
From: Grotefendt, Amy (Consultant)
Sent: Thursday, February 05, 2009 10:08 AM
To: Dye, Dave; Hammond, Paula; Paananen, Ron; White, John
Cc: Reilly, John; McLemore, Susanne
Subject: RE: Cost Estimating Manual
Attachments: WSDOT Response to Rep Simpson.doc

Dave,

Attached is the proposed response from the team, which has been reviewed by John, Ron, Mike Morrison, John Reilly, and Harvey Parker. Please let me know if you need anything else from us; I'll assume it will get sent from your office unless I hear otherwise.

Thanks
AJG

From: Dye, Dave
Sent: Monday, February 02, 2009 12:02 PM
To: Hammond, Paula; Paananen, Ron; White, John
Cc: Grotefendt, Amy (Consultant); Reilly, John; McLemore, Susanne
Subject: FW: Cost Estimating Manual

hey all - could you take a look at my draft response below and help clean it up, sharpen it, embellish on it etc. I think calling out some of the experts who helped us in our estimate and risk workshop and who will keep working with us in their unbiased roles will be helpful. Let's shoot for getting something back mid-week...obviously, cost, traffic performance, freight routing continue to come up so getting all those facts gathered will help...status on the overall package?

-dave

From: Simpson, Rep. Geoff [mailto:Simpson.Geoff@leg.wa.gov]
Sent: Monday, February 02, 2009 10:06 AM
To: Hammond, Paula; Dye, Dave
Subject: Cost Estimating Manual

Paula & David –

It is extraordinary to me that the estimate you have provided the legislature for the SR 99 tunnel comes in exactly at the amount of money that the state currently has available for the project. In your own **“Cost Estimating Manual for WSDOT Projects”** published this past November I find several interesting passages, starting with the intro: “Estimators should be shielded from pressures to keep estimates within programmed or desired amounts

based on funding availability.”

Your comments imply that the estimate was adjusted to fit available funding - nothing could be further from the truth. The \$2.82 billion was (and is) the established cap of state investment in the overall project based on a

"replacement in kind" project estimate updated in November 2006 consistent with previous legislative intent (expressed in several budget provisos). That amount does not represent the cost of the tunnel or the entire AWW improvement program, but rather, continues the commitment of that level of funding into the overall viaduct program.

During discussions with the Stakeholder Advisory Committee, the City, County, State and others, the limitations of state funding at this amount was discussed often. Options were developed and screened keeping this limitation in mind but without letting it completely limit our thinking...there was a strong desire to develop a multi-modal, systems solution around the SAC table. That is why all of the three final options - simple elevated replacement (all inclusive @ \$3.5 billion), surface-transit (@\$3.3 billion), and the deep bored tunnel (@ \$4.25 billion) exceeded the \$2.8 billion state funding level. The specifics of each option varied in how the state's funding was expended, but all realized that additional funding from the City and County would be necessary to fund the viaduct program.

The south end completion (moving forward projects) are about \$900 million, along with the SR 99 tunnel (about \$1.9 billion), removal of the existing viaduct (\$80 million), and construction of a replacement four-lane Alaskan Way with a direct connection to Elliott and Western Ave (about \$200 million) is about \$3.1 billion, which exceeds the states funding. When transit improvements, seawall replacement, other city street improvements, and utility relocations are added, the entire program cost is about \$4.25 billion. Thus, a funding partnership is required to complete the program - even the basic "state" project needs the \$300 million contribution from the port to work.

The manual indicates that when projects are at a 0%-2% maturity, the estimates can vary by as much as +200%, and even when using CEVP on a project that is at between 1%-15% design – as your agency claims to have used for the tunnel – the estimates can vary by as much as +100%. Did WSDOT actually conduct a formal CEVP for the tunnel as indicated should be done during the design phase, or has the Department arrived at its estimate based on the self-modeling spreadsheet? What percentage of design has been completed for the tunnel and for the project as a whole?

The overall engineering level on the tunnel is near the 1% level, so your recitation of the variable nature of the project costs are well stated. And, while it is accurate to say WSDOT has not completed a full CEVP for the tunnel option, we have conducted an actual quantity-based estimate to which risk factors and inflation variation were applied. The range of cost presented (\$1.2 to \$2.2 billion) reflects the degree of variability given our level of design work, and is consistent with our cost estimating manual guidance. I should note that this estimate has been heavily influenced by our own experts and outside tunneling experts. The irony is most of the outside tunneling experts believe we have overestimated the price of the tunnel. However, given where we are in the process, we feel confident in our \$1.9 billion most likely estimate as presented last week.

Regarding the funding spreadsheet, as noted above, the \$2.8 billion state cap is a reality the project faces. All three of the final options (elevated replacement, surface-transit, bored tunnel) exceeded that amount. During negotiations with the principals involved, it became clear that the level of interest in "adding money to the project pot" depended a great deal on the option selected. None of our partners were interested in financially participating in any of the elevated options. In the end, the City of Seattle was willing to exercise a number of taxing options to allow the State to concentrate its funding on the SR 99 component (aka tunnel) and agreed to pick up the rest (less KC-Metro infrastructure and service) because they believed they benefitted most from the tunnel solution.

The manual indicates that "When a utility is located on an easement and WSDOT acquires the property through ROW acquisitions, WSDOT must pay all relocation costs in addition to providing the affected utility with a new easement." How does this relate to the agreement that Seattle provide the utility relocation costs? Would that typically be the responsibility of the state? The same question applies to the seawall replacement. As I recall, the seawall replacement has always been considered to be within the scope of the projects.

The issues regarding funding liability for the seawall and utility relocation are complex and subject to legal opinion. In general, financial responsibility for utility relocation depends on the specific rights the utility has acquired from the department. In this case, the City of Seattle owns the property upon which the viaduct rests,

and the state owns the structure. Without going too far into this because of potential litigation down the road, suffice it to say it can be argued either way. (We included it in the "all inclusive" estimate of \$2.8 billion but certain legislative leaders never agreed the state would cover those expenses.) The seawall is similar, in that as far as it is an integral part of maintaining the on-going performance of the state highway, it could be argued it would be the state's responsibility. However, it could also be argued that the foundations of the viaduct could be designed to obviate the need for the structural support of the seawall and then it would not be needed. (We included it in the "all inclusive" estimate of \$2,8 billion but certain legislative leaders never agreed the state would cover those expenses either.)

And finally, (for now) what level of independent review has been conducted of the estimate you have provided to the legislature?

Cascadia and other tunnel experts have been very active in reviewing the tunnel estimate work to date. As noted earlier, their consultants (and others) still feel our tunnel estimates are too high, but our change of scope from twin bores to a single larger-bore tunnel brought the two estimates much closer in line. WSDOT has also engaged a panel of tunneling experts separate from the project design consultant that have reviewed the base estimate and contributed to the sizing of risk and contingency add ons. They have stated their support for the cost ranges shared last week.

Thanks,

Geoff