

Audits



ALVAREZ & MARSAL

City of Aspen
Real Estate Development Process Improvement

Findings and Recommendations



Project Approach and Scope

The City of Aspen retained Alvarez & Marsal Real Estate Advisory Services to audit its real estate development process. The scope of our audit encompassed overall development program administration including, but not limited to, defining program requirements, soliciting bids and contracting, and managing scope, schedule and budget. While A&M reviewed development program budgets, our budgeting focus was limited to the policies, procedures, and controls in place to mitigate common construction risk.

A&M professionals interviewed over 20 individuals representing current and former employees, consultants, contractors, City task forces, and concerned citizens. We maintained an “open door” policy and invited all stakeholders to follow-up with us individually with additional concerns. We held discussions with representatives from various City departments including procurement, accounting, and finance, Office of the Mayor, Office of the City Manager, Asset Management, and the City Council. At the conclusion of our fieldwork, A&M benchmarked our findings against other owners / developers of real estate, as well as our experiences assisting other clients with diverse real estate and business process improvement initiatives.

Interview subject matter focused on the major sections defined in our professional services agreement, including:

- Project Management;
- Procurement and Contract Development;
- Scope Management;
- Schedule Management;
- Cost Management; and
- Risk Management.

While not specifically, defined within our scope of services, A&M also made observations related to development program documentation.

At the conclusion of our interviews, and after reviewing project documentation provided by the City Manager’s office, A&M developed this report detailing findings, issues, and recommendations designed to position the City of Aspen to undertake future development projects. Our recommendations are based upon our understanding of real estate development, similar services provided to other A&M clients, research, and leading practices within real estate accounting and development.

In consideration of the City’s long range objectives, A&M also estimated general resource requirements necessary to implement recommended changes and improvements to the development process.



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“Our analysis identified no significant deficiencies in project oversight or delivery; nor did A&M find any intentional misrepresentation of costs . . . “

“While we do not believe our recommendations would have had a material impact on the overall cost of Burlingame Ranch Phase I, they may have mitigated project related miscommunications and improved overall stakeholder understanding of the broader Burlingame development.”

Business Process Improvement

- ▲ Establish Development function as a stand alone department
- ▲ Redeploy existing experienced asset managers to oversee Development function
- ▲ Leverage 3rd Party service providers such as construction Program Managers to augment existing staff and facilitate real estate development
- ▲ Establish standardized policies, procedures, tools, and templates
- ▲ Select / Implement construction management technology and reporting tools
- ▲ Leverage technology to create life-to-date / year-over-year reporting of construction cost
- ▲ Develop a clear and comprehensive communication plan

GMP Contract Benchmark

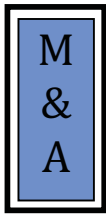
- ▲ Aggregate major clauses, terms and conditions
- ▲ Create detailed progress reporting requirements including content, time, frequency and location of status meetings
- ▲ Establish specific contractor accountability dates and milestones
- ▲ Require owner approval for replacement of key resources

Development Model & Options (Burlingame Phase I & Recommendations)

- ▲ GMP / Developer Model accomplished City’s objectives
 - Limited number of change orders and cost variances were minimal
 - With the exception of owner directed changes and unforeseen conditions, change orders appear to be within a tolerable range
 - City shifted risk of errors and omissions to Shaw construction
- ▲ Moving forward A&M recommends Construction Manager as Agent Model. Advantages include
 - Improved Oversight & Contractor Accountability
 - City Retains Design Rights
 - Reduced Risk & Cost
 - Improved Communication

Burlingame Ranch Brochure

- ▲ Brochure produced under the direction of former Assistant City Manager and was intended to communicate the cost of the Shaw / Poss / DHM scope of work only (design and construction)
- ▲ Brochure data was reviewed but lacked rigorous scrutiny that may have revealed errors or omissions in the data
- ▲ No evidence of intentional misrepresentation by current or former City of Aspen employees



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RESULTS OF INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

PROCEDURE RESULTS:

- 1) Verify Burlingame Ranch Phase I cost and revenue numbers as prepared by the City of Aspen on their *Burlingame Ranch Project Reconciliation* prepared May 13, 2008.
 - *The Burlingame cost and revenue numbers as prepared by the City of Aspen are accurate and can be relied upon for project analysis and decision making.*

- 2) Trace a sample of payments to review payments made to the general contractor (Shaw Construction).
 - *The project costs were properly documented, reviewed, and approved by City staff and appropriately relate to the Burlingame project's construction contract.*

- 3) Interview staff and provide recommendations for improvements to the City's internal construction management process.
 - *Improvements were recommended in the City's construction management process that included:*
 - i) *Adopt a more formalized process for preparing voter information in anticipation of future ballot questions.*
 - ii) *Utilize integrated project management software.*
 - iii) *Create a construction management team for all projects exceeding a specified amount.*
 - iv) *Specify a required construction management structure based upon the anticipated scope of a project.*