

To: The GUHSD Citizens Bond Oversight Committee

From: The Bond Advisory Commission Finance Subcommittee

Date: July 25th, 2007

Subject: 10 Points for Oversight Consideration

Over the course of its 100-day endeavor, members of the BAC FSC conducted frequent and precise dialog with many outside parties knowledgeable and experienced in major educational projects, and with District persons, on the issue of managing a large bond proposition for repairs, renovation, modernization and expansion. Time and again, it has come back to our members that the Prop H undertaking is a stunning project in complexity and depth. Nine (9) major comprehensive high school rebuilds (including all new science complexes), a new comprehensive high school, and significant renovations at six (6) other facilities demands that all the necessary professional expertise and support is brought to bear for the Prop H project management if success is to be achieved. Never in the history of East County high school has such an endeavor been made.

The CBOC has a very significant and important role to play in ensuring the successful completion of the Prop H program. To try and help the CBOC in this endeavour we have categorized the following 10 points as the most significant issues we recommend for ongoing oversight.

I. Commit to a “We Can Make it Happen” Mentality.

Our fundamental premise and finding is that all of the promises of Prop H, all of the commitments to the District’s various stakeholders, can be accomplished; but only through earning taxpayers’ confidence to support a bond extension. Failure to do so should not be an option.

Our present estimate is that a bond extension could produce between \$70 million and \$125 million, maybe more, of new bond money depending upon the timing of the vote, November 2008, 2009 or 2010. The CBOC should request a new bond estimate analysis in August when the latest property assessed values will be available. A vibrant, inquisitive and effective CBOC will be critical to a successful bond extension vote.

Certain myths pervading stakeholders have no basis in fact. For example, the repair & renovation “share” of funds has actually increased from the original LRFMP. There is a certain lack of “fairness” to the argument that the high school should not be in the “present plans” due to the overall cost increases. Efforts should be taken to focus on completing all the promises of Prop H, and to guard against again pitting one set of stakeholders against another in some divisive “fight” over Prop H funds.

II. Track Prop H through a Detail Needs Roadmap.

Tracking all the various projects from the original Base Long Range Facilities Master Plan to the current envisioned phases has been very difficult, and is still imprecise. There have been many, many changes over the past three (3) years and it seemed to the BAC FSC that none appear to have been thoroughly informed to taxpayers and other stakeholders (including, we suspect, even the Board of Trustees). The BAC FSC report presents a Detail Needs Roadmap. We intend this Road Map should motivate the Staff, Board and the CBOC to go forward with full transparency and great attention to detail with any project changes.

It is our finding that there has not been a true detailed Master Plan from inception. As stated in our report, “It is imperative that one of the first undertakings of the new PCE/Program Manager entity (approved by the Board) will be to produce a new detailed Prop H Program Master Plan and keep it updated.” The CBOC should make sure that this is done and the Master Plan is updated at least monthly. One standard question that should be asked at every monthly District update is “have there been any major scope changes, and if so – what?” Understanding the details and rationale behind such changes will be very important.

III. Only Use a District-Owned Project Database.

Throughout our study, requests that were for typical project management information were sometimes late in being provided due to the fact that they had to be prepared by the outside managers. As stated in our initial report, “There is no central, District-owned project database detailing all physical completion and financial management on a regular weekly or monthly basis. “Whoever is in control of the database controls the outcome””. The owner of such a database seems to be HMC Architects, the prime architectural/engineering firm who also act as Program Managers. Instead it needs to be owned and maintained by the District/Board.

It is critical that the new PCE/Program Manager must develop this database and it must be the single source of information to all users, especially by the CBOC.

IV. Highlight All Available Funds for Potential Use On Prop H.

In addition to Prop H authorized property tax bond receipts at \$274 million, the District has access to several other funding sources. These include: state modernization match \$108M, state new construction match \$32M, bond interest \$22M, developer fees* \$10M, redevelopment funds* \$6M, deferred maintenance \$14M, sale of excess property* \$6M, and state new high school land/site prep match \$10M. In addition, a bond extension of perhaps up to \$125M or more could be placed before voters (assessed property valuation will support it). The bond extension would also draw additional state matching funds.

The Board can even consider the merits of issuing further Certificates of Participation if needed.

There is the potential for over \$600M in funding; enough to pay for all of Prop H promises to every stakeholder. The caveat is that voter confidence must be restored in order for a bond extension to be approved at the ballot.

There is however disagreement as to whether the funds marked with an asterisk (*) will be so used on Prop H projects. Given the fact that (a) the repayment of the Certificates of Participation eliminated about \$30M from being used for modernization and new construction and (b) the unforeseen construction cost increases have been at almost 40%, the BAC FSC has recommended that all the funds are specifically earmarked solely for Prop H projects and they can only be withdrawn from such consideration, at some future date, only by a majority vote of the Board and in no other manner. These funds cannot be withdrawn from Prop H consideration by the Staff alone. The Board will vote on this recommendation in August. The District continues to show, on its website and in presentations to the Board a “gap” of about \$170 million (\$430 million revenue versus \$600 million expenses) when we are articulating that the “revenue” available is about \$485 million without a bond extension and \$570 - \$620 million with.

We recommend that all possible revenue sources be listed, as above, just as we recommend that all expenditures be. The Board, the CBOC and the public all need to be able to see and identify all sources of revenue and all expenditures.

The CBOC needs to understand these variations is available funds for Prop H projects and maintain a vigilance on the spending of such.

