



HONOLULU AUTHORITY for RAPID TRANSPORTATION

MINUTES

**Joint Meeting of the Finance Committee and the Project Oversight Committee
Mission Memorial Annex Conference Room
550 South King Street, Honolulu, Hawaii
Thursday, March 1, 2012, 8:30 AM**

PRESENT:	Robert "Bobby" Bunda	Ivan Lui-Kwan
	William "Buzz" Hong	Glenn Okimoto
	Don Horner	Carrie Okinaga
	Keslie Hui	David Tanoue
	Damien Kim	Wayne Yoshioka
ALSO IN ATTENDANCE: (Sign-in Sheet and Staff)	Toru Hamayasu	Councilmember Breene Harimoto
	Joyce Oliveira	Brandon Elefante
	Gary Takeuchi	Matt Kotel
	Tyler Dos Santos-Tam	Kevin Cockett
	Cindy Matsushita	Pearl Johnson
	Andrea Tantoco	Russell Honma
	John Burns	Arvid Youngquist
	Paul Migliorato	Lance Wilhelm
	Joe Maga	Maurice Morita

I. Call to Order by Committee Chair

At 8:35 a.m., the Joint Meeting of the Finance Committee and the Project Oversight Committee was called to order by Project Oversight Committee Chair Damien Kim.

II. Public Testimony

Mr. Kim called for public testimony.

Kalihi Valley resident Arvid Youngquist expressed concern over whether the budget allowed for the salary of incoming Executive Director. Mr. Youngquist stated that he believes a three year contract for the incoming Executive Director is ill-advised in an election year, and urged the Board to consider a one year contract. He also asked the Board to consider retaining the Interim Executive Director.

Pearl Johnson of the League of Women Voters of Honolulu gave testimony urging HART to advertise construction contracts in Hawaii as well as on the mainland. She pointed out that although HART's latest newsletter contained a report that seven out of eight subcontractors who were recently awarded contracts were local, the lack of dollar figures rendered the report meaningless.

Ms. Johnson asked for increased transparency, noting that many FTA reports were not posted on HART's website, and only available through a Freedom of Information Act request. HART Interim Executive Director Toru Hamayasu stated that the documents were not on the website due to an oversight, rather than an effort to conceal. Mr. Horner and Board member Ivan Lui-Kwan requested that the extra step be made to give the public notice of the existence of these documents by putting them on the website.

Russell Honma testified regarding the streamlining of project management and maintaining cost overruns within the budget. He advocated for the oversight of costs, so taxpayers would not be impacted.

Mr. Horner then answered Mr. Youngquist's earlier question by confirming that the Executive Director's salary is in the HART budget. He also stated that the Executive Director's proposed contract is for a term of three years, with a termination clause that includes one year's salary. Mr. Lui-Kwan stated that three years is the shortest time frame standard in the industry, and executive contracts typically range up to five years. Mr. Horner stressed that the contract is proposed, and would be addressed at the Board meeting.

Board Member Robert "Bobby" Bunda asked Mr. Youngquist to clarify his concerns regarding the three year contract term. Mr. Youngquist stated that in an election year involving a changing political landscape, requiring an Executive Director to commit to a three year contract may not work out.

III. Approval of Minutes

Mr. Kim called for the approval of the minutes of the January 26, 2012 Joint Project Oversight and Finance Committee meeting. There being no objections, the minutes were unanimously approved as circulated.

IV. Kiewit Building Group, Inc.'s Report on Subcontractor Bidding and Procurement

Lance Wilhelm, Senior Vice President of Kiewit Building Group, Inc. and Senior Vice President of Kiewit Infrastructure West Co. (collectively "Kiewit"), gave a presentation on its bidding and procurement process for subcontractors. Pursuant to Mr. Horner's request, Mr. Wilhelm gave a brief summary of his background and professional experience, which includes 23 years with Kiewit.

