Via email

August 1, 2025

DB-CCT-00016

Brett Van Hazel
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SUBJECT: Suspension of Work - Potential Project Risks

Dear Mr. Van Hazel,

Kiewit Infrastructure South Co. ('Kiewit' and/or 'Design-Builder') is in receipt of City's notice of Suspension of Work issued by the Officer in Charge ('OIC'), effective August 1 through August 28, 2025. The purpose of this letter is to provide the City as clear a picture as is possible at this initial stage of a suspension of the potential impacts to the project's costs and schedule. It is important to understand that this 27 day suspension will have impacts much greater than simply losing 27 calendar days on a schedule. The City's decision to suspend the Inner Harbor Water Treatment Campus project will impact the schedule for many months and will serve to only increase the cost of the project.

Schedule and cost impacts are driven by critical Project planning elements, namely:

(i) Supplier's production slot reservations for long lead and/or specialty equipment.
(ii) Kiewit design build management.
(iii) Supplier engineering.
(iv) Partner engineering.
(v) Demonstration Plant Delay.
(vi) Vendor and Subcontractor future willingness to participate.

Below we provide information relating to how each of these drives the project and is impacted by the City's action. Please note that it is extremely difficult to foresee how far-reaching these impacts may extend at this initial stage, so this in no way represents an exhaustive list of the impacts.

(i) Supplier production slot reservations for long lead and/or specialty equipment

This is potentially the most significant component impacted by the suspension. Important Project Suppliers, whether they are already contracted or in discussions with us to participate, may not be able to commit to a suspended project and even if they can, the delay and costs will be substantial. For example, Siemens provided the Project a favorable production slot of 20 months lead time for both the High Voltage Transformers and the High Voltage Breakers, which commenced several months ago. (Think of a 'production slot' as having a confirmed reservation in a queue or line of competing orders as work on your order advances over the course of the

lead time duration until final manufacture and delivery). When payments to Siemens are suspended, there is considerable risk that Siemens will sell these production slots to others as we will not have a contractual mechanism to retain and pay them. The table below represents current market conditions for High Voltage Transformer lead times.

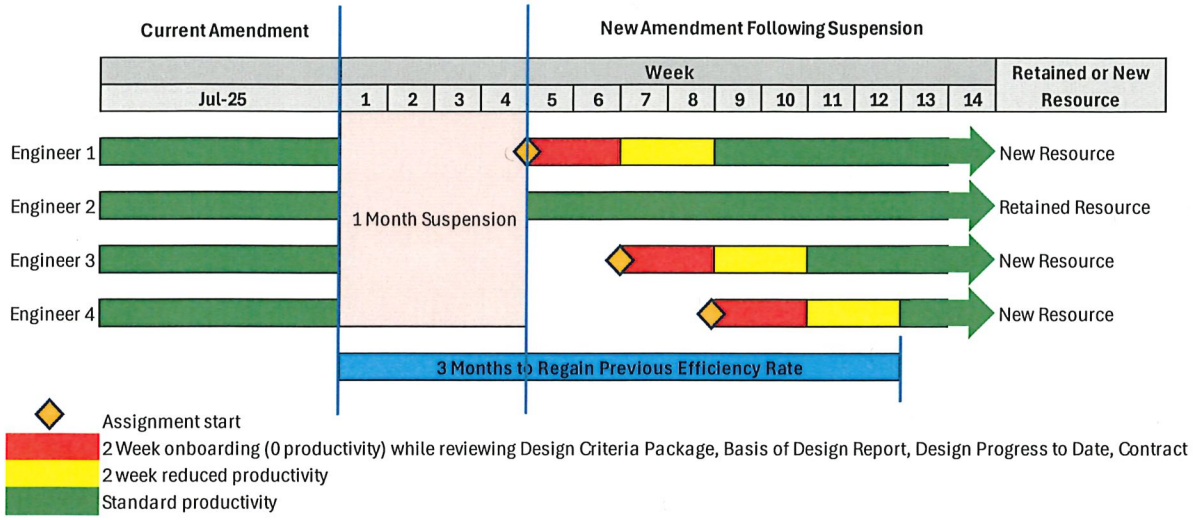
Current Market High Voltage Transformer	Lead times
Siemens	42-46 Months
Hitachi	30-36 Months
GE	33 Months
Eaton	30 Months
Target for Planning	30 Months

Based on the current lead times in the table above, and the fact that the initial lead times commenced several months ago, this example alone could result in an **impact of over 13 months** to the execution of this project.

