CONSENT AGENDA

AGENDA ITEM 12.02
TO: Mayor and City Council

FROM: Laurie Montes, Deputy City Manager

SUBJECT: MOTION AUTHORIZING A CHANGE ORDER FOR THE PROFESSIONAL SERVICES CONTRACT FOR AB 506 PROJECT MANAGEMENT WITH MANAGEMENT PARTNERS, INC.

RECOMMENDATION

It is recommended that by motion action the City Council authorize a change order with Management Partners, Inc. to increase the project management and technical assistance contract for the Assembly Bill 506 (AB 506) mediation process in the amount of $300,000.

Summary

On February 28, 2012, the City Council authorized the City Manager to initiate the AB 506 neutral evaluation process and authorized a contract with Management Partners to provide the project management and technical assistance for this process. The contract authorization included an initial funding amount that would allow for the work to begin immediately and provide a significant portion of the costs for the contract with the understanding that staff would need to complete a more accurate assessment of the costs for supporting AB 506 after gaining more experience with an untested process. Staff has now completed that updated assessment of costs to support the AB 506 process and recommends a contract change order in the amount of $300,000. The primary reasons for this increase include: 1) a new complex AB 506 process that no other agency has gone through to guide our expenditure estimates; 2) the modestly staffed Finance Department has been focused on budget development, closing the books and dealing with audits, thus Management Partners had to fill the gaps and 3) Management Partners is assuming some duties that originally were going to be done by more expensive attorneys. Thus we are saving money in other categories.

DISCUSSION

Background

On February 28, 2012, the City Council authorized the City Manager to initiate the AB 506 neutral evaluation process and authorized a contract with Management Partners to provide the project management and technical assistance for this process. Given the financial condition of the City and recommendations in the financial condition assessment performed by Management Partners, the City Council determined that the most prudent course of action was to immediately initiate the financial
restructuring mediation process outlined in AB 506. However, the City lacked the resources to manage the project and provide technical assistance in preparing for and conducting mediations. The most effective way of obtaining the expertise and resources for this project was to contract for these services with Management Partners.

Staff originally anticipated that the technical assistance and project management costs for the AB 506 process would exceed the initial contract amount of $175,000. The City of Stockton was one of two cities to be the first to initiate the AB 506 process. With an untested process, it was difficult to determine up front the precise costs for technical assistance and project management. Therefore, to avoid delay and immediately begin preparations for the process, the initial contract was approved on February 28 with the intent of tracking the costs through the initial preparations in order to create a more accurate estimate of the project costs throughout the neutral evaluation.

Present Situation

The neutral evaluation process is currently underway. During the month of March, Management Partners and city staff compiled a tremendous amount of financial information and prepared it to share with interested parties in the process. In addition, the interested parties were engaged and a neutral evaluator (mediator) was selected. In the month of April, additional financial and background information was prepared by Management Partners and staff and mediation sessions were initiated. After two months of preparing for and initiating the AB 506 process, staff has completed a more updated assessment of the costs necessary to support the AB 506 process.

Even though both the City and Management Partners forecasted a tremendous workload to prepare for the AB 506 process, the demand for technical assistance in preparing background and financial information has been even greater than anticipated. City staff, in consultation with Management Partners originally anticipated that costs for providing technical assistance and project management for the AB 506 process could range anywhere from $175,000 to $250,000. After experiencing the preparations for the process over the past two months, we now anticipate that the costs could be nearly $500,000. The resources that have been necessary to date have resulted in expenditures of approximately $100,000 per month. This more accurate forecast of costs reflects a greater demand on Management Partners in providing technical assistance. The aggressive timeline to initiate and manage the mediation process will require significant resources from Management Partners, but these resources have remained roughly consistent with our original estimates. The demand for technical assistance however, has been
greater than anticipated due to the complexity and depth of information necessary for the process. In addition to preparing financial information, Management Partners has provided resources to develop background information and reports on the numerous City projects, facilities and assets (garages, 400 E. Main, etc.) Management Partners has provided an incredible amount of financial and background information in a very short period of time. Their work is of high quality and professionalism, the demand has simply been greater than anticipated on a project for which it was very difficult to create precise estimates in advance. For this reason, the City set aside funds with some project contingency for outside resources to assist with the AB 506 process and expected to complete a more accurate assessment of the costs after gaining more experience with the process.