Mr. Wilhelm stated that Kiewit is currently involved with three separate HART contracts: West Oahu Farrington Highway Guideway, Kamehameha Highway Guideway, and a joint venture with Kobayashi Construction on the Maintenance and Storage Facility, each of which involves separate bid processes, contracts, and records. Guideway contracts are primarily “self performed” by Kiewit; they utilize 75 – 80% of their own forces, the remainder of which is completed by subcontractors. However, the work performed on the Maintenance and Storage Facility is the opposite, with 75 – 80% of the work performed by subcontractors.

The procurement process consists of two phases: the pre-bid phase and the post-bid phase. The most subcontractor outreach occurs during the pre-bid phase, because it occurs in a competitive environment, and Kiewit looks for the most competitive subcontractors. By contrast, there is little outreach in the post-bid phase because: (1) state law requires bidders to list subcontractors at the time of bid submittal; (2) in a design-build environment, subcontractors are chosen based on their ability to help develop the design within the specific scope of work; (3) bidders essentially enter into a fixed-price contract at the time of bid, at which time the most competitive subcontractors are also secured; and (4) contractors operate on a fixed schedule post-bid, so there is no flexibility for broad-based outreach during construction.

As a competitive business, Kiewit attempts to obtain the largest number of subcontractor quotes it can. Accordingly, pre-bid outreach efforts include advertisements on the web, in the newspaper, phone/fax database searches, holding meetings, and research in Kiewit’s extensive database of subcontractors. The data on subcontractors is then analyzed and subcontractors are selected according to price, schedule, quality, and resources available.

In the post-bid phase, Kiewit generally works with firms that were most competitive in the pre-bid phase. Post-bid activities occur with a limited group of people, working with design development, scope of work and schedule, rebid or requote if there’s been a long period of time since bid date, allowing firms to reprice or rebid.

In addressing a question posed to him regarding HART’s role in selecting subcontractors, Mr. Wilhelm stated that he was not certain about the HART Board’s authority. However, he suggested that HART should not direct subcontracting to any particular general contractor, as doing so would shift the risk from Kiewit to HART.

Mr. Wilhelm then distributed a document titled “Rail Transit Program Subcontractor and Supplier Procurement,” a copy of which is attached as Attachment A. The document outlines the number of subcontracting firms in each of the three HART projects undertaken by Kiewit, and the total dollar figures for the subcontracts.

Mr. Kim asked Mr. Wilhelm to explain the selection criteria in the pre-bid phase. Mr. Wilhelm replied that while there are many factors that go into that decision, Kiewit is largely guided by the RFP and the selection criteria identified by the client. At Mr.

Hamayasu's request, Mr. Wilhelm clarified that there is no communication between Kiewit and its client in the pre-bid phase regarding the subcontractors selected by Kiewit.

Mr. Wilhelm explained that Kiewit currently has a total of 139 subcontractors with \$292,000,000 in contracts. This number includes some "second tier" subcontractors (subcontractors below the subcontractors hired by Kiewit, who are not direct Kiewit subcontractors), but does not include lower tier subcontractors not known to Kiewit. Mr. Wilhelm pointed out that as Kiewit maintains separate records on each project, some subcontractors that are on all three projects have been counted three different times. Projected figures represent what they anticipate at the end of the project.

Mr. Wilhelm then discussed Kiewit's hiring of local vs. non-local subcontractors. He pointed out the difficulty in defining "local" companies, contrasting locally owned companies with locally staffed but mainland-owned companies. For instance, although Kiewit may be called non-local because it is headquartered on the mainland, Mr. Wilhelm is local Kiewit shareholder, and considers Kiewit local. He also stated that roughly 90% of Kiewit's subcontractors on HART projects are local companies. Kiewit has made great efforts to encourage local businesses to participate in subcontracting, but stated that there are some areas of expertise and some products that cannot be sourced locally. He gave the example of transit maintenance facility design, a subcontract held by Maintenance Design Group, for which there is no local firm in the field.

Mr. Horner asked Mr. Wilhelm to clarify the difference between the \$487 million contract for West Oahu Farrington Highway Guideway and the projected \$155 million subcontractor figure listed. Mr. Wilhelm stated that the \$155 million represents the cost for subcontractor labor coming "off the bench," and that the difference is made up of Kiewit's self-performed labor, and items such as GE tax, equipment rental, bonding, and insurance.

