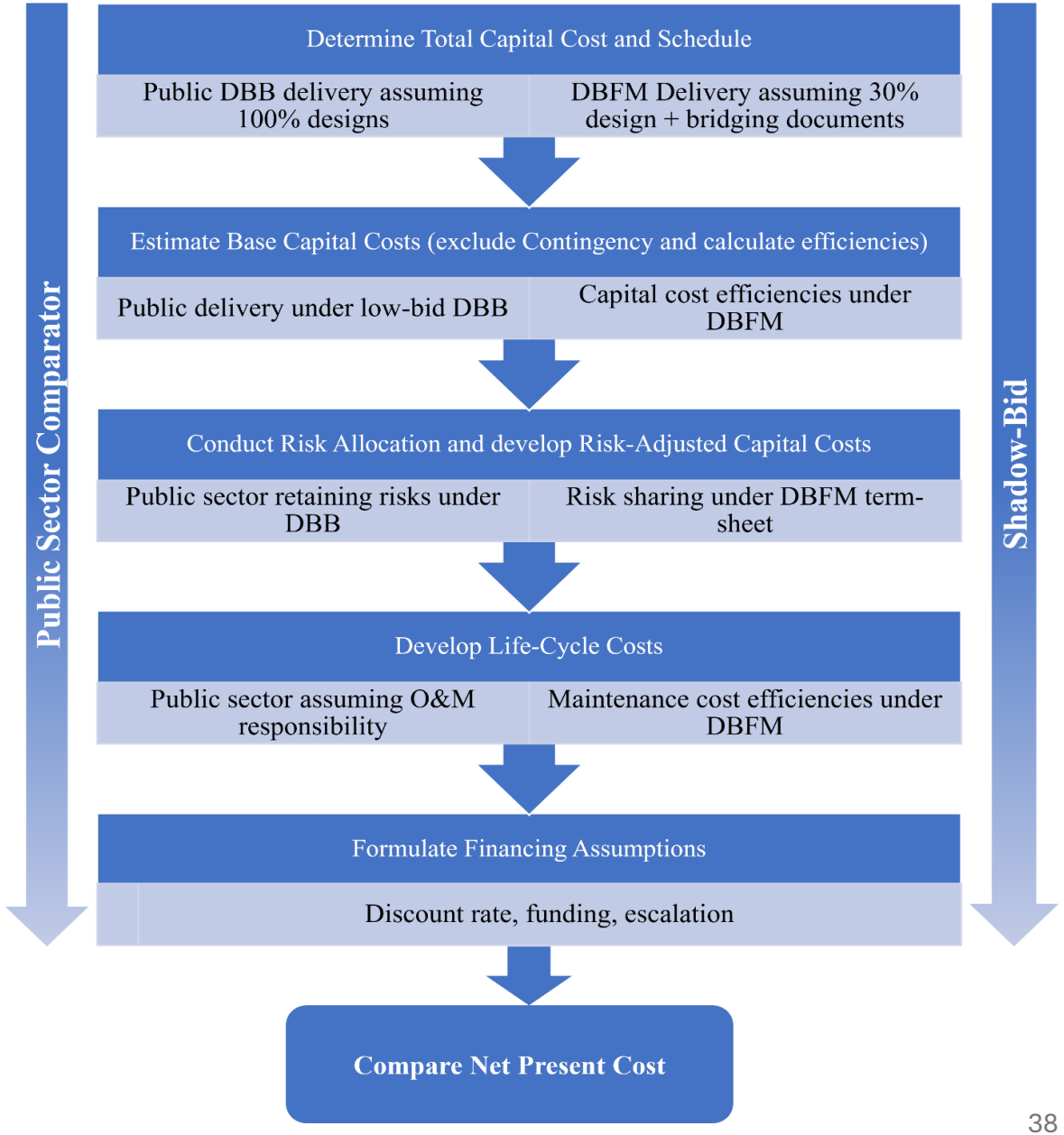
Risk Adjustments

Add Life Cycle Costs

Add Financing Assumptions

Net Present Cost

VFM METHODOLOGY



VFM
QUALITATIVE ANALYSIS

VFM QUALITATIVE ANALYSIS: RESULTS OF QUALITATIVE ASSESSMENT

- A qualitative analysis based on **eight (8) key evaluation categories**.
- Compared the suitability of **DBFM versus a traditional DBB** procurement model for the Project.
- Results of the qualitative analysis show that the **DBFM is favored across most of the evaluation categories**.

