

# Supplement

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Response from  
Alvarez & Marsal Public Sector Services, LLC



June 19, 2013

Mr. Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
Office of the Louisiana Legislative Auditor  
1600 North Third Street  
PO Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

Your report on the Recovery School District's Modular Campus Construction Program issued on April 3, 2013, as well as material provided to you by the current RSD Superintendent, misstates a number of facts related to our work with the RSD in the wake of Hurricane Katrina. We respectfully request that you add this letter, along with the accompanying documents, to your report to clarify the misinformation, as you have allowed others mentioned in the report to do.

As numerous individuals, including former Orleans Parish School Board president Phyllis Landrieu, will attest, Alvarez & Marsal went above and beyond to help rebuild the New Orleans public school system during a period of unimaginable crisis and recovery.

A&M's contract with the RSD ended as planned and by mutual agreement; under no circumstances was the contract terminated early or for cause. Former State Legislative Auditor Grover Austin confirmed that our contractual responsibilities had been completed satisfactorily and former State Department of Education Superintendent, Paul Pastorek, praised our work on multiple occasions. In an October 16, 2007 email he said: "I would like to get together with you and Jim [Grady] to express my appreciation for the effort of Alvarez and Marsal. Let me know when you might be free." Similarly, on November 4, 2007, he wrote: "In spite of the challenges along the way, when I met with Bryan [Marsal] and your team and requested a keen focus on our mission, I got what I asked for and I am grateful."

Attached please find several documents that we would like added to your report. These documents clearly refute several inaccurate statements that have been made about our contract, our roles and responsibilities as well as our performance.

Respectfully yours,

William V. Roberti  
Managing Director  
CEO

Alvarez & Marsal Public Sector Services LLC

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June 17, 2013

Mr. Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
Office of the Louisiana Legislative Auditor  
1600 North Third Street  
P.O. Box 94397  
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera:

I am writing to clear up any misconceptions that may exist about the crucially important role Alvarez & Marsal played in rebuilding the New Orleans public school system in the wake of Hurricane Katrina.

What started prior to Katrina as an effort to turn around the operations of the school system, became a crisis management project of historic proportions after the hurricane. Our school district, which had already been on the brink of financial collapse, now faced a massive rebuilding effort - with \$450 million in debt, but only a fraction of the students and the revenues it had prior to the storm.

Alvarez & Marsal worked with the district to obtain federal assistance, in the form of a Community Disaster Loan and Community Development Block Grants, and state assistance, in the form of relief from unemployment insurance obligations and assistance with retiree health insurance benefits. On behalf of both the school board and the Recovery School District, A&M worked with FEMA and insurance companies, as well as with the construction and construction management firms repairing schools, as New Orleans moved toward recovery and our school system began serving children again.

During their time in New Orleans, I believe A&M played a crucially important role in the rebuilding of the school system. We were racing to reopen schools under the most challenging circumstances imaginable and we could not have done it without A&M.

Sincerely,



Phyllis Landrieu,  
Former President  
Orleans Parish School Board

cc Bill Roberti

Phyllis Landrieu  
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October 1, 2008

Paul G. Pastorek  
Superintendent of Education  
STATE OF LOUISIANA – DEPARTMENT OF EDUCATION  
1201 North Third Street  
5<sup>th</sup> Floor  
Baton Rouge, LA 70802

**RE: Contract between Louisiana Department of Education (“LDOE”) – Recovery School District (“RSD”) and Alvarez & Marsal Public Sector Services, LLC (“A&M”), as amended.**

Dear Paul:

It has been almost a year since A&M completed its work on the RSD contract. I know that the past three years have been a rather challenging period for the residents of Louisiana, but hopefully this difficult period has kindled the fires of hope for the children of Orleans Parish.

As you may recall, last October as we completed the last of the Modular campuses and commenced a winding down of our contract, I had sent you two letters outlining the significant cost overruns that A&M incurred in connection with completing this extraordinarily difficult contract.

Even though A&M experienced significant cost overruns, particularly related to out-of-scope services for work which was necessary but not originally contemplated under the scope of the agreement, including: environmental services, temporary contracted labor services, and temporary warehouse facility space, to ensure the timely and successful completion of the contract; each of these related subcontractors and vendors were paid in full by A&M.