Board member Glenn Okimoto asked if Kiewit employs local people for the self-performance work, to which Mr. Wilhelm replied that the vast majority will come from local union halls. He also clarified that in certain instances, such as track laying, a task is not subcontracted out because Kiewit has its own people on the mainland with the skills to perform the task. Kiewit will then hire local Hawaii workers and train them to perform the task. Mr. Hamayasu stated that the FTA does not allow the selection of contractors and subcontractors based on geographical preferences.

Mr. Horner asked about Mr. Wilhelm's construction cost concerns. Mr. Wilhelm responded that he is confident about having the right team, and the technical aspects of the project. He acknowledged that there are risks, such as 'iwi, that may cause delays. However, he stated that it is unlikely that 'iwi would be found in the locations of the digging due to the soil conditions, the precision of the digging area, and the comprehensive archaeological assessment that was done before construction started. Mr. Wilhelm also stated that, regarding maintenance of traffic, public interface is also an area

of concern. He conveyed his extreme confidence about the engineering aspects of project.

Mr. Horner asked about Kiewit's construction bond. Mr. Wilhelm said that construction on all three projects is 100% bonded with performance and payment bonds.

Mr. Horner asked what Kiewit would anticipate if a client canceled a contract. Mr. Wilhelm reported that all contracts include termination clauses for convenience or for cause. Termination for cause would be due to Kiewit's actions; termination for convenience would be for any other reason than for cause. He stated that termination for convenience would be "ugly", difficult, and very expensive in terms of time, effort and money, and result in reimbursement of Kiewit's expenses, loss of economics, many hours of staff time for Kiewit and its subcontractors. He also expressed uncertainty that federal funds would assist with costs associated with the contract termination.

At Mr. Lui-Kwan's request, Mr. Wilhelm shared Kiewit's background as a North American company with over 120 years in business, both domestically and internationally. They have been in Hawaii since the early 1980s, starting with work at Barbers Point. Mr. Hong expressed his confidence that Kiewit would deliver the project on time and within budget.

V. Report on Balanced Scorecard Development

John Burns of Infraconsult then presented the draft Balanced Scorecard, a copy of which is included as Attachment B. He expressed his desire to tailor the scorecard to the Board's and the public's needs. Mr. Burns stated he is in the process of re-baselining the scope, schedule and budget for submittal of the Full Funding Grant Agreement ("FFGA"). Once the FFGA is finalized, it will provide figures that will populate the Balanced Scorecard for the first quarter in the calendar year. The figures represented in the draft are actual figures, and other figures are projections.

Mr. Horner expressed his satisfaction with the Balanced Scorecard for accountability and transparency. He requested that the delta between the actual and projected figures be highlighted, and adjusted when HART submits federal requests.

VI. Financial Update

Mr. Horner asked whether Mr. Hamayasu would be giving a report on the change order financial policy. Mr. Hamayasu stated that while there has been no formal policy for change order thresholds put in place by the Board yet, the principle of the \$1 million Finance Committee approval threshold for change orders is being followed. He also stated that there are change orders anticipated to exceed the threshold, for which the Finance Committee members will be notified. Mr. Hamayasu and Mr. Horner confirmed their understanding that the change order process is that change orders of \$50,000 or less would be completed by resident engineers in the field. Change orders of \$100,000 to \$1

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million would be reviewed by a next level manager, presented to the Change Order Committee with a technical assessment, and the committee would then make a recommendation to the Change Order Board, on which senior staff sit.

HART Transportation Planner Phyllis Kurio then presented the financial update, a copy of which is included as Attachment D. She stated that there is one transit fund, comprised of four subsidiary funds. She went on to detail the sources and amounts of revenue in each category. Mr. Horner noted that the cash on hand figure given by Ms. Kurio of \$452 million was different than the cash figure in the September Financial Plan of \$300 million. Mr. Hamayasu confirmed that the cash on hand is over the balance contained in the Financial Plan. Mr. Horner requested that HART's cash position be tracked and reported on in the future.

For revenue sources, Ms. Kurio reported that GET taxes received this fiscal year is \$5.4 million. Overall, GET revenue is \$14.7 million over projections. Ms. Kurio went on to explain the expenditures and encumbrances to date, detailing the operating, capital, federal grant, and capital improvement bond funds.