VFM QUALITATIVE ANALYSIS (1 OF 8): PROJECT CONTROLS/MANAGEMENT COORDINATION

01

Project Controls / Management / Coordination

Criteria	Description	DBB	DBFM
Degree of State Control	The level of control the State retains over the design and construction phases.	x	
Coordination Efficiency	The ability of the State to effectively coordinate design and construction activities.		x

VFM QUALITATIVE ANALYSIS (2 OF 8): PROJECT SCHEDULE

02 **Project Schedule**

Criteria	Description	DBB	DBFM
Schedule Duration	The efficiency of Project delivery in terms of time it takes from initiation to completion.		**X**
Schedule Certainty	The ability of each approach to adhere to the planned schedule and achieve Project milestones.		**X**

VFM QUALITATIVE ANALYSIS (3 OF 8): PROCUREMENT PATHWAY

	Criteria	Description	DBB	DBFM
⑬ Procurement Regulatory Pathway	Ease of Procurement Pathway/Approval	The complexity of approval steps and the efficiency of the process to obtain approvals.	x	

VFM QUALITATIVE ANALYSIS (4 OF 8): RISK TRANSFER BENEFITS

04 **Risk Transfer Benefits**

Criteria	Description	DBB	DBFM
Cost Savings	The predictability and control over project costs, and the resulting ability to minimize costs over the Project's lifecycle.		X
Cost Certainty	The ability of the Project to adhere to the Project budget and/or within the Project's affordability limit.		X

VFM QUALITATIVE ANALYSIS (5 OF 8): PROJECT CASH FLOWS

05 **Project Cash Flows**

Criteria	Description	DBB	DBFM
Cash Flow Requirements	The amount of upfront capital required to cover CapEx and the alignment of available funds with State's budget (in terms of amount and timing).		**X**

VFM QUALITATIVE ANALYSIS (6 OF 8): BONDING CAPACITY

06 **Bonding Capacity**

Criteria	Description	DBB	DBFM
Necessity for public bonding	Preservation of the State's bonding capacity and/or ability to use alternative financing if the State does not have the bonding capacity required to deliver the Project.		**X**

VFM QUALITATIVE ANALYSIS (7 OF 8): ASSET PERFORMANCE/VALUE

07 **Long-Term Asset Performance /Value**

Criteria	Description	DBB	DBFM
Extension of useful life of the facility	Ability of method to extend the useful life of the asset.		X
Long-term Asset Value	Value of the Project at the end of the Project's lifecycle, or after an assumed 30-year contract term.		X

VFM QUALITATIVE ANALYSIS (8 OF 8): INNOVATION AND SUSTAINABILITY

⑧ **Innovation and Sustainability**

Criteria	Description	DBB	DBFM
Meets or exceeds the State's performance requirements	Means and methods for achieving project outcomes that significantly enhance the overall performance of the facility.		X

VFM
QUANTITATIVE ANALYSIS

QUANTITATIVE ANALYSIS: SCENARIOS

Option 1: Design-Bid-Build DBB-Bonding

- GO bonds issuance
- Term: 20 yrs.
- State pays for Capital Expenditures (CapEx) and pre-construction activities
- State pays for O&M and replacement costs over 30 years as they arise

Option 1a: Design-Bid-Build (Pay-Go)

- Pay-as-you-go (PAY GO)
- **For illustrative purposes only** – shows State requirements to make CapEx and O&M payments as they are incurred (without debt service obligations)

Option 2: Design-Build-Finance-Maintain (DBFM) - No Upfront Contribution

- Alternative Financing payments (AFPs) – **both fixed and variable payments to cover design, construction and O&M** - made annually following Project completion
- Term: 30 yrs.

Option 2a: Design-Build-Finance-Maintain (DBFM)- Upfront Contribution

- Upfront contribution at Notice to Proceed: $250M – funded via GO Bonds
- **AFPs per year:**
  - **Fixed AFPs**
  - **Variable AFPs (escalated @ 3%)**
- Term: 30 yrs.

QUANTITATIVE ANALYSIS: CASHFLOW COMPARISON

How to compare the cashflows for the different delivery options?

