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HRT9/11-433094R

HONOLULU AUTHORITY for RAPID TRANSPORTATION

Kenneth Toru Hamayasu, P.E.
INTERIM EXECUTIVE DIRECTOR AND CEO

December 21, 2011

The Honorable Stanley Chang
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

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Dear Councilmember Chang:

In response to your testimony at the September 8, 2011, HART Joint Meeting of the Finance and Project Oversight Committees, I have attached a summary of my statement to the HART Board of Directors which concludes that Ansaldo Honolulu Joint Venture is a responsible offeror as defined in HRS Section 103D-104.

Please feel free to contact me should you have any further questions.

Sincerely,

Kenneth Toru Hamayasu,
Interim Executive Director and CEO

Attachment

cc: All Councilmembers
HART Boardmembers

The implementation of the Core Systems Contract is critical to the success of the Honolulu rail transit project. The contract includes the design, manufacturing, and delivery of the train vehicles, the train control systems, and longer-term operations and maintenance of the system. The selection of Ansaldo Honolulu Joint Venture as the core systems contractor was carefully considered during the procurement process and in the due diligence that followed during the months after the selection. That extensive review resulted in the execution of the contract on November 28, 2011.

The selection and award of the contract to Ansaldo Honolulu Joint Venture was done in accordance with the Hawaii Revised Statutes (HRS) Section 103D-303. HART concluded that Ansaldo Honolulu Joint Venture is a responsible offeror as defined in HRS Section 103D-104. HRS 103D-104 defines a "responsible offeror" as *"a person who has the capability in all respects to perform fully the contract requirements, and the integrity and reliability which will assure good faith performance."*

Ansaldo Honolulu A Responsible Offeror

HART determined that the Ansaldo Honolulu Joint Venture had the capability to fully meet the obligations of the Core Systems Contract. In making that determination, the track records of companies that make up the joint venture -- Ansaldo STS and AnsaldoBreda -- were carefully considered. The structure of the Core Systems Contract is such that approximately 85 percent of the contract performance rests with Ansaldo STS, the provider of the train signaling and control center and the operations and maintenance of the rail system. AnsaldoBreda will design and manufacture the train cars and is responsible for the remaining 15 percent of the contract. In this general partnership, each partner is jointly and severally liable. Each is contractually responsible for the other partner's obligations to fulfill the contract, so there is an incentive for each partner to ensure the other's success.

Ansaldo STS originated as an American company established by George Westinghouse in 1881 and is cash positive, posting increasing revenues for the past five years, with no long-term debt. As a publicly traded entity, 40 percent of Ansaldo STS's shares are held by Finmeccanica, which has an "investment grade" credit rating by all three major rating agencies. AnsaldoBreda is not cash positive, but is a wholly owned subsidiary of Finmeccanica, which has guaranteed AnsaldoBreda's financial capacity. It is also important to note that both Ansaldo STS and AnsaldoBreda each currently have contracts in process that are worth more than \$3 billion.

In addition, Finmeccanica has ensured the compliance of Ansaldo Honolulu Joint Venture, regardless of any change in ownership or financial capacity of the individual partners.

Financial Safeguards

Ansaldo Honolulu JV provided the required performance and payment bonds for the design-build component of the contract in addition to a commitment that performance and payment bonds would be provided during the operating and maintenance component as required. The joint venture also met the requisite tax clearances required by Hawaii Administrative Rules Section 3-122-221 through 3-122-228. The Buy America Pre-Award Audit has been completed and Ansaldo Honolulu JV has met the contractual requirements.