In December 2007, Bryan Marsal and I had a meeting with you in New Orleans to discuss the successes and challenges of the previous 18 months. Generally, we agreed that with the passage of time, as well as the documentation and submittal of all incurred costs, there might be a mutually agreeable opportunity for A&M to recoup certain of its out-of-scope cost overruns.

I hope that you will agree that there had been a Herculean effort on A&M’s part to timely and efficiently satisfy the frequently changing situational demands affecting the successful completion of this contract. Further, there were many instances where A&M had been taken to task in connection with either its process or approach; while in the end successfully accomplishing tasks which most observers, including some of the most impartial critics, recognized as having been impossible give the compressed timeline. However, upon reflection, each of these impossible tasks were individually satisfied and an orderly transition had occurred.

Therefore, I would like you to consider the following background information which seeks to provide a chronology and prospective of the contract term as well as our proposal, more fully described below, which I believe provides the State with significant additional value as the RSD proceeds with its efforts to maximize its recovery of federal reimbursement in connection with eligible incurred costs. Perhaps unknown to you, during the summer of 2008, A&M personnel continued to provide valuable strategic assistance to the RSD staff as they sought to prepare documentation necessary to complete this process.

#### **Background- A&M-RSD Contract**

In April 2006, A&M and the RSD entered into a professional services contract (the "Contract"). Pursuant to the terms of the Contract, A&M had agreed to develop and implement a comprehensive and coordinated post-Katrina disaster recovery plan for the RSD. The Contract had an original term of thirty-six months commencing on April 3, 2006 and provided for a maximum fee of \$29,103,736 ("Fee Cap") to be paid to A&M.

In March 2007, A&M and the RSD agreed to amend the terms of the Contract, whereby: i) the original Fee Cap of \$29,103,736 would effectively be increased to \$29,638,736, to adjust for a \$535,000 credit representing temporary labor services procured from Nationwide by A&M on behalf of the RSD (the "Adjusted Fee Cap"); and ii) the Contract termination date would be accelerated to October 31, 2007 (the "Amendment").

#### **Modular Classroom Background**

In late 2005, A&M had been assessing the complexities of determining the repopulation process for the Parish of New Orleans. To this end, A&M requested that FEMA consider the eligibility of the cost associated with erecting modular campus school sites to accommodate the expected repopulation of the New Orleans Parish. Separately, since no master plan then existed for the ultimate rebuilding/repopulation of Orleans Parish, A&M also requested that FEMA consider allowing the RSD to perform temporary repairs to certain school campuses and treat such repair costs as being reimbursable under Category B (Temporary). However, through December 2006, FEMA had continuously rejected proposals to consider allowing RSD to erect modular campuses or to consider temporary school campus repair costs as Category B eligible costs.

However, in January 2007, the US Department of Housing and Urban Development ("HUD") suddenly announced its intentions to immediately begin to re-open existing low income housing units as a means to rapidly repopulate the City. The significance of HUD's change in policy suggested that an additional 5,000 returning students would need to be accommodated by August 2007 and up to an additional 10,000 students by December 2008. In response to this sudden HUD policy change and the resulting potential student capacity shortfall, A&M and the RSD began to immediately collaborate on initiatives to increase student seating capacity to meet the projected increased enrollment.

A&M's mandate from the RSD was to take the steps necessary to meet the projected increased student capacity for the upcoming academic year. The RSD's stated objective was to provide quality, timely, temporary classroom facilities for returning students while satisfying FEMA eligibility criteria for cost reimbursement. Further, the RSD sought a solution which would allow the school system, the City of New Orleans and the affected communities within the Parish the maximum time possible to effectively develop long- and short-term planning for the ultimate repair and modernization of school facilities to best satisfy the educational needs of all students.

Recognizing that the cost of erecting eight modular school sites could exceed \$75 million and lacking dedicated liquidity to fund such an undertaking while waiting for FEMA reimbursement; the RSD entered into negotiations with members of the Orleans Parish School Board ("OPSB") regarding the feasibility of having OPSB underwrite and fund the modular campus initiative. Following several weeks of negotiations, the RSD concluded that there was no assurance that OPSB would agree to such an arrangement; therefore, in March 2007 without any other option regarding modular campuses, the RSD was forced to issue an RFP for the acquisition of Modular Buildings. On April 16, 2007, the RSD executed a contract with William Scotsman for the purchase of Modular Buildings for eight school campuses (Livingston, Williams, Gregory, Coghill, Abramson, Carver, Hughes and Reed).

