

Report to Federal Transit Administration
PMOC DRAFT REPORT on Honolulu Authority for Rapid Transportation's
2018 Revised Recovery Plan

City and County of Honolulu
Honolulu Authority for Rapid Transportation (HART)
Honolulu, HI

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Executive Summary

HART has met all of the technical requirements set out in FTA's letter dated September 21, 2018, from Acting Administrator Jane Williams. Specifically, HART updated its Recovery Plan to incorporate the recommendations of the June 29, 2018 Final Risk Refresh Report on the Honolulu Authority for Rapid Transportation (HART) Honolulu Rail Transit Project. The Recovery Plan reflects that HART agrees to increase the project budget to \$8.299 billion (excluding finance charges), and to change the anticipated Revenue Service Date (RSD) to September 2026. Moreover, the HART Board approved completing the final contracts of the project (City Center Guideway and Stations and the Pearl Highlands Parking Garage) using a Design Build Finance Operate Maintain (P3) solicitation. Finally, the City of Honolulu deposited \$44 million of City funds into the HART budget. These funds are currently in HART accounts, and available for expenditure.

The PMOC reviewed HART's Recovery Plan that was submitted to FTA on November 19, 2018. The PMOC did not review the Financial Plan as this was undertaken separately within FTA. The remainder of this report documents the changes proposed in the Recovery Plan that, along with the additional requirements of HART, described below, would give the PMOC the confidence that HART has put together a plan that provides the best opportunity to complete the FFGA project scope within the revised budget and schedule. This report also identifies continuing concerns that will need to be monitored as the project moves forward.

Additional Requirements of HART

1. **Milestone Schedule** – At a minimum, HART should provide an updated Project Milestone Schedule that incorporates the change from a Design Build procurement of the City Center section to a P3 delivery. The schedule should include a detailed procurement schedule, revised design and construction schedule, testing and pre-revenue service schedule, and an operating timeline for the P3 developer starting with the responsibility for the interim opening through full revenue service and the conclusion of the contract in 2050. The schedule should characterize the schedule contingency with respect to the revised FFGA RSD of September 2026.
2. **Independent Cost Estimate** – HART should provide a full Independent Cost Estimate (ICE) for the switch to a P3 delivery. Cost should be developed for both the cost to complete, as well as a revised Operating and Maintenance costs through 2050. This cost should be developed independently of the current project budget with adequate allocated contingencies within the contracts. The unallocated contingency should be reported based on the built up cost and the total budget that HART has included in the Recovery Plan. Going forward the overall contingency must be tracked in relationship to the defined contingency drawdown curves to ensure the project stays within budget.
3. **Staffing** – HART must take immediate steps to recruit and hire experienced individuals to fill the management positions for real estate and Chief Financial Officer.

4. **Financial Plan** – The PMOC did not review HART’s Financial Plan
5. **Project Management Plan** – HART submitted a revised PMP with the delivery of its Recovery Plan. The plan did reflect the increased budget and schedule requirements requested by FTA. As Hart continues to develop the P3 plans, it must revise its PMP and appropriate subplans to fully support the P3 approach HART is taking to complete the project and achieve the FFGA RSD. Specifically, this should include a full review and update to the Staffing and Succession Plan.

Changes HART has incorporated to address recovery needs

Budget – HART agreed to increase the project budget by \$134 million as recommended in the June 2018 Risk Refresh. The new budget for the project is \$8.299 billion (not including finance charges). The revised financial plan estimates the final cost after financing to be \$9.188 billion. When FTA approves the recovery plan, then all of HART’s reports must use the recovery plan cost, \$8.299 billion, and recovery plan RSD, September 2026. HART may manage the project to its internal goals, \$8.165 billion before financing costs, and \$9.020 billion with financing costs and an RSD of December 2025, as long as HART ensures that the quality, scope, cost, and schedule meet the requirements defined by the FFGA and the approved recovery plan. Although HART has agreed to increase the budget for the project, the PMOC recommends that a new Independent Cost Estimate (ICE) to complete the project be developed that accounts for the remaining construction, and in particular that incorporates consideration of a P3 procurement for the City Center section and the Pearl Highlands Transit Center and Parking Garage.

Financial Plan – The PMOC did not review the Financial Plan

The Master Project Integrated Schedule (MPIS) process has been upgraded, and schedule reports are provided monthly to the PMOC. The schedule is being updated to reflect the benefits of the P3 delivery method. HART is reluctant to make significant changes until the P3 team is on board and working to define their schedule.

