



Review of Central Passenger Terminal Complex Cosmetic Upgrades Proposed Amendment #2

Department of Aviation

City Auditor's Office

Leslie Ward, City Auditor

Amanda Noble, Deputy City Auditor

Audit Team - Stephanie Jackson, Eric Palmer, Gerald Schaefer,
Jeremy Weber, and Dawn Williams

March 20, 2006



Audit Initiation

- The chair of the City Council's Transportation Committee requested this review of 06-R-0538, amendment 2 to the agreement for the Central Passenger Terminal Complex (CPTC) cosmetic upgrades, for \$17.2 million.
- At the March 1, 2006, committee meeting, the Department of Aviation (DOA) requested this additional funding to complete the cosmetic upgrades projects.
- The committee voted to hold the legislation and asked the city auditor to report on it at their next meeting.



Audit Objective

To identify factors that contributed to the projected cost increase for the cosmetic upgrades projects at the airport, to provide information for decision-makers to use in assessing whether the costs are justified.



Audit Scope & Methods

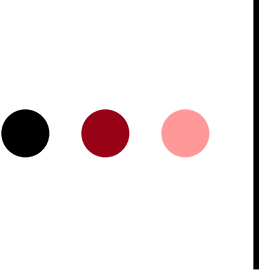
Audit Scope:

- Scope includes proposed upgrades for:
 - Concourses A, B, C, D, and T
 - Concourse T HVAC
 - Transportation Mall

Audit Methods:

- Interviewing senior construction managers, project managers, members of the project controls group, and budget controls staff.
- Compiling a timeline of events and decisions to assess potential alternative explanations for the projected cost increases.
- Reviewing project budgets, estimates, and expenditures.

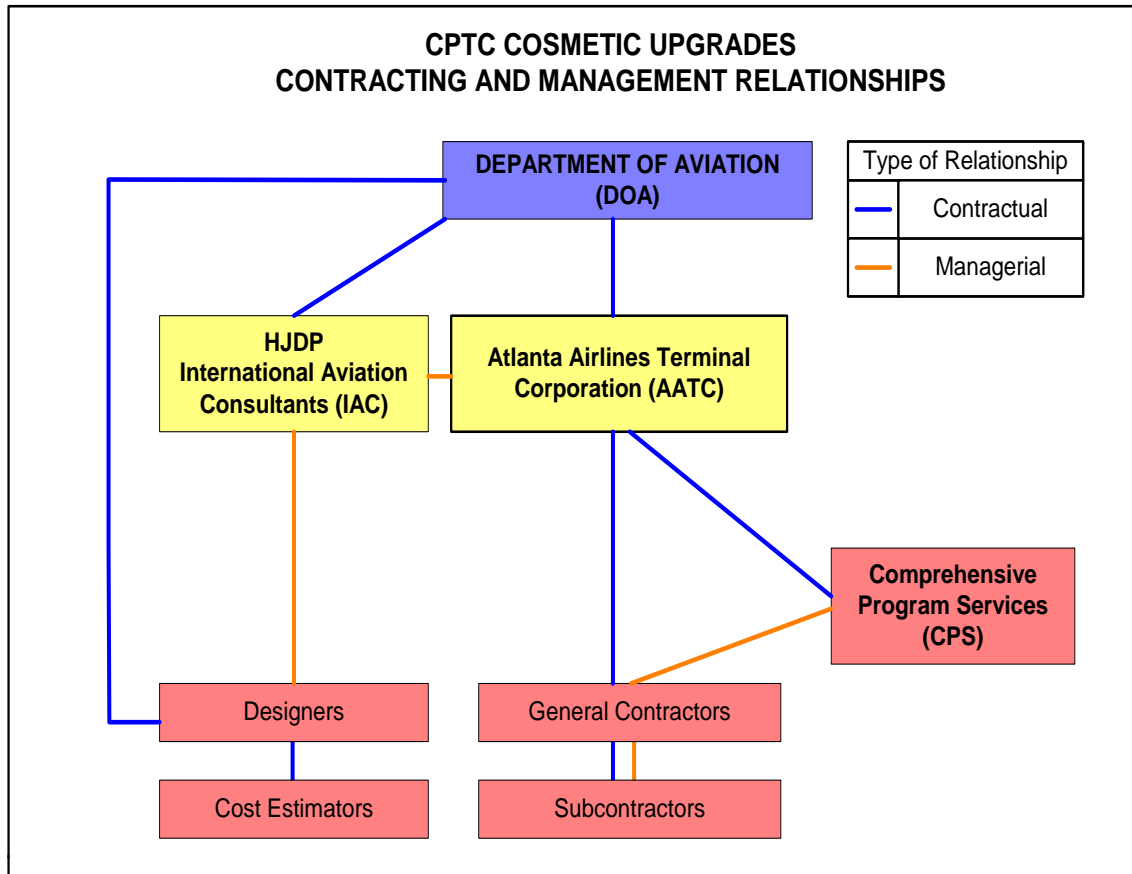
This audit was conducted in accordance with generally accepted government auditing standards except for completion of an external peer review. Our review is planned for later this year.