Consider a Net Present Cost (NPC in 2024 $) of cashflows for considered options, discounted to present day at a specific rate of 5.75%. **Options 2 and 2a offer the State the lowest NPC, and therefore the greatest Value for Money.**

Option 1: DBB – Bonding alternative:	$ 1,168.2 M
Option 1a: DBB – Pay-go alternative:	$ 1,107.9 M
Option 2: DBFM - No upfront payment:	$ 1,059.6 M
Option 2a: DBFM - With upfront payment:	$ 1,038.6 M

The **VfM of the DBB Bonding vs DBFM – No Upfront Payment = $108.6 M**

The **VfM of the DBB Bonding vs DBFM – Upfront Payment = $129.6 M**

The **primary sources of savings** of the DBFM versus the DBB method are provided in the next slide.

QUANTITATIVE ANALYSIS: EFFICIENCIES

Design and Construction Efficiencies:

Largely related to the Project coordination benefits, including the benefits of integrated Project design, as well as the Developer's use of innovation, latest technologies, and industry best practices described in the Qualitative Analysis section above.

Operations and Maintenance (O&M) Cost Efficiencies*:

It is assumed that the DBB model will lead to greater O&M costs over the Project lifecycle because of deferred maintenance costs and increased replacement costs.

Risk Transfer Benefits of DBFM vs. DBB (for design, construction, and O&M):

These risk transfer benefits, which result from allocating risks to the party best able to manage them, lead to lower risk-adjusted Capital Expenditures (CapEx) and lower annual Operational Expenditures (OpEx) under the DBFM than under the DBB model.

Cash Flow Benefits:

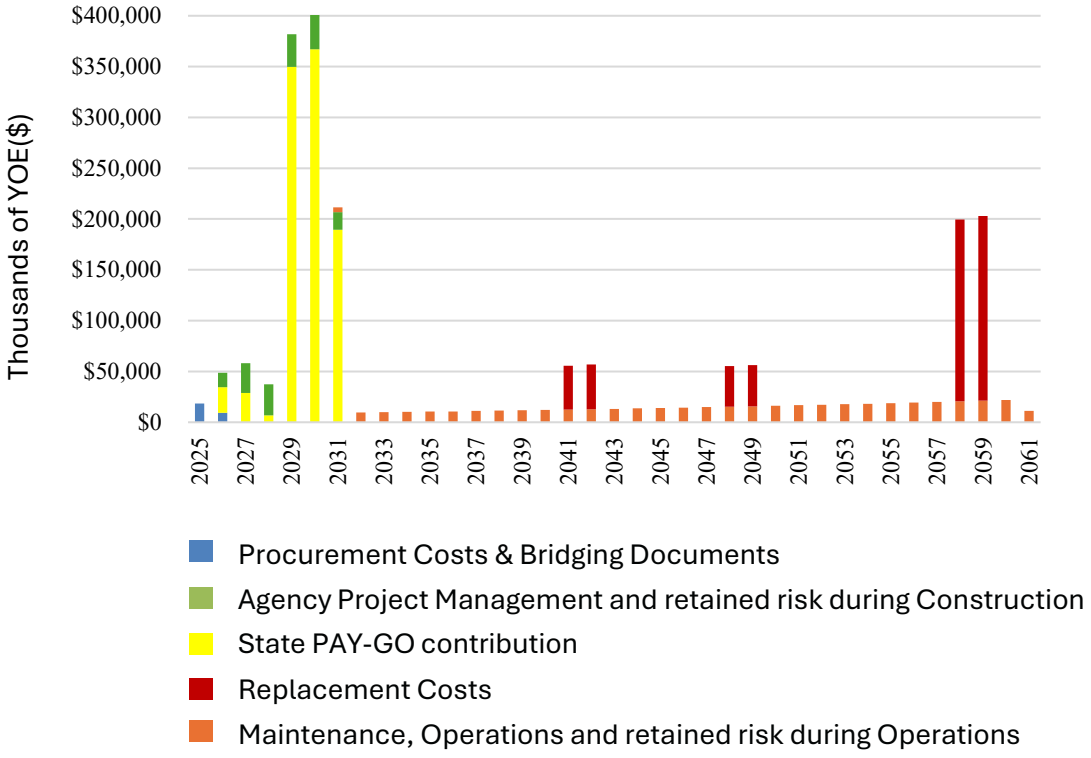
These result from the time value of money, which refers to the fact that money spent earlier costs more than money spent later as the money spent earlier could have been invested and generated a return. The DBFM model has a lower upfront capital contribution requirement than DBB, which contributes to a lower cost on a Net Present Cost (NPC) basis.