At Ms. Okinaga's request, Ms. Kurio confirmed that her presentation was made in response to the Board's request for a summary document tracking money coming in and going out. Mr. Horner requested that this report be made to the Finance Committee on a regular basis, not necessarily with a presentation. Mr. Hamayasu stated that the information would be made available every Finance Committee meeting.

VII. Adjournment

Having no other business, Project Oversight Committee Chair Damien Kim moved that the meeting be adjourned. Ms. Okinaga seconded the motion. There being no objections, the motion passed unanimously and Mr. Kim adjourned the meeting at 10:15 am.

Respectfully Submitted,



Cindy Matsushita
Board Administrator

Approved:

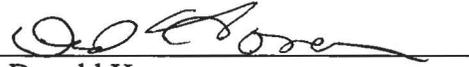


Damien Kim
Project Oversight Committee Chair

APR 19 2012

Date

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Donald Horner
Finance Committee Chair

APR 19 2012

Date

ATTACHMENT A

Rail Transit Program Subcontractor and Supplier Procurement

Kiewit Infrastructure West Co. & Kiewit/Kobayashi Joint Venture

March 1, 2012

Project	As-Bid		Current		Projected	
	# of firms	Total Value	# of firms	Total Value	# of firms	Total Value
West Oahu Farrington Guideway	19	\$ 90.1	103	\$ 137.5	106	\$ 155.0
Kamehameha Highway Guideway	14	\$ 71.3	23	\$ 67.0	50	\$ 77.0
Maintenance and Storage Facility	11	\$ 76.2	13	\$ 88.2	81	\$ 138.1
Total Program	44	\$ 237.6	139	\$ 292.7	237	\$ 370.1

