Memo

To: Larry Eisenberg
From: Lloyd Silberstein
Date: November 12, 2010
Copy: Chancellor LaVista, Deputy Chancellor Barrera, President Joyce, General Counsel Goulet, John Harmer

Subject: West LA College Bond Program Budget Management

After recent conversations with a number of individuals from the College, CPM and District following issuance of your memo of October 25, 2010 on this subject, it seemed appropriate to expand on two areas in particular:

I. Procedural and managerial steps taken to avoid this situation in the future
II. WLAC Budget Recovery Plan and Status

Before addressing the two items though, it is important for those who read your memo, mine and other reports on this subject that the WLAC budget problem was unique to WLAC. No other College or area of the Bond Program has experienced anything approaching that extent. Perhaps more importantly, it should be noted that the necessary corrective action was taken at WLAC before it became impossible to recover and as discussed below, is now well under control.

I. Procedural and managerial steps taken to avoid this situation in the future

A basic axiom of construction as in many other fields is that there are never enough funds to do all that is desired. Consequently, staying within budget is a constant challenge, particularly with as many diverse user requirements and unknowns as involved on a Program as massive as LACCD. The longer and larger the budget problem the more difficult it becomes to resolve and of course that became the case at WLAC. The level of frustration it caused understandably resulted in a desire to know what happened and how to avoid a similar situation in the future.

While many of the key WLAC individuals are no longer on the Program and none of those preparing memos or reports on this topic were directly involved with the day-to-day activities that resulted in the budget situation, the primary causes pointed out in your memo appear evident and are expanded upon below.

1. The path towards a budget overage began in mid 2006 with an initial $32.5 million land acquisition for construction of a second entrance that was required by the Environmental Impact Report (EIR) after the College had already allocated all of its $413 million funds to various projects. Three years later with the road construction complete and land acquisition settlement nearing completion, the total amount involved has grown to $68.6 million. Although the College was a long way from exceeding its total budget allocation in mid 2006, the fundamental issue of dealing with unplanned expenses and whether the funds would come from the sale of property, the reallocation of funds from other projects making up its total budget, or some combination of both should have been addressed then. That is the process in place Program-wide and practiced for the most part quite successfully. Further, while there will likely be significant funds from the sale of excess land, the timing of when those funds could possibly become available was not taken into account. In hindsight, it also seems that Measure J offered the perfect opportunity to address the originally unbudgeted new entrance for the College.
**Key actions taken:** A check and balance procedure has been introduced at the Program level to verify that sufficient funds exist to complete all work on the College Project List before individual construction or design/build contracts are processed for award. In addition, regular formal cost and schedule reviews are now being conducted between the Program Manager and CPMs in an effort to identify potential problems and assist in resolving long before they can become problems. This program-wide change was introduced in early 2010 and in fact served to identify the extent of the budget problem at WLAC and caused corrective action to be taken.

To put the situation in better perspective it may be helpful to understand that the Bond management went through a decentralization process that took place with the introduction of a new Program Management firm in mid 2007. That decentralization empowered the CPMs and Colleges in many ways and changed the reporting structure. From then on, the CPMs directly reported to the College Presidents instead of through the Program Manager and Executive Director of Facilities Planning and Development. The Colleges took on full responsibility for remaining within their total budget allocations and were given the choice of utilizing the Program Management office to help issue and evaluate bid results for each new construction contract. WLAC was the only College to decline that assistance.

Those attending or who subsequently read the August 25, 2010 Bond Program Management Organization Roles & Responsibilities presentation to the Board of Trustees Committee of the Whole are familiar with the dramatic change that organizational change produced. To date, almost two and one-half times as much work has been completed in less than half the time at almost half the cost. While that decentralization has been an overwhelming success, refinements such as the Program level budget check will continue to be introduced as needed and as the Program moves into later stages.

2. **The potential to exceed total budget allocation continued to grow with design changes, increases in scope and selection of furniture and equipment well in excess of amounts budgeted for a number of projects.** The Technology Learning Center, Science and Math, General Classroom Building, and the Watson Center in particular experienced increases that should have resulted in corresponding decreases or elimination of other project budgets before those changes were allowed to proceed. Despite the fact that the design changes are adopted and approved by the College and the various building user groups, the CPM has responsibility for tracking and reporting on the effects those decisions have on cost and schedule. While it was understood that costs were continuing to grow beyond what the budget would permit, it does not appear that the CPM maintained sufficiently accurate forecasting and budget controls during much of this process and as a result, the College did not understand the full extent of the problem until the full picture was assembled by the Program Manager.

**Key actions taken:** The CPM performance issues were identified and written up in its formal evaluation that was subsequently reviewed with the Board of Trustees Infrastructure Committee. The report explained that an action plan had been agreed to by the District, College, Program Manager and CPM, implementing key staffing changes to Turner’s team including introduction of a new leader. The thinking being that maintaining continuity of management versus risking wholesale change particularly during a peak period of construction and start of a new academic year was the more prudent path. Further that if the staffing changes did not produce the necessary results that the decision to continue services with Turner would be revisited. After a series of interviews and screening by the Program Manager, several new CPM replacement candidates were presented and the new CPM
Director, Jim Walker, was subsequently approved by the College. The Program Manager worked closely with Turner and its new staff through a transition period and reorganization of the team, which continues through full resolution of the budget situation, which is discussed in more detail below. All indications are that the CPM team is now in much better condition to address the budget challenge as well as carry out the remaining work successfully.

II. WLAC Budget Recovery Plan and Status

Once the extent of the problem was defined and communicated, steps were immediately implemented to bring the budget situation under control. New College and CPM leadership combined to put a plan in place that first placed a hold on any Projects that had not begun construction while a detailed path forward was established through a participatory process. The College took control of that later process with its Building Program Management Committee and College Council and after a series of meetings determined which projects would proceed, be cancelled or substantially downsized.

The Program Manager worked closely with the CPM to establish the $70.5 million figure that had already been contracted above the available budget and the $128.3 million amount if all remaining work and furniture and equipment had been contracted to complete the Projects. The CPM provided the cost estimates and figures associated with the cancelation of Projects established by the College, which at present is anticipated to bring the full Project List back within the $413 million budget with approximately $21 million left to be allocated to other Projects.

The College has retained the services of a planning and design firm that is reviewing its existing Master Facilities Plan and how it may be affected as the result of the cancelation or downsizing of Projects. In addition, that firm is working with the College and various user groups to develop more detailed design programming information necessary to define the extent and scope of the selected or downsized Projects the College has decided to proceed with. In a few months, once that design programming is complete, the CPM will prepare a second construction cost estimate to serve as another check that those selected Projects will remain within the $413 million overall budget. At that point the College will be fully back on course and it remains a matter of following through with normal established practices to complete design and verify that bids are within budget prior to award of any future contracts. The CPM is also working with the environmental consultant to verify there is no adverse impact from the downsizing or cancelation of Projects.

In the meantime, the Program Manager is working closely with the CPM and outside counsel to address revising or terminating the three major design/build contracts affected by the selection of which Projects would be cancelled or substantially downsized. That process will contribute to the secondary check estimate since the final cost will not be established until negotiations are complete.

The Program Manager is also evaluating the possibility of contributions from other centrally managed Bond fund resources such as the ADA, storm water and renewable energy.