



## Office of Inspector General



October 20, 2015

The Honorable Barbara A. Mikulski  
United States Senate  
503 Hart Senate Office Building  
Washington, D.C. 20510

Dear Senator Mikulski:

This letter responds to your September 17, 2015 inquiry regarding Amtrak's master development procurement approach for the redevelopment of Baltimore Penn Station. Your letter asked three questions related to the company's readiness to undertake an approach of this scope in a timely manner, and its ability to oversee the contractor involved in managing the effort.

Although we have not conducted an audit of Amtrak's master development procurement approach, we are supportive of Amtrak's efforts to strategically manage its capital assets. We also note that the approach is intended to generate greater revenues from these assets, which is consistent with Amtrak's enabling legislation. However, based on our assessments of Amtrak's past performance in managing and overseeing contractor and internal workforce projects, we are skeptical of its readiness to undertake and oversee a master development procurement approach of this scope in a timely manner. We address each of your three questions below.

### **TERMINAL DEVELOPMENT INITIATIVE**

By way of background, Amtrak's proposal to develop Baltimore Penn Station and associated assets is a derivative of a broader plan called the Terminal Development Initiative, which Amtrak launched in Fiscal Year 2014. That initiative is a major effort to identify development opportunities in and around five key stations, including Penn Station in Baltimore, with the intent of optimizing the value of Amtrak's real estate assets. The other stations are New York Penn Station, Philadelphia 30<sup>th</sup> Street Station, Washington Union Station, and Chicago Union Station.

Amtrak conducted the initial planning phase of the Terminal Development Initiative using a contract team led by KPMG. In the initial phase, KPMG completed the following tasks: assessed the feasibility of different real estate development opportunities, determined the fair market value of each asset, and recommended strategies for moving forward. In March 2015, KPMG delivered its final analysis and recommendations. In May 2015, Amtrak executed a separate purchase order with KPMG to provide assistance in preparing a Request for Information (RFI) for the proposed master developer approach at Baltimore Penn Station.

The RFI will be used to gauge interest in the proposed development approach and to collect information about the capabilities of potential bidders. Ultimately, Amtrak plans to select a developer to produce a comprehensive master development plan for the station and surrounding land parcels. The selected developer would then implement all phases of the plan, including the design, construction, financing, and operation of all non-rail assets. Under a more traditional development approach, Amtrak would award separate contracts for each phase of the development effort such as preparing a master plan, designing the project, and completing construction.

## **RESPONSES TO YOUR QUESTIONS**

### **1. Is Amtrak ready to undertake this new procurement approach?**

We are skeptical of Amtrak's readiness to successfully undertake this master developer procurement approach. While others have employed this approach for development projects of this scope, it represents a new and untried approach for Amtrak. Even with a traditional procurement approach, we have repeatedly identified weak project management and contract oversight as significant governance challenges for Amtrak. Specifically, our reports have shown that Amtrak's weak management and oversight of contractor and internal workforce projects, particularly complex ones, has led to schedule slippages, cost overruns, and results that fell short of expectations.

As currently planned, the master developer approach will present Amtrak with a novel set of complexities and challenges, including the need to simultaneously oversee the master developer's efforts to leverage private investment funds, manage construction projects, and balance the interests of multiple stakeholders. This is where we believe Amtrak faces its greatest risk: ensuring that it has the capability and capacity to oversee all phases of what will likely be a complex public/private multi-year development and construction program. To manage its master development approach, Amtrak formed a new team within the Northeast Corridor Infrastructure and Investment Development business line. However, the team will be charged with overseeing similar initiatives at

two or more stations simultaneously, and is heavily dependent on contractor support to provide master development planning expertise.

**2. Does Amtrak have the capacity to successfully undertake this new procurement approach in a timely manner?**

For the reasons cited above, we are skeptical that Amtrak has the capacity to successfully manage and complete a master developer approach of this magnitude in a timely manner.

**3. Who at Amtrak will oversee KPMG to ensure the process proceeds according to schedule and does not become a boondoggle?**

As discussed above, Amtrak has formed a new team within the Northeast Corridor Infrastructure and Investment Development business line. With support from the procurement and law departments, the team has been managing the Terminal Development Initiative and associated development activities. Staff members from that team who are assigned to oversee the master development procurement approach for the redevelopment of Baltimore Penn Station have extensive experience in public planning, community planning, and commercial development; however, the team is heavily dependent on contractor support to provide master development planning expertise. With the exception of the team's senior manager, the other members have limited or no training in contract management oversight, such as training as a Contracting Officer's Representative.

Thank you for seeking our views on this issue, and we trust that the information in this letter is responsive to your request. If you have questions regarding our response, please contact me at (202) 906-4600.



Tom Howard  
Inspector General