ATTACHMENT B



HONOLULU AUTHORITY for RAPID TRANSPORTATION

Business Strategy Map

HART Balanced Scorecard

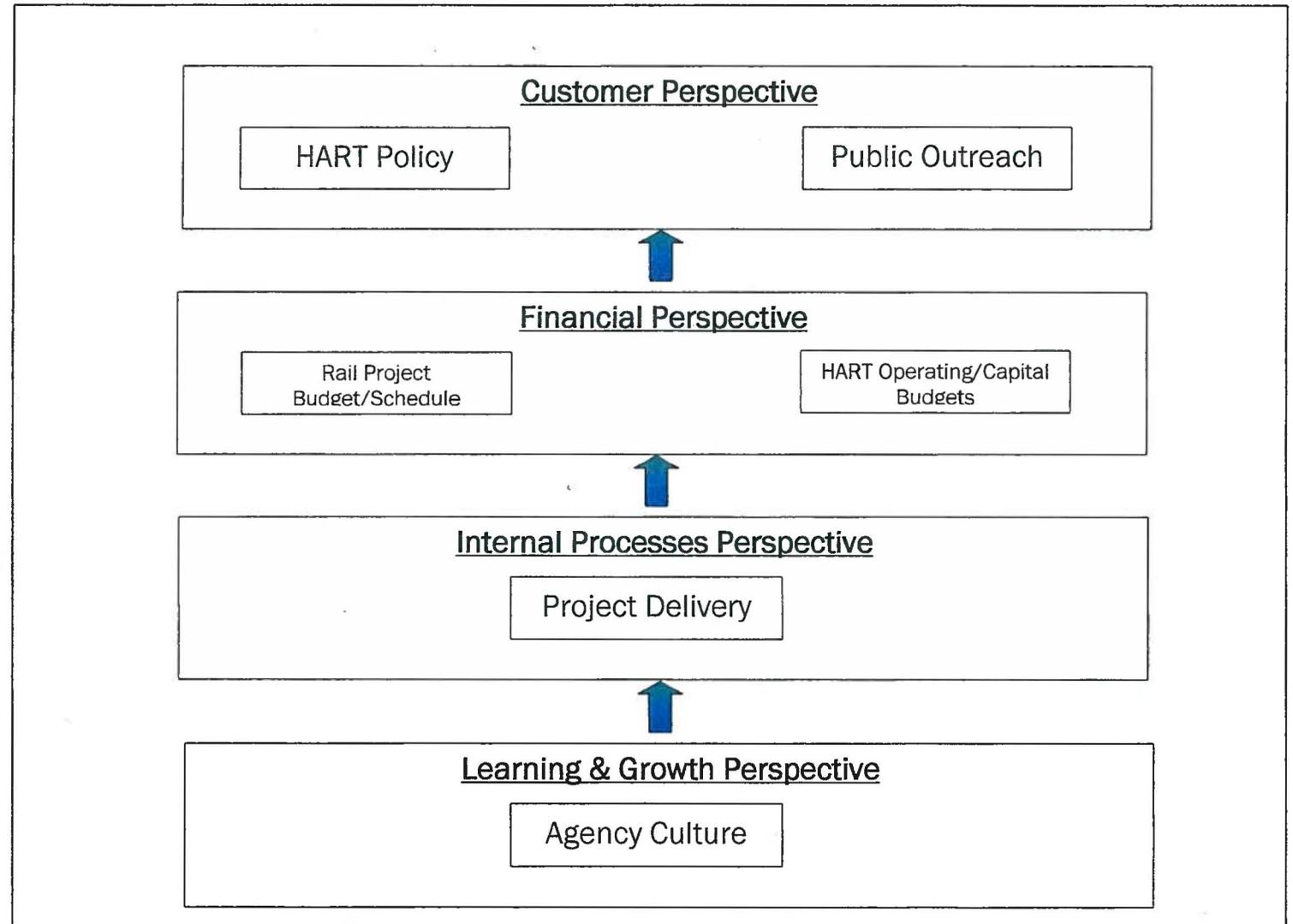
HART Vision

- Mobility
- Reliability
- Land Use
- Equity
- Sustainability



HART Mission

Plan, design, construct, operate and maintain Honolulu's high-capacity fixed guideway rapid transit system



ATTACHMENT C

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Agenda Item #VI. Financial Update

CASH ON HAND - TRANSIT OPERATING SUBSIDIARY FUND ACCOUNT
Beginning Balance \$ 132,795,063
Transactions \$ (886,629)
Ending Balance \$ 131,908,434

CASH ON HAND - TRANSIT CAPITAL SUBSIDIARY FUND ACCOUNT
Beginning Balance \$ 340,051,085
Transactions \$ (21,596,820)
Ending Balance \$ 318,454,265

CASH ON HAND - TRANSIT FEDERAL GRANT FUND SUBSIDIARY FUND ACCOUNT
Beginning Balance \$ 1,169,416
Transactions \$ -
Ending Balance \$ 1,169,416

GRAND TOTAL \$ 451,532,115

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 Agenda Item #VI. Financial Update

EXPENDITURE/ENCUMBRANCE - TRANSIT OPERATING SUBSIDIARY FUND

	Budget	Exp/Enc	Balance
Personnel	\$ 13,302,491	\$ (4,273,631)	\$ 9,028,860
Current Expenses	<u>\$ 7,280,135</u>	<u>\$ (2,765,160)</u>	<u>\$ 4,514,975</u>
TOTAL OPERATING	<u>\$ 20,582,626</u>	<u>\$ (7,038,791)</u>	<u>\$ 13,543,835</u>

EXPENDITURE/ENCUMBRANCE - TRANSIT CAPITAL SUBSIDIARY FUND

	Budget	Exp/Enc	Balance
	\$ 200,000,000	\$ (152,100,362)	\$ 47,899,638

EXPENDITURE - FEDERAL GRANT SUBSIDIARY FUND

	Budget	Expenditures	Balance
	\$ 50,000,000	\$ (12,169,000)	\$ 37,831,000

ENCUMBRANCE - CAPITAL IMPROVEMENT BOND SUBSIDIARY FUND

	Budget	Encumbrances	Balance
	\$ 104,736,280	\$ (36,610,130)	\$ 68,126,150

TOTAL CAPITAL	<u>\$ 354,736,280</u>	<u>\$ (200,879,492)</u>	<u>\$ 153,856,788</u>
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