



King County

Metropolitan King County Council
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MEMORANDUM

DATE: June 8, 2010

TO: Metropolitan King County Council

FROM:  Cheryle Broom, County Auditor

SUBJECT: Oversight Monitoring Consultant Report - Review of *Brightwater Cost Update, Current Conditions and Trends, January 2010* (2010 Trend Report)

The Wastewater Treatment Division (WTD) transmitted their annual Brightwater Program cost update—the 2010 Trend Report—to council on April 30. It shows a revised cost estimate of \$1,816 to \$1,857 million, up approximately 1% from the previous year's estimate. The Trend Report estimate is based on information available as of December 31, 2009. Many significant developments have occurred since that time to address the construction delays on the Central Tunnel of the Brightwater conveyance system and potentially impacting the cost of the project.

Attached is the Brightwater Oversight Monitoring Consultant's (OMC) review of the Trend Report based on the best available information through the publication date. Considerable uncertainty still remains about the cost and schedule for completion of the BT-3 portion of the Central Tunnel. The OMC's report presents a more up-to-date and comprehensive (although not complete) compilation of estimated project costs organized in order to inform council's fiscal policy decisions.

The OMC estimate shows a range of undisputed program costs from \$1,815 to \$1,856 million. This estimate does not include the disputed costs of the Central Tunnel delay which represent a potentially significant cost exposure to the county. The OMC compiles the available estimates of known disputed costs. The majority of these costs will affect the cash flow on the project, even though the county is actively pursuing recovery of these costs through legal action. The remaining known disputed costs involve claims or disputed change order requests filed by the Central Tunnel contractor that the county has no obligation to pay at this time. The ultimate responsibility for the disputed costs is not likely to be resolved for some time.

At this time, known disputed costs are estimated by the OMC at \$178 million. The OMC identifies a few items for which there are no cost estimates available which could potentially increase disputed costs and cash flow demand further. These include the connection of the BT-3 tunnel segments between the two different boring machines,

reasonable construction contingency, and any additional non-construction costs such as engineering and construction management for the new BT-3 mining contract. We would encourage WTD to continue to monitor the status of all disputed costs, obtain or develop estimates of unquantified costs as soon as possible, and provide updates to the OMC as estimates become available.

The OMC report provides a detailed review of the 2010 Trend Report validating, for the most part, WTD's estimates of other project cost elements. In addition, the report includes an assessment of the remaining contingencies. The OMC forecasts that with effective project management up to \$25 million may remain available at project completion. We would encourage WTD to continue its assessment of available contingency.

The OMC lists the areas of cost uncertainty and identifies the major factors that would drive cost results closer to the lower end of the estimate range. Based on these factors, OMC and our office will be developing new recommendations for WTD and publish them in the next construction oversight report. A presentation of this attached report and the next construction oversight report is tentatively scheduled for the July 6 Government Accountability and Oversight Committee meeting.

The attached report was prepared by R. W. Beck who is under contract with the auditor's office to provide oversight consulting services on Brightwater. We want to acknowledge the Prosecuting Attorney's Office, council staff, Brightwater Program staff, and WTD management for their cooperation and assistance during the development of the report. Should you have questions or comments on the report, please contact Tina Rogers, the Capital Projects Oversight Manager, or Cheryle Broom, County Auditor.

CB:TR:jl

Attachment: Final Oversight Monitoring Consultant Report - Review of Brightwater Cost Update, Current Conditions and Trends, January 2010

cc: Dow Constantine, King County Executive
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