As a result of the delays associated with procuring the Modular Buildings for the eight campuses, the RSD was forced to delay issuing an RFP to engage a Modular Site-work Contractor. Ultimately, on May 16, 2007, the RSD entered into a Modular Campus Site-work Contract with Arrighi Simoneaux.

Notwithstanding i) HUD's policy change and its corresponding decision to repopulate low income housing units; as well as ii) the subsequent Modular Campus contracting delays discussed above, the RSD still expected A&M to manage the design, installation and completion of eight modular campuses during a then significantly compressed time period, to ensure meeting a September 5<sup>th</sup> completion date. This compressed time period substantially increased the underlying costs of both the actual Modular Units as well as the corresponding cost of the site work associated with the successful implementation of this project. A&M itself was also adversely impacted. While, the constraints associated with completing these eight Modular Campuses were obviously never contemplated in either the Contract or the Amendment.

While A&M believed that the scope of work associated with managing the successful and timely completion of the Modular Campuses exceeded the terms and conditions set forth in the Contract; A&M unilaterally committed additional resources to ensure the timely completion of the Modular Campuses, without delaying the process to negotiate a further amendment of the Contract to address the reimbursement of incremental costs associated with the resulting changes in scope caused by the compressed Modular Campus timeline.

### **A&M-RSD Contract-Cost Overruns**

As described more fully above, during the term of the amended Contract; A&M provided various professional services which aggregated \$31,843,987; thereby exceeding the Adjusted Fee Cap by \$2,205,251 (the "Contract Overage"). While A&M believes that **\$1,878,000 of the Contract Overage specifically relates to out-of-scope work arising from the compressed Modular campus work (the "Modular Overage")**, A&M also recognizes that the Contract Overage represents amounts exceeding: i) the RSD's contractual obligation to A&M; as well as ii) BESE's funding appropriation authority for the Amendment. However, A&M also believes that the Modular Overage costs represents out-of-scope services that were provided by A&M in connection with completing the Modular Campuses and represented substantial value and benefit to the RSD. Further, A&M believes that substantially all of the Modular Overage costs represent costs which are otherwise eligible for reimbursement under the Stafford Act.

### **A&M-RSD-2008 Post Contract Pro Bono Assistance**

During the summer of 2008, RSD staff working on FEMA reimbursement matters had approach A&M staff seeking their assistance to complete certain FEMA project worksheets. In response to the RSD request for assistance, A&M staff had provided the RSD with certain Pro Bono assistance including; i) gathering certain documentation; and ii) performing various analysis to support pending project worksheets. The assistance provided by A&M aggregated over 350 Hours representing over \$100,000 of free consulting services. Effectively, A&M has provided the RSD with valuable support in connection with the RSD's efforts to obtain FEMA reimbursement for various open project worksheets. Further, as a result of working with the RSD staff, A&M believes that the RSD staff would benefit from additional A&M support. A&M is prepared to dedicate James Tideman as a fulltime A&M resource for a half-man year of services (1,000 Hours of A&M support Pro Bono), in connection with the processing of other open project worksheets.

### **Proposed Resolution A&M-RSD Contract-Cost Overrun**

Accordingly, as previously discussed in December 2007, A&M is proposing that it work with FEMA, at **no additional cost to the RSD**, to substantiate and document the \$1,878,000 of Modular Overage costs which A&M believes represent FEMA eligible out-of-scope of work ("FEMA Eligible Costs") and have FEMA prepare corresponding Modular Overage project worksheets. Second, A&M will agree to provide the RSD staff with James Tideman (former FEMA -Public Assistance Coordinator -Bio attached) as the dedicated A&M resource during the next 6 months, representing up to 1,000 Hours of free consulting services, which will allow the RSD to complete various project worksheets and may result in the RSD collecting millions of additional dollars in FEMA eligible cost reimbursements. In consideration for A&M providing the RSD with 1,000 Hours of consulting services, the RSD would agree to approve any such Modular Overage PW and cause such PWs to be submitted to FEMA for reimbursement under the Stafford Act. In the event that FEMA should reimburse the RSD for any of the FEMA Eligible Costs, then A&M would ask that the RSD seek BESE's approval to further amend the

