

MEMORANDUM

Date: August 10, 2016

To: Members of the Board of Education

From: Bond Accountability Committee (BAC)

Subject: 14th BAC Report to the Board

Background

In November 2012, voters approved a \$482M capital improvement bond for Portland Public Schools. The PPS Board appointed a Citizen Bond Accountability Committee to monitor the planning and progress of the bond program relative to voter-approved work scope, schedule and budget objectives.

Recent Activities

The BAC met on July 20 at Benson High School, and we were pleased to be joined by Director Kohnstamm. As is the case with all regular BAC meetings, it was publicly noticed and open to the public. OSM staff continues to be very helpful and supportive of the process, and demonstrates a consistent commitment to transparency and clarity in its dealings with the BAC.

The Committee received updates from staff that included the Balanced Scorecard report with supporting data on program budget and other metrics, as well as reports on each of the current bond projects. Staff presentation materials and meeting minutes, along with BAC reports, are regularly posted on the District website.

As this report is written, PPS staff is managing the following work:

- Construction at Roosevelt High School.
- Construction at Franklin High School.
- Construction at Faubion PK-8 School.
- Construction on IP 2016 (7 schools).
- Design Development for Grant High School.
- Design work for IP 2017 (16 schools).

The bond program is now at the peak of its construction activity; summer 2016 billings will exceed \$18 million per month. Projections indicate that,

even after the summer push is over, monthly billings between now and September 2017 will still average in the \$13 million range. All of this activity is occurring in a very challenging design/construction regional environment.

Current Issues

Program Budget. Staff has continued to provide budget information to us in a transparent format.

The total Bond Program has increased over the last quarter by \$434,000 to almost \$551 million, of which \$217 million (39%) has been spent. Excluding the \$45 million debt repayment from bond resources, the program is 34% complete. The increased funds came from earned interest, a small grant from Energy Trust, a small transfer from FAM, and \$90,000 from Franklin alumni to fund brick veneer (previously deleted as a cost-saving measure) at the High School.

Contingencies/reserves at the program level amount to about \$10 million, after the \$2.2 million from the remaining bond premium is allocated to Roosevelt. There is little doubt that this is insufficient to complete the program, especially with pending needs at Franklin HS. However, there are some savings yet to be transferred from earlier IP work, and about \$11 million currently allocated to IP 2017/18/19 could become available if that work scope is postponed. We do expect some additional bond premium from the next bond sale in 2017, but the Board has already allocated \$2.8 million of any such premium to the Roosevelt Maker Space.

Substantial risks still exist in the program so we remain very concerned about this shrinking level of contingency/reserves.

Project Budgets and Schedules. Staff's Balanced Scorecard will continue to show the completed designs for Roosevelt, Franklin and IP16 to be behind the Baseline Schedule, as reflected by the "red" report at the various design levels (although overall they show "yellow"). These delays have many causes, including design changes on the high schools resulting from Board-approved increases in capacity and "additional criteria" modifications. Construction on each of these projects commenced on schedule and, at the time of our meeting, IP16 construction work was on schedule for school opening.

The IP work at Cleveland HS has been challenging due to unforeseen conditions, especially in the roofing substrate which has been found inadequate in some significant areas. That project will definitely be over-

budget as a result, but the overall IP16 budget is forecast to be sufficient partly due to the two IP projects that were canceled.

The construction schedule at Franklin remains on track for a May 2017 building completion (the site remains at July 2017). However, the forecasted cost for the project now exceeds the budget. Staff remains engaged in analyzing and re-forecasting the final cost and we understand that something on the order of \$6 million will need to be transferred from program contingency to complete the project.

As the first of the major modernizations, the Franklin project has in many ways become the “pilot project” (particularly in the modernization of the historic structure) for the bond program in the sense that lessons learned on the project will result in savings elsewhere. Certainly, OSM has facilitated the Roosevelt and Grant design and construction teams’ exposure to the Franklin site which should help on those projects.

Franklin has suffered from cost issues that may or may not arise elsewhere (excess asbestos and other hazardous materials, unforeseen site and other conditions, design issues, City requirements, etc.) and the project has also highlighted contractual and procedural issues that can be avoided on future projects. The performance auditors’ recent recommendations 1 thru 5 address these, and OSM is working on improvements.

There has been significant construction progress at Roosevelt, and much of Phase 1 (new gym building and media center) will be open for school as planned. However, for reasons that OSM will explain, some other areas will have delayed openings. Work on Phase 2 (the historic building) has also started in earnest this summer so that many noisy activities will be completed before school returns. The project contingency is now less than 3%; we continue to have concerns about this given the significant amount of modernization work, with its inevitable surprise elements, in Phase 2.

Given the level of activity and the presence of staff and students on site during the school year, it is remarkable that the project remains accident-free. Everyone involved should be proud of this achievement.

Construction progress at Faubion is going well, with over \$2 million remaining in contingency. Unlike Franklin and Roosevelt, Faubion is a ground-up project with less potential for unforeseen conditions. Nonetheless, the design and construction teams along with the OSM staff should be commended on the progress to date, as well as for keeping the project accident-free.

At the time of our meeting, the design and construction teams on Grant HS were reconciling schematic design estimates for the project. Escalating market prices remain a considerable concern and we understand that substantial efforts will be made during the preconstruction phase to avoid buy-out surprises like those experienced at Franklin.

Design work for IP17 (currently budgeted at \$10 million) is proceeding and, as a “lesson learned” from IP15 and IP16, a greater emphasis has been made on assessing existing conditions at the 16 schools involved. However, the program’s financial ability to accomplish construction next year will be finally determined early in 2017. In addition to the financial analysis, there is also concern that District resources may already be stretched in summer 17 by the moves-in at Franklin, Phase 2 at Roosevelt and Faubion, plus the move-out/move-in at Marshall. Further analysis is needed.

Equity. Staff reports on student involvement remain positive. Ten summer interns are working on various projects.

The employment of apprentices through the Workforce Hiring program continues to exceed the goal and stands at 23%. Updated data, including for IP16, is expected shortly.

MWESB involvement remains a priority and the transition to the District-wide business equity tracking system has and will be helpful. At this point, though, it has not yet been able to merge the early contract performance into the reported figures. The current reported 12.3% of payments to MWESB firms does still not reach the aspirational goal but is much improved.

Safety. As noted above, there have been zero accidents to date at Roosevelt, and the Faubion project is also accident-free. During the quarter, there was one minor incident at Franklin, bringing the total to five (all minor) for the project to date.

Performance Audit. As previously reported, the BAC reviewed the 2016 Performance Audit. We have received regular reports on the District’s progress on recommendations from 2014 and 2015 but, in hindsight, have not have devoted enough time to fully address the issues and the changes that have been made by the District in response to the recommendations. When the summer activity levels die down somewhat, we will look closer at the completeness of work on previous recommendations, as well as the District’s responses to the 2016 audit.

Summary

Portland taxpayers can see their tax money at work at the Franklin, Roosevelt and Faubion sites as well as at the 7 schools in the IP 2016 work, and there's significant behind the scenes work on the design of Grant and IP17. The amount of work being put in place this summer is extraordinary and, predictably, is stretching resources. While there are certainly challenges, we continue to find the budgets and schedules overall being appropriately managed.

We remain impressed by the quality and professionalism of OSM staff as well as the design and construction teams, and thank the Board for this opportunity to serve and play a small part in the continued success of your bond program.