(ii) Kiewit design-build management staff and Kiewit engineering staff

Kiewit currently has **over 100 Managers, Engineers and craft employees assigned to the project with an estimated additional 50 more professionals** engaged in the project across our many partners. To mitigate the costs of suspension, Kiewit's management and engineering staff will necessarily need to be re-assigned to other Kiewit work. With a booming construction market and a current backlog of over $6B of work in Texas alone, we anticipate this will happen quickly. Once committed to other active projects, there are no guarantees regarding which management professionals can return to this project and those that will have to be replaced with different resources that are available at that time.

The introduction of new staff will require a learning curve before reaching the same level of productive execution that was just suspended. Each new Engineer will need to become familiar with the Contract, City Design Criteria Package, Basis of Design Report, and engineering as well as codes and project procedures. This type of large-scale infusion of new staff will take several weeks to onboard, and several more to reach the current levels of productivity. Rapid infusions of new staff to a project can be inefficient which will have an impact on the schedule and costs beyond simply the length of the suspension. This is represented (for illustration purposes only, not precise quantification) in the graphic below:



(iii.) Supplier engineering

Design-Builder's suppliers have significant engineering resources assigned to the Project. For example, Aquatech, which is providing the Ultra-Filtration and Reverse Osmosis technology, provided the following insight on what a suspension means to them and the accompanying risks.

Aquatech Management Feedback:

1. Engineering team gets demobilized on to other projects. Remobilization will be time consuming, and the same team may not be available, which in turn moves things backward.
2. As per schedule we were to get ready to place some long lead POs, so a lot of interaction with vendors both technical and commercial is ongoing right now. Pauses on the project will effectively stop that activity and loss of interest from vendors will be there, in turn putting doubt in their minds creating unfavorable terms which will cost us more.
3. Assured payment terms will be required.
4. Cancellation clauses will be tougher, creating higher financial risk.
5. Not billed but partial work done by both vendors and Aquatech will need compensation.
6. This will call for revalidation of vendor quotes, which in turn could increase costs.
7. Aquatech price will have to be revalidated and could increase costs due to the delays.
8. Schedule will certainly slide right.

(iv.) Partner engineering

Design-Builder Engineering partner firms such as GHD and Arcadis will experience similar resource allocation issues and schedule risk upon a suspension re-start. We have requested input from both GHD and Arcadis and they offered the following:

Arcadis Management Feedback:

"Beyond interrupting the design-build team's production cadence, suspending the project for 30 days will have the additional negative impacts:

A. Disruption of Progressive Design-Build Continuity

The Progressive Design-Build model is predicated on ongoing trust and collaboration, where design evolves in lockstep with cost validation and constructability feedback. Suspending the process erodes that foundation. Disruption will produce:

- *Design-construction disconnects emerging upon restart.*
- *Past value-engineering and design decisions will be second-guessed or rehashed, undermining efficiency.*
- *Reconstituting the integrated design-build team introduces friction and delay.*

B. Loss of Design Team Continuity and Efficiency

A suspension may require demobilization of key technical staff. As a subconsultant, our team members are assigned based on active project workloads. If this project is paused:

- *Staff may be reassigned to other projects.*
- *Upon resumption, we may not have access to the same individuals.*
- *Rebuilding and on-ramping new team members to bring up the team's context and knowledge will delay schedule by 6 to 8 weeks, beyond the suspension itself."*

- *"Upon restarting the project, cost increases will be compounded downstream from re-onboarding costs and potential duplication of coordination efforts."*

GHD Management Feedback:

1. "Extended Schedule: A suspension will inevitably extend the project timeline. Not only the period where the design work is not progressing, but additional time associated with the demobilization and remobilization. This will impact GHD's ability to meet the original project deadlines and will likely result in further delays due to the need to re-coordinate with all stakeholders.

2. Lost Efficiency: The disruption caused by a suspension will lead to a loss of efficiency. Following suspension of our design teams, they will be remobilized on to other projects and in the future if the IHWTC project was to restart, there may be delays associated with re-establishing the team itself along with restarting the project dynamics and adherence to a regular project cadence. It is reasonable to expect a large amount of effort would need to be applied by all teams from Kiewit, GHD and others, including the stakeholders from the City and Corpus Christi Water (CCW) to re-align on project goals, and re-familiarizing with the project details. This will result in a slower ramp-up period and reduced productivity in addition to rework as any new personnel that would need to be

assigned to the project will not have the previous project history and knowledge."

"Suspending the project will lead to additional costs due to the need to demobilize and remobilize their teams and both the demobilization and remobilization effort will require additional management time to effectively manage the process."