V. Return to “Must Do, Should Do & Want to Do” Prioritization.

The CBOC must review in detail and prioritize all the work inherent in the final Phase 3C repair & renovation. Completion of 100% of this work is contingent of getting voter approval of the bond extension. Preparation must include options should that approval not be forthcoming. This is a return to the intent of the original Long Range Facilities Master Plan that has been lost as the project moved into the Prop H bond text and was further changed several times over the past three (3) years to the current intended phases.

VI. Conduct Rigorous Cost Management.

Given the tightness of funding, it is our perception that cost management is not receiving as high a priority as is necessary. We recommend the CBOC investigate all possible cost savings as these areas illustrate differently.

Clawback of Contingency Fees: While the practice of adding 10% for estimating might be standard practice the District should challenge itself to make sure that it comes in under this percentage. Industry standard for “well managed” school projects is change orders in the 5% – 8 % range for modernization projects and 3% - 5% for new construction. To quote one major school builder recently “if I am over 3% then fire me”! At this stage of Prop H, three (3) years after passage, we believe a contingency factor of 6.5% throughout the modernization and new construction and the “clawback” is estimated at about \$10 million.

Program Level Costs: There currently is a provision of \$19 million in this category for services such as fiscal services by District staff \$1M, facilities management by District staff \$2M, program manager \$6M, unallocated \$3M, and so on. With the hiring of the new PCE/Program Manager all these costs and the roles of the existing program manager and construction manager need to be re-evaluated. The CBOC needs to make sure this happens.

Renegotiate All Existing Contracts For a Lower Fee Structure: It appears that the District set present fee structures on the basis of business-as-usual rules of thumb. But Prop H is not business-as-usual. It is a stunningly large project; and it should have been that contractors were tightly negotiated down. Fees originally based on percentages of then construction costs benefit needlessly from cost escalations and other factors – components not necessarily having anything to do with an increase in job scope. We have seen contracts that allow “fees on fees” and too much leeway in e&o allowances on construction. A fee structure of 7% versus the norm of 9% could reallocate \$10M towards repaired and renovated facilities.

VII. Conduct & Manage Cash Flow Analysis.

Throughout our evaluations, there was an uneasy feeling that cash flow management was insufficient. This ranged from perceptions of the District’s understanding of how the County Treasurer manages bond receipts for revenue through to a meaningful estimate of interest earned to apply as revenues to fund Prop H work. This seems to have fed into the panic leading to divisive rumors of not having enough money and consequently major promises to stakeholders would have to be cut.

Our analysis indicates that as the timing of bond receipts precede construction completion payments, the District will maintain a significant cash balance of ~\$70 million plus in an interest bearing account with the County for many consecutive calendar quarters. There has not been, nor will there be for another 18 months or so, a cash crunch precipitating radical decision making. There is ample time to plan and make good decisions, and to educate taxpayers regarding the need for a bond extension.

The CBOC should undertake cash flow management for two vital reasons. Cash flow needs will ultimately define when the District must place a bond extension proposal on the ballot. This timing determines the working period in which the District must regain voter support. And, the amount of earned interest is a vital component to Prop H project funding.

VIII. Be Mindful of Non-Prop H Work Finding Its Way in to the Project Mix.

There is work that some would like to do, or work that must be done, all of which has nothing to do with Prop H. As we have tried to construct a Roadmap, we found that such work has been sometimes “in” and sometimes “out” of the Prop H scope. For example, some wish to build a new District office. Another is the relocation of the Homestead-Frontier complex. This gets back to the requirement for a Needs Roadmap as discussed in Point I. above.

IX. Resolve Deferred Maintenance Need & Plan for On-Going Preventive Maintenance.

In Prop H the District made two commitments to taxpayers that have yet to be addressed, (i) the District will work with priority on eliminating the deferred maintenance backlog and (ii) the District will put in place an effective preventive maintenance program that will eliminate the possibility of the Prop H repaired, renovated, modernized and new facilities from becoming decrepit.

We have no sound data on the magnitude of deferred maintenance but it is obvious from the state of the schools (as detailed in the BAC R&RC report) that the facilities have suffered from decades of inattention. We estimate that the District may be facing a \$400 million plus shortfall in preventative maintenance spending over the coming twenty-five (25) years for the post-Prop H \$1.1 billion dollar replacement value of its fixed asset base.

Is the District devoting adequate resources to planning for this Prop H commitment and indisputable critical need? That is a question that CBOC needs to address.

X. Moving Towards a True Long Range Master Plan.

Our evaluations indicate the post-Prop H replacement asset value of the District, excluding land and land improvements, will be about \$1.1 billion. Over any 5-year period the District's operating budget approaches \$1 billion. 50% of the school buildings that are not planned for renovations total about \$400 million at today's replacement value. It is fair to say that these buildings will need to be modernized or replaced over the next 15-20 years and this total cost, assuming reasonable construction cost inflation, could well exceed \$500 million.

We expect that over the remaining course of Prop H, it will become clearer as to how the District can begin to understand this need, and to plan for it. For example, even post-Prop H in the 15-20year following time frame, will another repair and renovation strategy fall in favor of one to reconfigure student campus enrollment boundaries, reconfigure smaller facilities for specialty needs (perhaps Magnet schools), and to build a few but better located larger new campuses.

The BAC FSC has not attempted to address such planning. But as the District completes the voter-approved and much needed repair and renovation Prop H program, much will be learned. The CBOC should have a roll in that learning process and the information gathered should be processed into along term view of capital expenditures and maintenance.

I leave you with this thought. Instead of looking at the building of a new 12th high school as being something that should be avoided, or inserted as a last thought in the present Prop H program, what about looking at the new school as being the "first" of several new high schools that will probably have to be built over the next 20 years! Then the 12th high school should be viewed as the "jewel" that will be the precursor of these new schools.