



## MINUTES

**Project Oversight Committee Meeting  
Thursday, October 27, 2011, 8:00 A.M.  
Mission Memorial Annex Conference Room  
550 South King Street, Honolulu, Hawaii**

PRESENT: Damien Kim Ivan Lui-Kwan  
William "Buzz" Hong Carrie Okinaga  
Don Horner Wayne Yoshioka (arrived 8:18 a.m.)

ALSO IN ATTENDANCE: Toru Hamayasu Paul Migliorato  
Gary Takeuchi Kekoa McClellan  
Jeanne Mariani-Belding Joe Magaldi  
Bill Brennan Russell Honma  
Kevin Dayton

I. Call to Order by Committee Chair

At 8:08 A.M., the meeting of the Project Oversight Committee was called to order by Committee Chair Damien Kim.

II. Public Testimony

Mr. Kim called for public testimony. None was offered.

III. Approval of Minutes of September 29, 2011 Committee Meeting

Mr. Kim called for the approval of the minutes of the September 29, 2011 Project Oversight Committee meeting. There being no objections, the minutes were unanimously approved as circulated.

IV. Review of August 2011 Monthly Progress Report

Interim Executive Director Toru Hamayasu called upon Deputy Project Officer Frank Doyle and Project Control Manager John Burns to present information on the Monthly Progress Report.

Mr. Doyle explained how and when the data in the reports are compiled and reviewed. He also pledged that HART staff will do the following for future reports: shorten the timeframe under which the reports are prepared to one month, deliver a Board-specific report on a quarterly basis, deliver committee-specific reports when requested, and meet with each committee chair to identify items of interest to each committee for inclusion in the reports. He further pledged to be more proactive in communicating “what to expect” with the public so the public is not surprised.

Mr. Kim noted that he already met with Mr. Doyle and Mr. Burns to identify specific Project Oversight Committee-related items to be included in the reports, such as detailed budgets and schedules.

Board Member Don Horner requested reports on a monthly basis with information on project contingency and how current project contingency use relates to the Financial Plan, and specifically, the figure identified as the “Base Year Dollars without Contingency” in the April 2011 Draft Financial Plan. Mr. Horner further recommended that the FTA reports be made easier for Board members and the public to read and digest.

Mr. Doyle explained the process of developing contingency amounts at each stage of the project, and reported that HART staff is preparing a report that focuses specifically on contingency. Mr. Burns stated that HART is in the process of populating a “Project Cost Report” sheet, which will include baseline costs based on a bottom-up estimate, but noted that due to change orders, the figures presented will have some degree of variability.

Mr. Horner requested that the Board be informed of any changes beyond the \$3.6B figure identified as the “Base Year Dollars without Contingency” in the April 2011 Draft Financial Plan. Mr. Hamayasu stated that any such changes could be reported in a separate spreadsheet. Mr. Kim stated that, for Project Oversight Committee purposes, it is important to know whether the project is on budget, on schedule, and if not, the reasons why.

Mr. Doyle reported that a detailed schedule has been included in the monthly reports to help Board members to see how the project is progressing, and whether it is ahead or behind schedule in any area. Mr. Burns explained that the schedule included in the report is generated by a computer program which summarizes the 4,000 activities contained in the scheduling database. Mr. Kim stated that the schedule will make it easier for the Board and the public to assess the project’s progress. Board Member Ivan Lui-Kwan requested that the schedule include a key to clarify the various terms and acronyms.

Mr. Horner asked whether the project’s progress could be expressed in percentages, such as the percentage of the project cost which has already been bid, how much is still in design and subject to risk, etc.

Mr. Burns introduced the “Cost Contingency Drawdown Chart” in the monthly progress report. Mr. Horner asked for an explanation of why contingency funds are being spent now. Mr. Doyle stated that the FTA recognizes that contingency funds will be drawn down over time, and illustrated examples of how, when, and why contingency funds might be used.

Board Member William “Buzz” Hong asked who determines when contingency funds may be utilized: whether funds are used when the contractor makes an error, or whether funds are used when situations not in the contract are encountered. Mr. Doyle stated that HART will not pay for contractor mistakes. Mr. Hamayasu stated that if costs for materials go up before the contract is bid, then HART would have to pay for those costs; however, generally, if costs for materials go up after the contract is bid, then the contractor would have to absorb those costs. Mr. Doyle also stated that when situations requiring contingency funds arise, HART enters into negotiations with the contractor to resolve arguments on responsibility. Mr. Hong stated that he wants to ensure that HART is not paying for delays as a result of litigation.