Public-Private Partnership – HART selected a public-private partnership (P3) approach for procurement of the City Center and Pearl Highlands Parking Garage. **This is the primary change that HART believes will deliver the project on budget and schedule.** The HART team was ready immediately upon Board approval to switch to a P3 approach for the remainder of the project delivery. The RFP Part 1 was advertised the day after the Board approved the change. However, the P3 procurement schedule was already several months behind the schedule that would have been achievable with a continued use of the originally planned Design Build approach. It is important to note that a Design-Build delivery was the expectation when the 2018 Risk Refresh was completed. HART’s time frame for the P3 award is for an NTP to occur in December 2019. The anticipated NTP for the DB option was October 2019. Since the RFP was issued, the Part 1 submittal date was amended to delay the submittal by four months. In order to accommodate this four-month change, HART compressed the remaining procurement schedule by two months and has delayed the anticipated NTP for early work to late February 2020. The current date for submission of Qualifications Proposals is now April 12, 2019. Additionally, HART has chosen to reduce the testing and start-up duration to maintain its internal RSD of December 2025. The

PMOC recommends that HART provide a detailed procurement, construction, testing, and pre-revenue schedule that is developed specifically for the P3 delivery of the City Center section.

The P3 contract is to construct the City Center guideway and stations. It also includes the Core Systems work, and operating and maintaining the system for 30 years. Note, Ansaldo was given the contract for Core Systems for the entire project previously, as well as the contract to operate the system; now through 2030. The amended plan is that HART has directed the use of Ansaldo as a subcontractor for the winning P3 developer. The P3 developer has the choice of continuing with Ansaldo at the end of the current commitment (2030), selecting another contractor, or to self perform. The Operations and Maintenance contract for the P3 is for 30 years, beginning with the interim planned opening in the fourth quarter of 2020, and running through 2050.

HART believes the P3 team approach reduces risk for the project and creates a better bidding environment. By assigning responsibility to a P3 team for the remaining work on the project, including the core systems work, the risk of managing discipline interfaces is reduced or transferred to the group best suited to manage them. Additionally, the inclusion of all activities under one contractor creates more efficient construction; saving schedule and budget. Specifically, the inclusion of Core Systems on the P3 team allows for earlier access to the guideway and stations for the systems work, thus improving schedule efficiency. Finally, some of the delays and claims experienced on the western section of the project may have been avoided if these interfaces had been managed by the responsible contractor.

One of the most important factors differentiating the P3 delivery from the Design Build option is increased competition. Hawaii is an isolated location for major contractors to compete. The inclusion of the finance, operate, and maintain tasks adds an extra opportunity for long term revenue. The thirty year franchise for O&M is especially enticing.

The P3 contract is based on affordability caps for both the capital budget and the long term O&M budget. This allows HART to have more confidence in the costs going forward on the project. The affordability cap is based on available revenues between 2020 and December 2030. Because HART anticipates opening the project in December 2025, the P3 developer will be expected to finance a portion of its scope of work. This allows HART to manage its revenues, and also provides leverage over the P3 developer for meeting schedule and quality. HART can withhold payments for poor work or schedule concerns.

HART developed a list of Value Engineering options as well as Secondary Mitigation items; however, the P3 contract is set up to allow the P3 developer to suggest Alternative Technical Concepts (ATCs) that could create cost savings that provide equivalent benefits at a better cost (note: these changes must fall within performance specifications and maintain all scope and ROD commitments as defined in the FFGA).

City Center Utilities Relocation – HART has taken the initiative to advance the City Center utility and roadway relocations ahead of the guideway construction. This will help accelerate the guideway and station construction by having cleared a path for work to begin expeditiously. This has the additional benefit of removing a bid risk item from the P3 procurement.

Management Capacity and Capability - HART has filled most of its critical positions with personnel with sufficient training and experience. Key recent additions to the project include Steve Stowe for Rail Activation and Nate Meddings as the Project Controls Director. Although, HART has made strides recently with hires, retention of key personnel remains a concern that the

PMOC will actively monitor. This is evidenced with recent departures of the CFO and Real Estate Director. The PMOC recommends that HART update and begin implementation of its Staffing and Succession Plan (last revision was dated May 25, 2012).

Contract Management System – Another critical upgrade HART is proposing is to their Contract Management System (CMS). This is a priority for the new Project Controls Director, Nate Meddings, who plans to install the new system prior to the P3 NTP (anticipated February 20, 2020). The PMOC recommends that HART submit a plan, schedule, and commitments for replacement of its current CMS that shows the new system in place prior to the P3 NTP.

Change Control Procedure – HART implemented a new Change Control procedure in March 2017. This procedure established the Change Control Committee (CCC) to review and make recommendations on Findings of Merit (FOM) for all change requests. Implementation of the CCC is a result of the need to gain control of the numerous changes occurring in the early (western station) contracts. The City of Honolulu recently completed an audit of HART and commented on this improvement as a positive step in addressing the significant issues the project faced through construction of the western segments of the project. The PMOC agrees that these adjustments to the change process are necessary, but will be making recommendations in the next two months to improve change management efficiency.