The expertise and professionalism of Management Partners has been invaluable in the preparation of information for the AB 506 process. The City of Stockton still requires this expertise and the additional resources that Management Partners can provide to manage the project. During the last 2 years the City has experienced significant turnover and reductions in management and support positions in financial and other internal service functions of the City that are needed to support this project. The City has made interim appointments and taken some actions to build our internal capacity in the past two months. Additional planning is underway to identify staff that can coordinate with Management Partners to provide a limited increase in City resources which will alleviate some of the demand on Management Partners. However, the City still does not have the resources or expertise to complete this project within the desired timeline without the assistance of significant outside resources. As you know, Finance is currently closing the books, facilitating the annual audit, developing the FY 2012-13 Budget and now preparing for the State Controller audit. Their ability to support the AB 506 process has been impaired and Management Partners has filled in to maintain this complex process.

While the AB 506 process is confidential, we can say that approximately 90 individuals are reviewing our data and generating questions about our financial status. These people generate questions that deserve responses. In some way, the level of engagement of these “interested parties” is an indicator of how serious people are taking the AB 506 process. We believe this is one indication of success, so far. Unfortunately, that translates into costs in the Management Partners contract. It is also important to put these costs into perspective. While this extra $300,000 is a large amount, what is in play at the AB 506 negotiating table approaches $1,000,000,000 in expenditure commitments.

We are also using Management Partners to complete certain tasks that we originally expected from outside legal counsel. Using Management Partners saves money for the overall project because of the lower billable rates.
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The additional $300,000 contract change order (Attachment A) that is being recommended to Council will allow for this contract to continue through the neutral evaluation process with the intent on completion prior to July 1, 2012.

However, it should be noted that there are several factors that may impact the costs and timeline for completing the AB 506 process. While the City now has a better understanding of the information necessary for the AB 506 process and has initiated the mediation process, the neutral evaluation remains an untested process. No municipality has followed the process to completion and the City cannot guarantee the outcome of the mediation process. Likewise, the City cannot anticipate every request for information that may arise throughout the mediation process. In addition, there are uncertainties and interpretations of the existing AB 506 legislation that may impact the project and its implementation timeline. Furthermore, new attempts to change the law governing the neutral evaluation process have been initiated in the State Legislature, creating additional uncertainty, distraction from the AB 506 process and increased demand on the City’s resources. Any of these factors have the potential to increase the timeline or the costs of providing technical assistance and project management for the AB 506 process.

FINANCIAL SUMMARY

Sufficient funds for this contract are included in the set aside for the AB 506 process in account number 010-0139-510.

Respectfully submitted,

[Signature]

LAURIE MONTES
DEPUTY CITY MANAGER

LM:cc

Attachment A – Contract Change Order No. 1 for Professional Services with Management Partners, Inc.
CITY OF STOCKTON

Contract Change Order No. 1

AB 506 Project Management and Technical Assistance

Original Contract Price $175,000
CCO No. 1 $300,000
Revised Contract Price $475,000

TO: Management Partner, Inc. (Contractor). You are hereby directed to make the herein described changes from the plans and specifications or do the following described work not included in the plans and specifications of this contract.

Management Partners has been providing technical assistance and project management for the AB 506 neutral evaluation process. There is no change in scope for these services. This change order provides additional funding based on a greater demand for technical assistance required for the AB 506 process.

The additional compensation, if any, included in this change order constitutes full compensation, including all mark ups, profits, surcharges, taxes and overhead costs, for the change in work as specified.

We, the undersigned contractor, have given careful consideration to the change proposed and hereby agree, if this proposal is approved that we will provide all equipment, furnish all materials, except as may otherwise be noted above, and perform all services necessary for the work above specified, and will accept as full payment therefore the prices shown above.

By reason of this proposed change, 0 days extension of time will be allowed.

Accepted Date

Management Partner, Inc. (Contractor)

By

Title

Note: This change order is not effective until approved by the City Manager or if under Council approved limits, Department Director.

Date: May 8, 2012

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Purchase Order No.: Appropriation No(s):