*Replacement cost assumptions under both the DBB and DBFM model are taken from the Oahu Community Correctional Center, Program Statement of Probable Cost produced by Cumming, February 9, 2023.

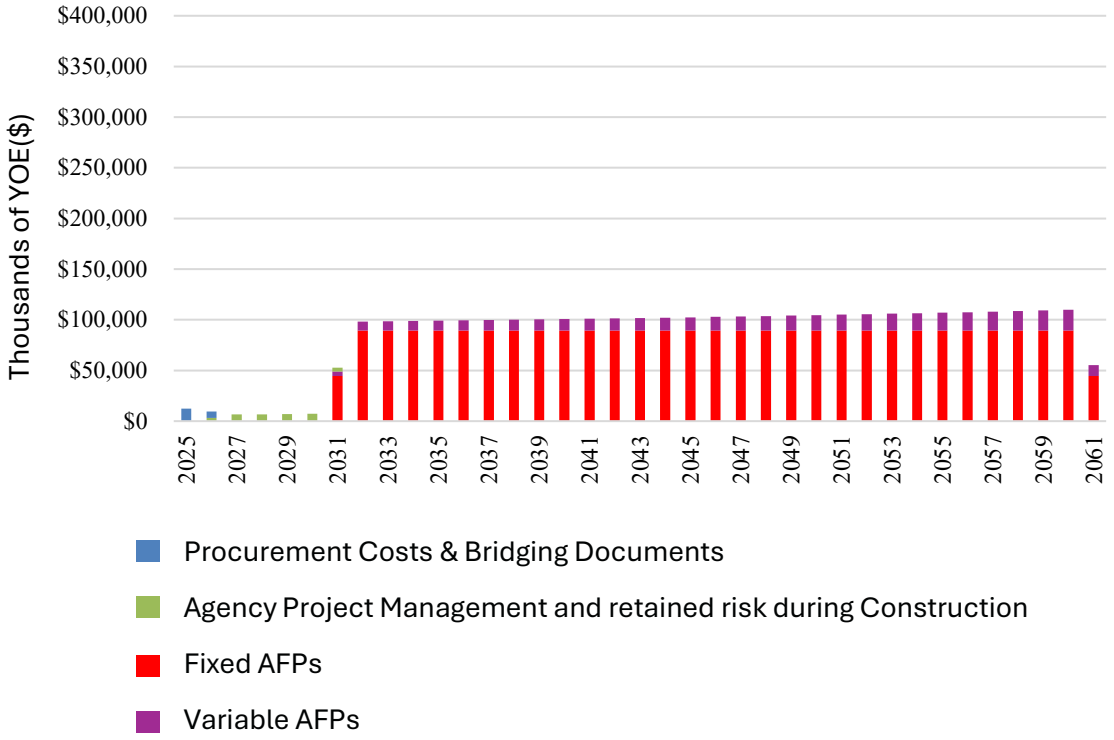
QUANTITATIVE ANALYSIS: OPTION 1A VS. OPTION 2

Comparison: Option 1a: DBB State Pay-Go Option *vs.* Option 2: DBFM – No Upfront Payment