(v.) Demonstration Plant

Suspension of the demonstration plant directly affects Texas Commission of Environmental Quality ('TCEQ') design approval and impacts Texas Water Development Board ('TWDB') funding releases. The demonstration plant results also feed into final detailed design inputs. Further, demonstration plant cost impacts due to suspension, include but are not limited to storage, extended rent, leases, permits, easements, equipment care and preservation, demobilization, and re-mobilization. Similar suspension related costs exist for the Project management personnel, the engineering teams, partner engineers, supplier engineering, and subcontractors. As described above, a one-month suspension will result in at least a three-month gap in full design and estimating productivity.

(vi.) Vendor and Subcontractor future willingness to participate

It is also important to consider that these costs and suspension delay will also create additional impacts to the Guaranteed Maximum Price (GMP) estimate. The shift in schedule moves the Project into different time periods with greater uncertainty as to market costs. The GMP estimate will require a full re-start of the engineering, management, and estimating teams resulting in a multi-month push to prepare the estimated cost. Suppliers and subcontractors have expressed concern around Project uncertainty due to the risk of suspension or termination and have stated their prices will increase. Others have advised they will not re-bid due to the Project's volatility and alternate projects with more certainty. Decreased competition on bid packages will likely increase subcontractor and vendor quotes/bids associated with this project. As an example, when reaching out to a number of local subcontractors, the response was they had better opportunities to pursue with more certainty. This suspension could have far-reaching consequences beyond this project if it negatively impacts the market's perception and/or interest in bidding future City projects.

Moving Forward

Design-Builder will endeavor to mitigate, however, our opportunity to do so is limited to contractual responsibilities that are within our control; a list that is very short considering all but one Contract Amendment (the demonstration plant) expired on or before the time of the City's suspension. Accordingly, any prospective resumption of work would only apply to the demonstration plant work and not to advancing the overall project design. That scope was included in the Phase 1B Step 5 Amendment that failed to advance at the 29-July City Council meeting.

Moreover, given the City's recent change to the spending authority of the City Manager in association with this project (from $138M to $50,000), which differs materially from that which was previously authorized in connection with, and during negotiation of, this contract with the

City, it adds even more uncertainty over the City's ability to timely execute the necessary amendments to keep this project going. It should be noted that the City Manager's spending authority and ability to make decisions were relied upon by Design-Builder in its decision to pursue the project in the first place. The contract stipulated the number of Phases – 1A, 1B, 2, and 3 with the City Manager anticipated to have spending Authority for Phase 1. Phase 1B was subsequently broken into no less than 5 different components with the City Manager no longer authorized by the City to timely execute the associated Contract Amendments.

Since Design-Builder has no way of knowing when, if ever, the Step 5 Amendment will be advanced through Council and/or approved, Design-Builder expressly reserves the right to rescind, amend, or otherwise withdraw that proposal at any time prior to execution. This, coupled with the reduced authority of the City Manager in connection with executing Contract Amendments, represents added risks that were not contemplated at the time the contract was negotiated. Therefore, the City should expect to revisit the terms and conditions of the contract, specifically as it relates to risk allocation, that may be necessary prior to resumption of work and/or execution of any further Contract Amendments, with assurances that the contract will be followed.

The contract anticipated Design-Builder advancing the design of the project with a potential separation at 60% (i.e. the end of Phase 1B) if unable to reach agreement on the Phase 2 Binding Construction Price Proposal. Design-Builder will not entertain completing the design if precluded from completing Phase 1B, consistent with Article 9.01 of the Agreement. Given the current circumstances, Design-Builder has no desire to continue forward in small increments or endure unwarranted and potentially damaging characterizations at Council meetings. It would be Design-Builder's preference, and in the best interest of the City from a cost and schedule standpoint, that should Council agree to lift the suspension, they do so on the basis that the project is committed to moving forward to 60% and a Binding Construction Price Proposal in one step. In lieu of this, Design-Builder would prefer the project be terminated now.

Our recommendation is to immediately lift the suspension, followed by an expeditious confirmation and/or renegotiation of Phase 1B Step 5 Amendment and other Prime Contract terms and conditions. Doing so will help mitigate the extent of cost and time impacts that will imminently escalate beyond our control.

Commitment to Partnering

It is still Kiewit's desire to help the City fulfill its commitment to providing water supply certainty in 2028. Accordingly, an alternate point of consideration would be to immediately approve the Phase 1B Step 5 Amendment and then alter course and engage now (rather than at the end of Phase 1B) with Kiewit in a negotiation to convert the project to a Guaranteed Maximum Price (GMP), that includes completion of the balance of design and construction.

Sincerely,

Tony Joyce
Project Executive