City Agreement with Atlanta Airlines Terminal Complex (AATC)

- The city entered into a reimbursable agreement with AATC for construction management services for the CPTC cosmetic upgrades projects.
- Under the agreement, AATC is reimbursed for project costs plus a 4% management fee, up to the maximum amount of the agreement.
- The City retains approval of key decisions, including selection of the general contractors and all change orders.

Overview of Relationships



- **DOA** – Contracts with AATC, IAC, and designers; plans projects; approves design
- **AATC** – Procures general contractors; construction management
- **IAC** – Program and project management
- **CPS** – Subcontracted for construction management

Source: Program documentation and interviews with H-JDP program staff



History of Legislation

June 20, 2005	City Council adopted resolution 05-R-1047 authorizing the execution of an agreement with AATC for the Central Passenger Terminal Complex (CPTC) Cosmetic Upgrades: <u>\$32,887,325.</u>
November 21, 2005	City Council adopted resolution 05-R-1086 (Amendment 1), which authorized the scope expansion of construction and construction management to include restroom expansions on concourses A, B, and C, upgrades to the airline hold room finishes on all concourses and installation of new floor tile in the Transportation Mall stations: <u>\$11,443,713.</u>
March 1, 2006	Transportation Committee held 06-R-0538 (Amendment 2), which requests additional funds be made available to cover the projected costs of CPTC Cosmetic Upgrades: <u>\$17,227,960.</u>



Conclusion

Several factors have contributed to the request for additional funding for this project:

- Problems with the estimating process and its timing,
- Limited competition in the procurement process, and
- Escalating construction costs.

The effect of the gulf coast hurricanes on costs and market conditions likely worsened the impact of these factors.



Previous Funding Requests Were Based on Preliminary Estimates

Because the estimates were preliminary, they did not provide a firm basis for the project budgets and scope.

- The primary document used to prepare the \$32 million legislative request was a planning document completed in February 2005.
- The \$32 million legislative request was made before the final schematic design estimates were completed for 4 projects.
- The \$11 million requested in Amendment 1 for expanded scope was based on preliminary estimates.



Scope Was Expanded During Estimating Process

This created difficulty in gauging the reliability of the estimates and the reasonableness of the funding that was in place.

- When the H-JDP executive committee expanded the scope of the CPTC Cosmetic Upgrades projects in August 2005, schematic design and construction estimates were still being prepared by design contractors and reviewed by H-JDP staff.
- Scope changes added delays and made it difficult to compare earlier estimates to later ones.
 - For three projects, the final construction estimates were not received until after RFPs were issued.
 - For one project, the final construction estimate came in after bids were submitted.

Timeline for Cosmetic Upgrade Projects

Reimbursable Agreement Timeline	Planning Completed	Final Schematic Estimate Received	Final Construction Estimate Received	RFP Issued	Bids Received	NTP Issued
Feb-05	T A B C D					
Mar-05						
Apr-05		A B				
May-05						
Jun-05	Resolution Approved					
Jul-05		D				
Aug-05		C T THVAC	THVAC	THVAC		
Sep-05	Agreement Signed & Amendment 1 Prepared			TM		
Oct-05			D TM		TM THVAC	
Nov-05	Amendment 1 Approved		C T	A B D		
Dec-05			A B			
Jan-06					A B D	THVAC
Feb-06				C		A B D
Mar-06	Amendment 2 Presented to Council				C	

Legend	
Cosmetic Upgrade Projects	
T	Concourse T
A	Concourse A
B	Concourse B
C	Concourse C
D	Concourse D
THVAC	Concourse T HVAC
TM	Transportation Mall
Acronyms	
RFP	Request for Proposal
NTP	Notice to Proceed

Source: Program documentation, and dates of legislation.