Option 1a: DBB – State Pay-Go Option



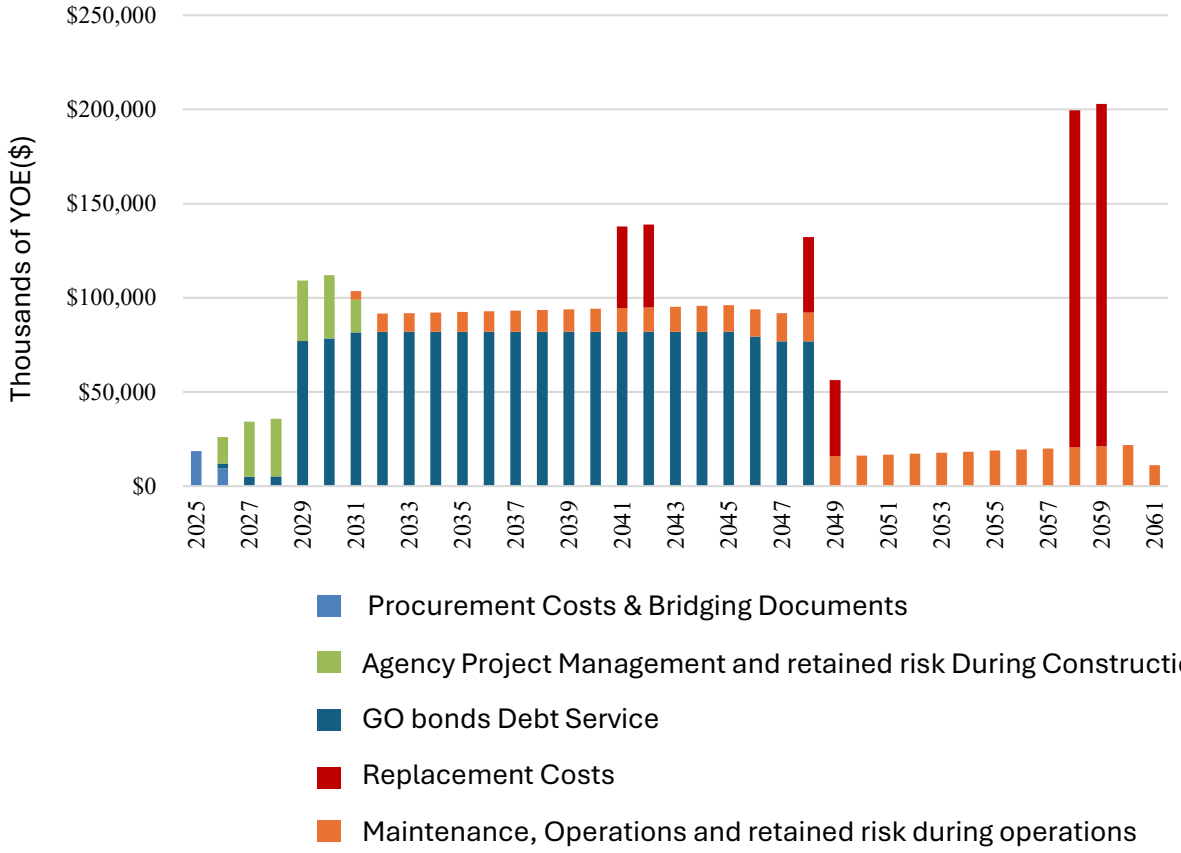
Option 2: DBFM – No Upfront Payment



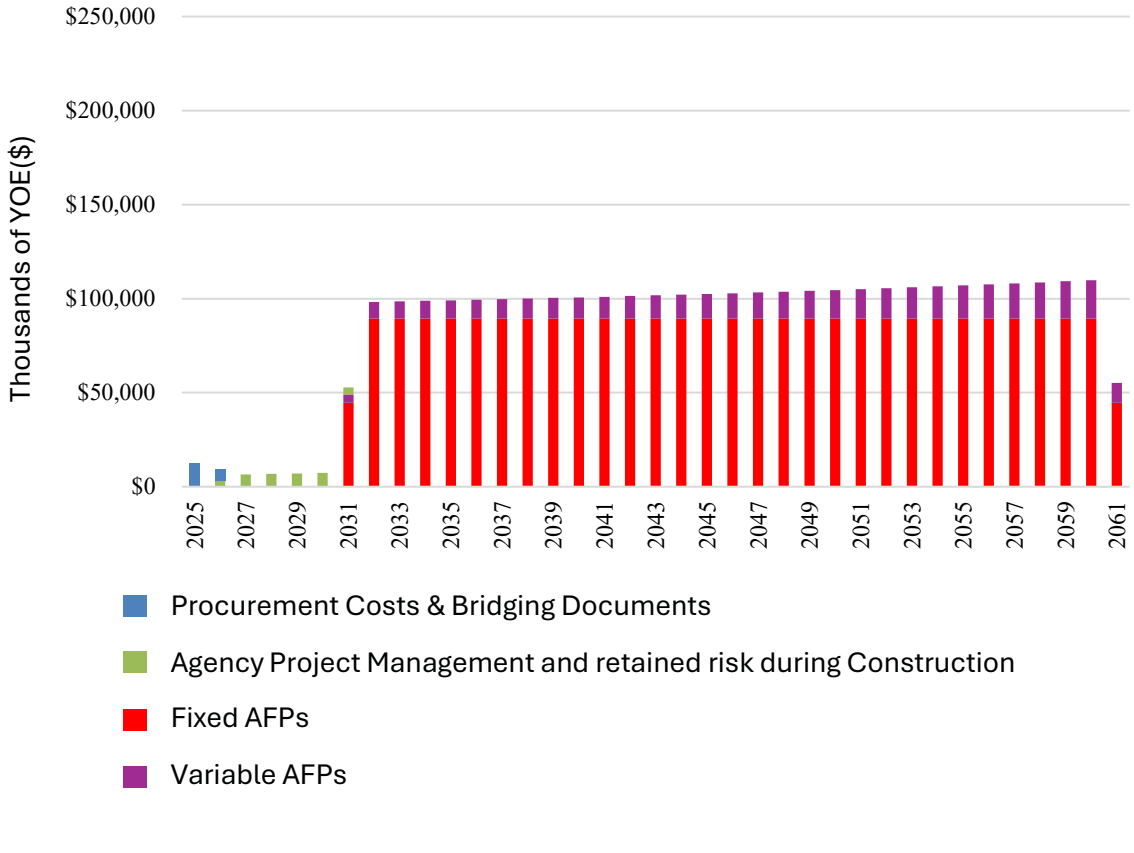
QUANTITATIVE ANALYSIS: OPTION 1 VS. OPTION 2

