

Memorandum

Date: October 23, 2008

To: Joe Farley

From: Tim Holcomb and John Oskoui

Subject: Construction Controls Group Contract Fee Increase

Background

In May of 2005, the district entered into a contract with Construction Controls Group, Inc. (CCG), to conduct an audit of the Measure Z program. The audit results were presented to the Board of Trustees in September of 2005. The very serious nature of the deficiencies noted in the audit and the necessary urgency to apply its recommendations led the district to immediately amend the contract with CCG to enact their proposed solutions. The implementation of the recommendations resulted in increasingly successful control of the program, and in some cases required district staff and CCG to augment the duties of the existing consultants and contractors due to their failures to adequately perform their duties. In one case, the district terminated the services of one of its construction management companies due to their failure to perform. CCG then added extra staff to complete the construction management of that company's assigned projects. By early 2007, district staff, with the assistance of CCG, had gotten the program under control and was finally able to develop reasonable plans for the completion of the remaining program tasks. As of June 30, 2007, the total cost of CCG's services was \$2,817,887.36. Based on the new program completion plan, the district entered into a new contract with CCG for program and project management services for the period of July 1, 2007, through the planned completion of the remainder of the Measure Z projects in June 30, 2009. The contract limited the cost of CCG's services to \$2.5 million which was the level of effort that was estimated at that time to complete the program tasks.

Analysis

During the course of the last year and a half, the level of effort required of CCG to assist the district staff in completing the Measure Z program has been greater than was originally estimated. The primary contributing factors for this increase in effort are:

- Vacancies in district staff positions and new projects that were not anticipated
- Litigious contractors which increased the level of claims avoidance activities
- Cleanup and closeout of the previous projects

An explanation of these factors is provided below.

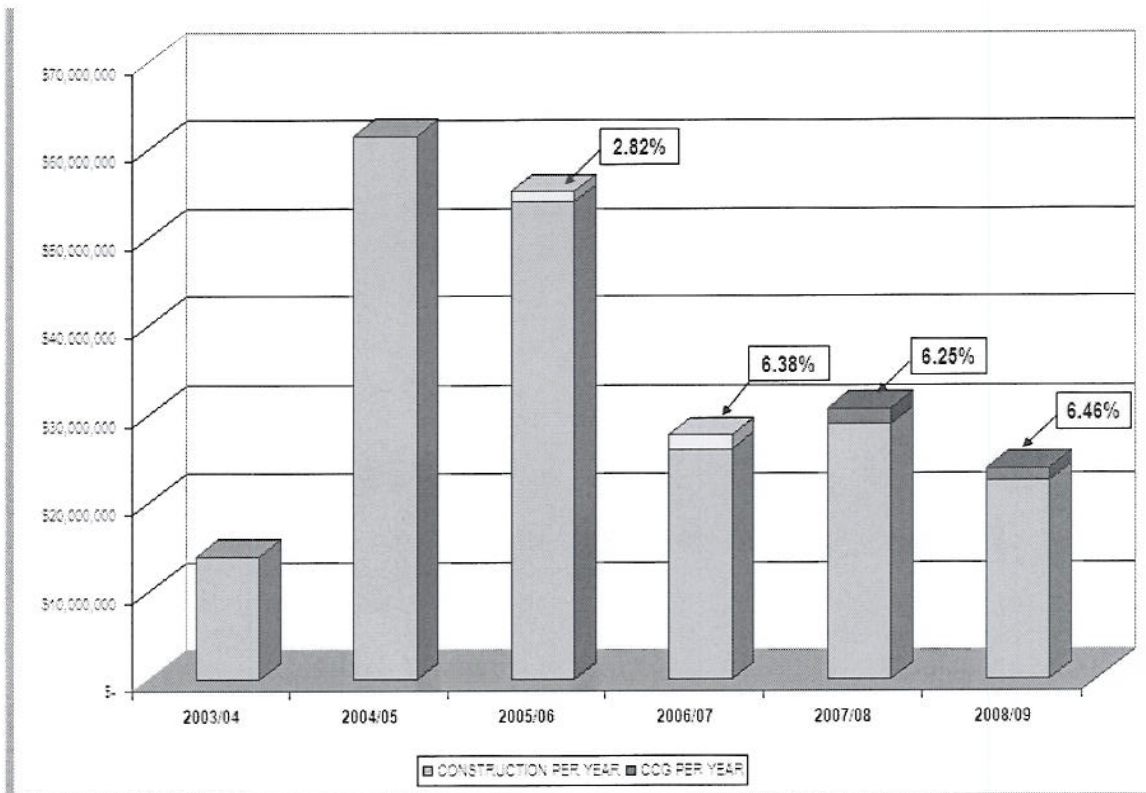
The resignation of Jim Harris, the assistant director of maintenance, created an opening that was not filled due to the state budget crisis. Therefore, the district's in-house project manager was assigned to take over the management of non-Measure Z projects that would have been managed by Mr. Harris. For example, a number of projects of this nature were completed this summer including, but not limited to, air conditioning at Orangeview Junior High School, site improvements at Ball Junior High School and the consolidation and relocation of the alternative and adult education programs. One of the largest impacts from an unanticipated project was the need to expedite the design and construction of 15 classrooms and a restroom facility at Anaheim High School to support the district's participation in the Quality Education Investment Act program. This project of approximately \$2.5 million was conceived, designed and constructed in less than one year as a result of district staff's and CCG's combined aggressive project management oversight. The added cost to have CCG staff manage additional projects has been approximately \$255,000.