Resolution of Claims – Finally, HART resolved several significant claims that stemmed from the early contracts on the project. HART settled claims with Kiewitt and most recently with Ansaldo. The total for these claims was \$173.2 million. This result was significantly lower than the potential claim amount that had been reserved in anticipation of these settlements (savings in excess of \$100 million). These savings will stay with the contracts until they can be released upon substantial completion of the particular contract. The result is an improvement in the overall risk profile of the project.

Continuing Concerns

HART continues to have difficulty keeping key positions filled. Although, HART made progress in last quarter of 2018 with respect to filling critical positions, two key people left the team in January. Robert Yu, the Chief Financial Officer, and Richard Lewallen, the Director of Transit Property Acquisition and Relocation, left in mid-January. Richard's departure comes at a particularly bad time, considering the on-going critical activities to acquire property and construction access in the City Center. No replacements for these two positions have been identified as of the date of this report. This concern has been recommended as one of the conditions of Recovery Plan acceptance by FTA.

As stated previously, the P3 procurement is the largest risk remaining for the project. Although HART was very efficient in getting the RFP advertised upon Board authorization, subsequent delays have compressed the schedule for selection of a team. The submittal date for PART 1 has now been delayed four months from the original schedule, while the anticipated NTP for early work remains minimally affected (two month delay to February 22, 2020). The PMOC agrees that maintaining this date is important; however, this contract is critical and ensuring that the terms and conditions are complete and thorough is essential.

Another area on which HART needs to maintain focus is Real Estate. HART has stated that all needed property access will be in place by mid-2019. The City Center section is on the critical

path. Needed easements for utility and roadway relocations must be a priority. This work has been advanced to ensure that the guideway and station construction can proceed efficiently. Several properties remain significant concerns. On these properties, HART has begun Imminent Domain proceedings. In two cases, the parties have filed legal challenges to HART's authority to condemn. HART is evaluating design changes and continuing to negotiate to try to mitigate this potential. The PMOC has requested a schedule of the remaining ROW acquisitions to include both governmental and non-governmental parcels. The list must include specific details on the properties remaining to achieve access including schedules for: appraisals, offers, estimated access dates and construction need dates.

Additional property access concerns remain with regard to public properties where HART does not have condemnation rights. These are areas that should have signed agreements already. This issue, as well as several HECO items, were subjects of breakout sessions in February.

HART's interim opening, scheduled for December 2020, is in jeopardy due to coordination issues with getting permanent power from HECO. Although the interim opening is not an issue for the Recovery Plan and making the full RSD for the FFGA, it does present a warning sign as the project moves into City Center. This is already apparent with the conflict with HART and property access at the City Center HECO substation. Again, this will be monitored during the monthly progress meetings with HART.

As mentioned above, the HART interim opening is not a key element of the FFGA; however, it is an area of concern for ensuring that the system is safe and thoroughly tested prior to opening. The PMOC will work cooperatively with the Hawaii Department of Transportation's SSO to monitor the preparation for operations. HART is currently developing an MOU with the Honolulu Department of Transportation Services (DTS). This is a key document for defining roles, responsibilities and working relationships between the two agencies during the transition from construction to operations.

The State of Hawaii and the City of Honolulu both recently published audits of HART that were very critical of past practices related to change management. The PMOC also recognized this issue as a significant concern. The PMOC started a review of the HART Change Management process in January. Follow-up meetings took place in February. The PMOC findings and recommendations will be completed in March 2019.

The PMOC is not tasked with reviewing the HART financial plan, but the key items identified in the Recovery Plan depend on the revenues identified in the financial plan being realized.

The PMOC continues to work with HART's Project Controls and Risk Management groups to develop appropriate contingency management reporting. HART developed contingency draw down curves for both budget and schedule. At this point, we are looking for HART to update the current contingency status and track it against the minimum contingency requirements for major remaining milestones. This update is expected to be complete by the March Progress meetings.

Recommendations

The PMOC recommends that the HART Recovery Plan be revised with conditions as noted on page one of this report.

The remaining schedule and cost risks are primarily related to the completion of the City Center section. Moving this procurement to a P3 solicitation accomplishes several key goals. It transfers

much of the project management risks to the P3 developer and away from HART (based on the recent audit findings, project management has been problematic for HART). It also makes the contract attractive to more contractors. Contractor interest has been an issue in the past on HART contracts due to the remoteness of Hawaii. A critical date for the project is April 12, 2019, which is the due date for the RFP's Part 1 Qualifications submission.

The aforementioned actions by HART create the opportunity for a successfully concluding the project by meeting the revised budget and schedule. Accelerating the utility and roadway relocations will improve schedule certainty for the P3 developer. Added budget creates more contingency to ensure completion of the FFGA scope. And finally, the continuing success experienced on the Airport Guideway and Stations Design-Build contract is reason for optimism. This contract is approximately 35% complete, remains on schedule, and progress is tracking with the planned schedule. Additionally, the only change to date on this contract is for a deductive Change Order.