

Cost Overruns!

Should I Keep My Mouth Shut?

Loganville's 9th Street fire station renovation was on schedule, and all systems seemed to be positive for the project and its budget. In fact, it was ahead of schedule and nearing completion. Construction work was up to standard, and inspections showed that the work met code. The manager was pleased with the construction company's work and was also relieved because the contractor hadn't completed work for the city before.

The manager had approved a construction contract of \$850,000, which the manager was entitled by ordinance to do, and the manager wasn't aware of any follow-up paperwork from the contractor indicating changes in the project's budget. Throughout the project, the manager had reported to a somewhat contentious council—a council that didn't originally agree the station renovation was needed—that the project was on budget and possibly could wrap up *under* budget.

Near the end of the job, however, the manager received the final invoice for the project cost from the construction company. It stated that the cost of the job totaled \$1.1 million, or \$350,000 above and beyond the expected cost. The contractor explained the overage by listing increases for steel and cement as well as higher bills for electrical and plumbing subcontractors. This \$350,000 was an additional dollar amount that the manager couldn't approve without first getting council approval. It also was a figure that the manager had assured councilmembers they wouldn't have to face or explain to their constituents.

The manager wonders how to break news to the council and the public that could cause financial implications for the city as well as damage the manager's personal credibility.



How should the manager best tell councilmembers about the cost overruns (or, for that matter, any budget discrepancy)? Four practitioners offer their advice on the best way to deliver the bad news.

The most important thing to remember in this type of predicament is to disclose everything as soon as the discrepancy is discovered. Full disclosure by the manager on the front end will acknowledge that, although a mistake was indeed made, the manager is confronting the issue and acknowledging earlier misinformation. If a cover-up of a miscalculation of this magnitude is ever discovered, a manager's credibility with the council and the public could be damaged irreversibly.

The first step should be to contact in person each and every member of the council to explain the events and the exact point the miscalculation and breakdown occurred. At the next council meeting, the matter should be made public during a discussion of the specific reasons for the cost overrun.

After the public disclosure, the manager also should announce the development and implementation of a systematic policy for dealing with bid processes, construction deadlines, and cost overruns. Being able to call on a fire captain at the council meeting to explain why the repairs were necessary and state that, although the project was over budget, the staff is extremely grateful would greatly improve public relations.

Little Rock's contracts are all lump-sum contracts, which means that the agreed price for the services rendered in a bid process is the amount that the city is responsible for. As city manager, I have the authority to go above that amount, within limits specified by city ordinance, but without preapproved change orders and council approval for that much overage the contractor would have to absorb the cost.

—Bruce Moore
City Manager
Little Rock, Arkansas
citymanager@littlerock.org

When dealing with the unexpected, and cost overruns in particular, I think it is important for the city manager to get all the facts. This allows the problem to be put in a better perspective, and the manager can begin formulating a plan to deal with the issue. Getting the facts includes learning all project costs, all project expenditures, and all sources of funds used to pay for the project.

I would visit with all the people involved, including the architects and engineers, project inspectors, city financial advisers, and city staff. I would want to learn why this happened and when it went wrong. A majority of the people I would be talking to probably have had experience with these types of problems in the past and might have ideas or suggestions about how to fix or deal with this predicament.

This needs to be done quickly, before the rumor mill does its work. It is not good if elected officials find out about it before the manager has discussed it with them. The manager needs to tell them honestly about the existence of the problem and that they will be briefed as soon as all information is gathered together.

As soon as the facts, figures, and some recommendations for solutions are put together, the manager should go to the city council and brief them as fully as possible. This includes stating what went wrong and when and how the current problem will be dealt with. When briefing the council, the manager should not engage in excessive finger pointing or dwell on who may have caused the problem. Ultimately, the manager is the responsible party and must accept that burden. The manager should suggest practices and processes (checks and balances) that will be put into place to avoid such problems in the future.

Acting honestly, in a timely manner, and with full disclosure is the only way to maintain credibility with elected officials and residents. It allows the manager to move ahead and concentrate on a solution. I long ago gave up trying to be perfect be-

cause that bar is just too high. Now I can live with making mistakes once in a while (it demonstrates I am only human), but I do not ever want to be thought of as deceitful or dishonest.

—Kent Hixson, ICMA-CM
City Administrator
Mulvane, Kansas
khixson@mulvanekansas.com

In haste to complete this project, the city manager went way out on a limb that is now breaking.

Because of the manager's assurances to the council that the price would not exceed budget and the manager's failure to seek before-the-fact advice from the city attorney, this manager is on dangerous ground. The worst thing now would be to try to cover up the overruns. Also, the city attorney has an ethical requirement to report these kinds of issues to the council.

The manager first needs to address this problem in a straightforward manner in written and verbal reports to council and also:

- Stand up and take responsibility.
- Give the council the detailed as-bid contract as well as a final cost breakdown, item by item.
- Provide objective, third-party evidence showing the cost increases for steel, concrete, and copper.
- Negotiate the price down from \$1.1 million to at least \$997,500 and show how that was accomplished.
- Recommend that council accept the \$997,500 final cost or give the council the option to fight it in court.
- Inform the council of new procedures the manager will use on all future projects to keep this from happening again:
 - A standard fixed-price-contract form the city attorney can use with contracts that are less than \$1 million.
 - Special training in project management for the city manager and other key staff.
 - New standard construction project draw request forms for use in securing interim payments.

Are **YOU** interested
in applying your local government
management skills in an
international environment?



If **YES**,
then the **ICMA Academy for
International Development**
is for you!

For more information visit:
icma.org/international-academy
or, contact: Andrew Haugen
ahaugen@icma.org or 202-962-3527

ICMA
INTERNATIONAL

– More timely reporting to the city council.

Just in case, the manager should also consider a résumé update and a reduction in personal spending.

—Mike Bestor
City Manager
Golden, Colorado
mbestor@ci.golden.co.us

I have had several incidents over the years when I have had to give the council bad news. As difficult as it is, it is far better to bite the bullet and disclose the problem than it is to try to hide it. It is also important to try to frame the public disclosure so that the positive aspects are emphasized and the situation doesn't play out as all gloom and doom.

If a situation such as you describe occurred in my current city, the manager would be in real trouble because no overexpenditure on construction projects is allowed without a change order being approved by the council. In this scenario we have not only the problem of a cost overrun and the manager's assurance that there wouldn't be one but also the more serious problem of city purchasing rules being violated. In this case, at the least, the manager's competence and attention to duty would certainly have to be called into question.

—John Pick, ICMA-CM
City Administrator
Salisbury, Maryland
jpick@ci.salisbury.md.us

Are YOU exercising effective public leadership?

Please visit us at ICMA's 92nd Annual Conference in San Antonio, Texas from September 10 -13 at booth 357.

You should consider applying for the *Program for Senior Executives in State and Local Government* at Harvard's John F. Kennedy School of Government.

In just three weeks, participants learn creative approaches to managing the real-world challenges of government. In 2007, the program is offered from June 10-29 and July 8-27.

For more information or to apply online, visit our website at www.ksg.harvard.edu/execed/sl or call 617-496-0484 for an application packet.

John F. Kennedy School of Government Executive Education
Harvard

Senior Executives in State and Local Government
June 10 - 29, 2007 or July 8 - 27, 2007