The construction phase of the Anaheim High School Expansion and Katella High School Modernization projects began at the same time as the new CCG contract. Unfortunately, both of the contractors immediately began their claims strategy with delayed starts and claims oriented construction scheduling. The effort required to counter these claims strategies has required three times the level of schedule reviews and timely letter writing by CCG's scheduler than would normally be required. This added cost, of approximately \$170,000, has resulted in a nearly perfect, on-schedule completion of the projects and clear documentation to rebut any contractor claims for delay.

While the district and CCG team has been managing the completion of the remaining Measure Z projects, it has also been tying up the remaining loose ends of the previous projects. The effort to effectively complete this task has been greater than expected because of latent deficiencies in the projects that are only now becoming apparent. The biggest challenge has been to organize and make use of all of the thousands of documents, from the earlier projects of the program, that were left in various stages of disarray by former district staff, construction managers, and consultants. This has made it difficult to close out projects with the Division of the State Architect and with the Office of Public School Construction. The urgency and level of effort to complete this organization task has also been impacted by the necessity to comply with document production requests under litigation in the program as well as to support the district's positions in these cases and in prior claims. Fortunately, this effort has resulted in favorable resolution of all of the prior claims under the program except for the final two cases which remain unresolved at this time. As could be expected, this effort was, and is, the most difficult to estimate. The added cost to have CCG staff assist with the close out of Measure Z projects has been approximately \$425,000.

Conclusion

Due to the factors noted above, the cost to maintain sufficient staff to handle the workload of the program and other assigned projects has been greater than was anticipated when the contract was established in June 2007. Yet, as the chart below illustrates, the cost of CCG's program and project management services in relation to the cost of construction has remained low. As a point of reference, the industry norms for project management and program management are six percent and two percent respectively.



District staff has directed CCG to realize every possible opportunity to save construction dollars and to make note of instances where CCG's services have led to savings that might otherwise have not be realized. In many cases, CCG has saved the district significant sums by validating and rejecting improper charges against the district. CCG's calculation of the total savings and avoided costs that their staff has provided to the district exceeds the costs of their services.

CCG's services have been instrumental in the successful implementation of the district's construction program over the course of the last two years. It is imperative that we continue to receive the needed program and project management support services to successfully close out the prior projects, the major projects currently under construction, and the other remaining projects.

Recommendation

Staff respectfully requests that the Board of Trustees approve amending the contract with Construction Controls Group, Inc., by adding \$850,000 to the contract cost. The additional contract amount will be funded through Measure "Z" funds or other related funds as appropriate to the projects being managed.