Problems With Project Estimates

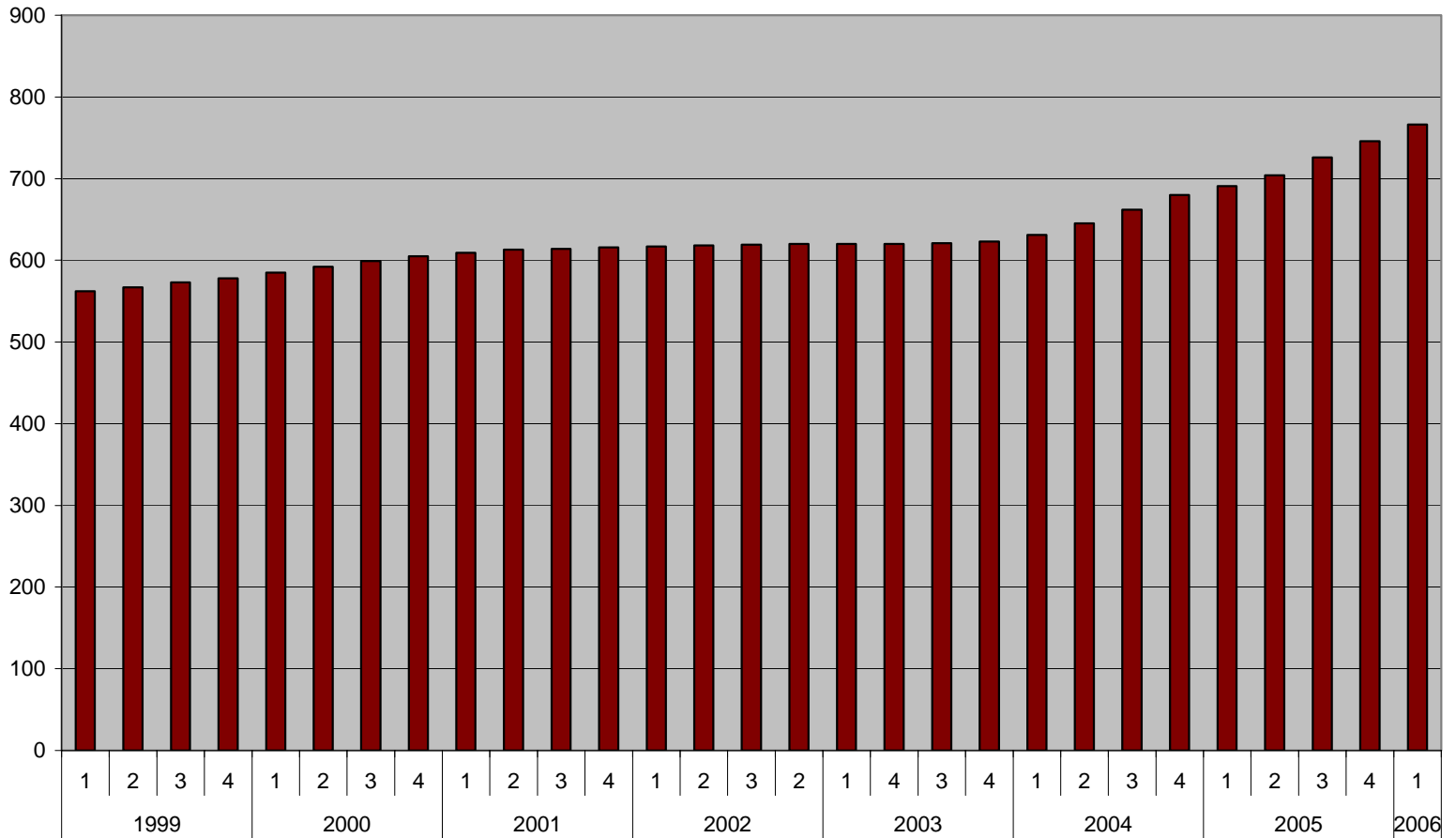
- H-JDP program managers said they lacked confidence in the quality of the estimates for the cosmetic upgrades.
- H-JDP estimate reviewers said that they agreed with the estimates more often than not. However, they required revisions to several estimates that did not meet program requirements.
- Construction estimates were revised by H-JDP program managers to re-allocate some project components.
- H-JDP officials said estimators may have underestimated the costs of working at the airport.



Project Timeline Extended While Costs Were Rising

- Cosmetic upgrades completion target has moved from May 2006 to December 2007. H-JDP program managers said their original completion date was unrealistic.
- Deadlines for estimates were not always met, in part because several revisions to the schematic and construction estimates were requested.
- Scope expansions also lengthened project completion time.
- As the schematic design estimates were being delayed, construction costs were increasing steadily.

Turner Construction Cost Index



Source: <http://www.turnerconstruction.com>



AATC Procurement Limited Competition

Opening up the pre-qualification process through advertising may increase the number of eligible bidders, increase competition, and result in lower project costs.

- AATC solicits construction work from a list of pre-qualified general contractors. We agree that pre-qualifying bidders is advantageous for large and complex projects. However, AATC developed its list without an advertised request for qualification (RFQ).
- Of the six pre-qualified bidders, only two to three general contractors have bid on the cosmetic upgrades projects. A limited number of bidders will likely lead to higher costs.
- H-JDP officials said general contractors are declining to bid on airport projects because more profitable work is available elsewhere, especially since the hurricanes.



Potential for Future Cost Increases – Risks and Controls

- H-JDP projected funding increases for unbid projects at 40%, including 5% for contingency. AATC now has bids on all but one project, and they are in line with the \$17.2 million funding request.
- The city's agreement with AATC is "cost plus" with guaranteed maximum price. This contract has no specific language for controlling overcharges. AATC's relationships with DOA and the airlines, and required approvals from DOA, are mitigating controls.
- H-JDP records show completion of ten projects with AATC, all within budget.
- Funding for the cosmetic upgrades, including the requested \$17.2 million, is in the 2006 capital budget.
- \$3.4 million has been invoiced to date, most of it for tile and other materials.



Proposed Legislation Included Funding for Two Agreements

The legislation should reference both agreements.

- \$1.26 million of the \$17 million requested in Amendment 2 is covered under a separate AATC agreement.
- \$563,117 of the \$11 million in Amendment 1 scope also was part of the other agreement.