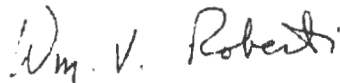
Paul G. Pastorek  
Superintendent of Education  
**STATE OF LOUISIANA**  
Page 5

A&M Contract to increase the overall Adjusted Fee Cap by an amount equal to the aggregate sum of all FEMA approved and reimbursed Modular Overage PWs (the "Final Fee Cap Increase"); however, under no circumstance would A&M seek a Final Fee Cap Increase in excess of \$1,878,000.

Accordingly, A&M believes that its proposed resolution will provide the RSD with 1,000 Hours of free consulting services representing over \$300,000 of additional free consulting services in exchange for the RSD's agreement to simply allow A&M to seek FEMA reimbursement for the \$1,878,000 of Modular Overage costs representing services previously provided to the RSD in connection with completing the eight Modular Campuses without any actual out-of-pocket cost to the RSD. Further, A&M would be willing to discuss a mutually agreeable further extension of Tideman's services should the RSD ultimately determine there exists a need for his continued assistance.

I look forward to continuing this dialogue with you. If you would find it helpful, I would gladly meet with you or anyone of your designees to discuss this matter in detail or anything else related to this contract. Thank you, again, for your time and consideration.

Very truly yours,



William V. Roberti  
Managing Director

WVR/jmg

cc: Grover Austin  
Jim Hrdlicka  
Kitty Littlejohn  
Rodney Painting  
Doug Lambert  
Jim Grady



**Attachment A**

**Alvarez & Marsal  
James Tideman, Manager**

James Tideman is a Contractual Manager and Registered Architect who specializes in planning, real estate advisory services and disaster/FEMA consultation. Mr. Tideman has recently worked with The Orleans Parish School Board and Recovery School District providing technical assistance of Federal reimbursement for Hurricane Katrina recovery and rebuilding.

Prior to joining Alvarez and Marsal, Mr. Tideman was the FEMA Public Assistance Coordinator for the Recovery School District and Orleans Parish School Board through a contract with Earth Tech, a subsidiary of Tyco Engineering.

With over twenty years experience in the planning field, Mr. Tideman has lead pre-construction due diligence planning for private and non-profit developers, including, but not limited to a \$25 million, 5 story mixed use medical office building in Grand Rapids, Michigan. In addition, Mr Tideman has considerable public sector planning experience leading teams of building assessment specialists in the form of architects, land planners, electrical and mechanical engineers to develop comprehensive land/campus and building options and cost models. Since these projects are subject to public scrutiny, Mr. Tideman has conducted numerous public informational forums and presentations to achieve consensus.

Mr Tideman earned a B.S. in Architecture from the University of Wisconsin - Milwaukee, and a Master of Product Design from North Carolina State University at Raleigh.



**STATE OF LOUISIANA**  
**DEPARTMENT OF EDUCATION**  
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<http://www.louisianaschools.net>

August 11, 2006

Mr. William V. Roberti  
Alvarez & Marsal, LLC  
600 Lexington Avenue  
New York, NY 10022

Dear Mr. Roberti:

RE: Contract with the Louisiana Department of Education's Recovery School District

This letter confirms our understanding that Alvarez & Marsal agrees that, as part of its contract with the Louisiana Department of Education's Recovery School District for professional services for the design and implementation of a post-Hurricane Katrina recovery plan, it acknowledges that its architects and the architects of its subcontractor(s) will review and interpret existing design documents and will draft design documents for the renovation and rebuilding of Recovery School District schools in Orleans Parish. However, the Department of Education and the Recovery School District acknowledge that they will have to contract with independent architects to provide finalized design documents when such documents are required for reconstruction, renovation or repair of school facilities. This is consistent with the intention of the Louisiana Department of Education and its Recovery School District in issuing the Solicitation for Offers, and this letter serves to clarify this point for the benefit of both parties.

If you have any questions, please contact Chris Fruge at 225-342-3572.

Sincerely,

A handwritten signature in black ink, appearing to read "Cecil J. Picard".

Cecil J. Picard  
State Superintendent of Education

CJP:ref

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