Mr. Horner stated that HART staff must come to the Board before the use of contingency funds exceeds 10%, per the adopted Financial Policies. Mr. Hamayasu explained that HART staff has two responsibilities to the Board: first, to manage the project under the \$5.17B cost identified in the September 2011 Revised Financial Plan and to approach the board if that number is to be exceeded, and second, because the \$5.17B cost is inclusive of the contingency, to separately monitor the contingency and to approach the board whenever there is a need to tap into the contingency. Mr. Hamayasu also gave two examples to the Board of situations in which contingency funds might be used: costs for materials go up and change orders are submitted.

Mr. Hong asked whether there might be occasions when material costs go down and HART might recoup money. Mr. Hamayasu explained that such cases may occur; for example, if material prices go down before the bid goes out, HART might save money. Mr. Hamayasu also explained that if the cost of short supply materials (such as steel, cement, or asphalt) goes up by less than 10%, the contractor must absorb the difference; however, if the cost of short supply materials goes up by more than 10%, HART must pay for the difference. Similarly, if the cost of short supply materials goes down by less than 10%, the contractor receives the savings, but if the cost goes down by more than 10%, HART receives the savings.

Mr. Burns explained that the boxes on the “Cost Contingency Drawdown Chart” indicate the milestones where risk—and therefore contingency—is expected to go down. Mr. Doyle added that the curve shown in the chart shows the amount of contingency the FTA expects HART to have at each stage of the project. Mr. Horner clarified that this is the minimum reserve the FTA expects HART to have on its balance sheet, and stated that the fact that the project is \$115M above the buffer zone gives him comfort.

Mr. Lui-Kwan asked whether this chart is given to the FTA. Mr. Doyle replied that the document is produced for the FTA and comes from the Risk Management Plan. Mr. Doyle added that the FTA was the agency that came up with the numbers, and that after the FFGA, there will be another risk analysis to determine the shape of the curve and the needs of the project. Mr. Lui-Kwan asked for an explanation of some of the terms on the chart, specifically, "95% Bid" and "GW Fdns." Mr. Doyle replied that the former is when 95% of the bids are expected to have gone out. Mr. Burns replied that the latter refers to when the guideway foundations are complete, at which point the risk of finding something unexpected under the ground, such as hazardous materials or iwi, goes down.

Board Chair Carrie Okinaga observed there is some lag time between when changes occur and when the monthly reports are issued, and asked staff to consider how to balance the desire to get approval for use of contingency funds with the desire not to interfere with the project schedule. Mr. Doyle indicated that as invoices are received, real-time reports can be generated. Mr. Burns noted, however, that even if a contractor were to submit a change order, the change order would have to go through an analysis and negotiation process, so not all change orders will automatically or immediately incur the use of contingency funds. Mr. Kim stated that the committee will receive a presentation on the change order process at a future meeting.

Mr. Hamayasu noted that the chart only shows how much contingency the project has, but doesn't show how the contingency is used. Mr. Hamayasu also noted that while the data in the reports will have a one-month delay, his requests to use the contingency will not be delayed. Mr. Horner recommended that the more the Board is educated about the monthly reports, the better it will be.

Mr. Burns reported on current changes found in the August 2011 Monthly Progress Report, specifically, that a \$4M change had been executed to cover the cost of workers' compensation insurance for the WOFH contract. He also indicated that the Total Remaining Contingency in the "Estimate at Completion" is now \$827.9M. Mr. Horner asked how the changes to the contingency monies had been calculated, and indicated that he would be particularly sensitive to changes due to station design.

Ms. Okinaga asked whether the \$4M change for workers' compensation insurance for the Kiewit contract would then result in a reduction in another line item reflecting the anticipated cost of OCIP. Mr. Hamayasu replied that OCIP would still happen, but as these contracts are ahead of OCIP, the change was necessary and that he was not able at this time to reduce the anticipated project cost for OCIP premiums.

Mr. Horner indicated that he still has questions on the "Cost versus Budget Summary Status by Standard Cost Code" sheet, and will request more information at a later date.

Mr. Lui-Kwan commended the Project Oversight Chair for directing HART staff to provide additional reports to the Board and to make the information contained therein more accessible to the public.

V. Discussion of Balanced Scorecard

Mr. Doyle reported that HART staff is considering issuing scorecards on a semiannual basis, and has already identified some metrics for inclusion in the scorecard. He noted that other agencies' scorecards are for systems in operation, rather than systems under construction.

VI. Adjournment

Mr. Kim called for any further public testimony. Russell Honma offered testimony on the importance of maintaining adequate project contingency and managing change orders.

Having no other pending business, Mr. Kim called for the meeting to be adjourned. There being no objections, the meeting was adjourned at 9:23AM.

Respectfully Submitted,



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Tyler Dos Santos-Tam  
Board Administrator

Approved:



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Damien T.K. Kim  
Project Oversight Committee Chair

DEC - 8 2011

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Date