Comparison: Option 1: DBB Bonding Option *vs.* Option 2: DBFM – No Upfront Payment

Option 1: DBB – Bonding

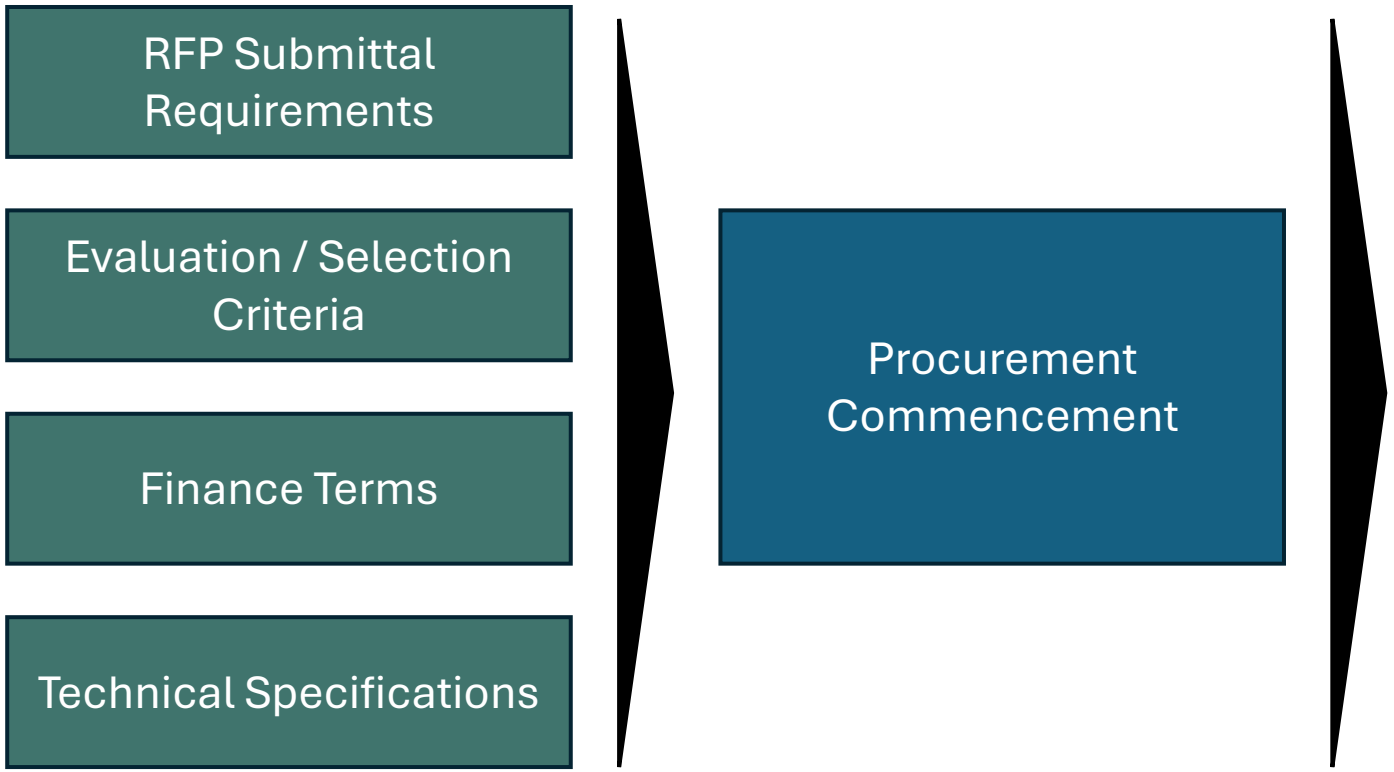


Option 2: DBFM – No Upfront Payment



OCCC
PROCUREMENT PLAN

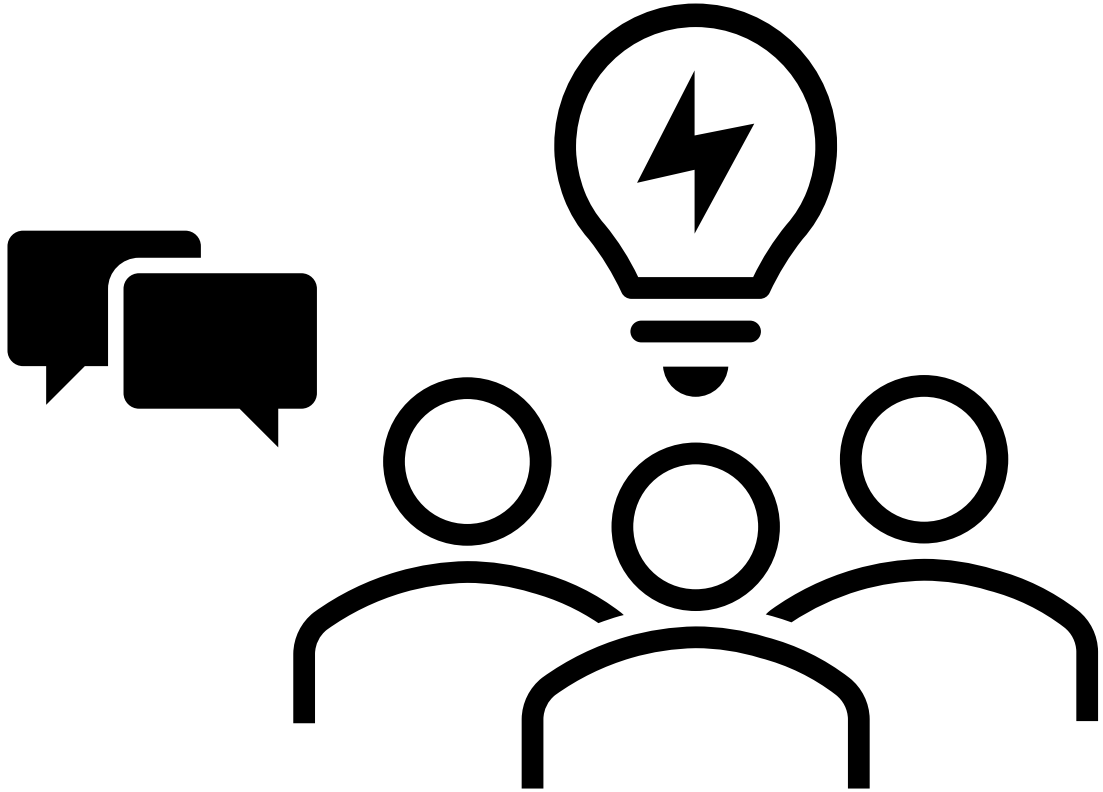
INITIATING A DBFM PROCUREMENT: OVERVIEW OF STEPS



- Industry Forum
- Release RFQ to Industry
- Pre-SOQ Briefing
- SOQ Submitted
- Shortlist Firms
- Release RFP to Shortlisted Firms
- End of RFI Period
- Proposals Due
- Proposals Rank
- Recommend Award
- Commercial Close/Limited NTP
- Financial Close/Full NTP

INITIATING A DBFM PROCUREMENT: COMMUNITY ENGAGEMENT AND SUPPORT

- Community Public Interest Groups & Individuals
- Native Hawaiian Organizations
- Federal Agencies
- State Agencies
- City and County of Honolulu Agencies
- Elected Officials



INITIATING A DBFM PROCUREMENT: FINANCING AGREEMENT

Approvals

HRS 37-D

The DBFM agreement would be a “financing agreement” under this statute
This is the same statute under which Certificates of Participation, long-term lease-to-own (lease buy-back), are executed

Approvals:
B&F Director – Fiscal Responsibility
AG – Form and Legality of Agreement

MAHALO!
QUESTIONS?