After the selection of Ansaldo Honolulu JV was announced in March 2011, Finmeccanica announced it was considering restructuring and that it had recognized additional costs in the range of \$1.1 billion for its contract on the Boeing B787 Program. In light of this news, HART conducted additional information from the joint venture to confirm that the joint venture's financial and technical capacity had not materially changed. The additional due diligence produced the following:

- Ansaldo Honolulu Joint Venture provided written confirmation that there are no material changes to its financial capacity since its response to Request for Proposal (RFP) Part 1.
- HART's Finance and Project Oversight committees conferred with Finmeccanica and Ansaldo Honolulu's top officials and asked them to respond to 15 questions regarding financial capacity. Ansaldo's responses to the questions were made in a September 8, 2011 videoconference. Those responses were satisfactory to the committees.
- On October 12, 2011, Finmeccanica, the parent company of the joint venture partners, provided a written guarantee, which was approved by the Finmeccanica Board of Directors, assuring the financial capacity of AnsaldoBreda and Ansaldo STS.
- On November 16, 2011, the Finmeccanica Group Finance Department Senior Vice President Luigi Calabria confirmed the following facts regarding Finmeccanica's financial status:
 1. Finmeccanica recently announced the third quarter results of the company that were negative only taking into account a one-off extraordinary charge;
 2. Finmeccanica's financial situation is very solid with more than \$4.2 billion of utilized cash lines of credit as of September 30, 2011;

3. Finmeccanica enjoys an “investment grade” rating by Fitch, Moody’s and Standard & Poor’s, which is a higher rating than or equal to competitors in this tender process;
 4. There are no financial covenants or rating triggers on any of Finmeccanica’s credit facilities;
 5. Finmeccanica’s outstanding debts have an average life in excess of 10 years;
 6. Ansaldo STS is not being sold, it has no debt and it is cash positive;
 7. Finmeccanica continues to look for a strategic partner to strengthen the industrial capabilities of wholly-owned subsidiary, AnsaldoBreda, whose financial health is guaranteed by Finmeccanica;
- On November 25, 2011 Sergio DeLuca, Chief Executive Officer for Ansaldo STS, made a presentation to the HART Finance and Project Oversight Committees to further discuss the financial capacity of the Ansaldo Honolulu Joint Venture and addressed additional questions. In his presentation, Mr. Deluca made the following points:
 1. Ansaldo Honolulu Joint Venture has the technical and financial capacity to perform the contract;
 2. The joint venture partners have a large numbers of projects in the pipeline to sustain them; Ansaldo STS has \$6.5 billion and AnsaldoBreda has \$3.5 billion;
 3. Neither of the joint venture partners have had contracts terminated for default since this RFP Part 1 submission (June 2009) – this is an update to their RFP Part 1 submittal;
 4. During the last 10 years, a surety has not been required to make good on performance and payment bonds for either of the joint venture partner;
 5. Finmeccanica has guaranteed in writing the financial performance of the joint venture;
 6. National Union Fire Insurance Company of Pittsburgh, PA (Surety) has issued non-revocable performance and payment bonds on behalf of the Ansaldo Honolulu Joint Venture’s performance in the amount of

\$360,941,082 each, which will be invoked in the event of default by the Joint Venture;

7. The Surety issued a letter of commitment to provide performance and payment bonds for the Operating and Maintenance component of the contract as required;
 8. The rating and size of the Surety exceeds the requirements of the procurement.
- Mr. Deluca also re-confirmed the financial bond ratings of Finmeccanica and its commitment to guarantee the performance of the Ansaldo Honolulu Joint Venture and that Finmeccanica has the financial capacity to uphold this guarantee if needed.

Conclusion

This additional due diligence affirms our earlier determination that the Ansaldo Honolulu Joint Venture is a responsible offeror with the financial capacity to successfully perform the contract. The contract was awarded to Ansaldo Honolulu Joint Venture after a rigorous procurement process. That process was upheld at three levels: (1) a City review by the Chief Procurement Officer; (2) a review from the State Department of Commerce and Consumer Affairs; and (3) the State court. At all levels thus far, HART's procurement process has been determined to be in accordance with State law.

Ansaldo Honolulu Joint Venture's qualifications, financial capacity, and track record were carefully considered and reviewed in a process that spanned more than two years. There are multiple layers of safeguards in place, and Ansaldo Honolulu's partners have delivered rail systems on time and within budget in numerous other cities, including San Francisco, Atlanta and Washington, D.C.

HART is confident in its choice of Ansaldo Honolulu Joint Venture. HART and its board members will be vigilant in monitoring this contract, and all of our contracts, to ensure Honolulu receives a quality rail system and the best possible service in years ahead.