

MEMORANDUM

Date: May 5, 2015

To: Members of the Board of Education

From: Bond Accountability Committee (BAC)

Subject: 9th BAC Report to the Board

Background

In the November 2012 election, 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 April 15 at Tubman School, and we were pleased to be joined by Directors Belisle, Buel and Koehler. As is the case with all 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 all dealings with the BAC.

Public comment was received from Ted Wolf on behalf of Community & Parents for Public Schools. Ted urged the BAC to ask the District for a “lessons learned” report on the design process at the Franklin, Roosevelt, and Faubion projects, and to gain a clear understanding of the Design Advisory Group charter for the Grant project.

At the meeting, the Committee received updates from staff that included the Balanced Scorecard report with supporting data on budget and other metrics, and each of the bond projects of which there are now many. We also received written reports on how accessibility and seismic work has been incorporated into each of the bond projects.

There is an extraordinary amount of activity underway in the bond program and it’s safe to say that there has never been as much active design and construction work in the history of PPS. As this report is written, PPS staff is managing the following work:

- Closeout of work at Marshall High School.
- Closeout of work in Improvement Project (IP) 2014 (6 contracts, 12 schools).
- Bidding and award of IP 2015 (4 construction contracts, 8 schools).
- Bidding and award of IP 2015 – Science (2 construction contracts, 18 schools).
- Bidding and award of IP 2015 – Maplewood (1 construction contract, 1 school)
- Bidding and award of Tubman Campus Improvements.
- Selection of a design team for IP 2016 (11 schools).
- Completion of design and start of construction at Roosevelt High School.
- Completion of design for Franklin High School.
- Completion of design for Faubion PK-8 School.
- Selection of a design team for Grant High School.
- Preparation for master planning of Benson, Lincoln, and Madison High Schools.

All of the summer work to date (IP13 and IP14) has been completed on time and managed within budget, returning some funds for future projects. The challenge for the 2015 work at 27 schools is even greater since only 65 calendar days are available. However, staff has taken to heart lessons learned from the prior years by completing the designs earlier and making awards sooner to allow for preconstruction activities such as registering for the Owner-Controlled Insurance Program, the submittal process, and mobilizing to the sites.

The projects at Roosevelt and Franklin High Schools have reached a major milestone. A Guaranteed Maximum Price for the construction work has been reached with each of the CM/GC firms for a total of over \$150 million, representing some transfer of risk from the District to the contractors. Much remains to be done, of course, as the designs are completed and the subcontract work bid out, and we should expect that there will be surprises as the construction work itself gets underway. However, each project budget still contains contingency funding to mitigate as needed.

The design team at Faubion is completing the Design Development phase and moving promptly into Construction Documents. The goal is to complete these in late summer to allow for selection of a contractor. Demolition of the existing school is expected to start this fall, well ahead of the original baseline schedule.

The second report from your performance auditors has been delivered, and the BAC expects to receive a briefing on the findings as well as the District's response shortly.

Current Issues

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

The total program budget has increased to \$525 million as funds from various sources have been incorporated into the bond program. The largest additions, of course, have been \$15.5 million from Concordia University for the Faubion collaboration and the \$13.9 million bond premium from the first bond sale.

This bond premium has now been largely allocated to projects. The second, and largest, bond sale closed last week and we are hopeful that it will produce a significant premium as well. The Board reserve of \$10 million remains intact.

Project Budgets. The Committee continues to have concerns about market conditions causing price increases. All of the escalation reserve has been distributed to the projects so there is no remaining pot to draw from in the event of increased prices. Committee members have observed some significant recent price pressure in the industry. However, the District's project contingencies on the IP work have held up very well through construction so far, and will return some savings to the program.

As noted above, Guaranteed Maximum Prices have been agreed for both Franklin and Roosevelt, so that market risk has transferred to the CM/GCs. Of course, the process involved in reaching these agreements was long and challenging. During our meeting, a lively discussion among members took place about the reconciliation process and value engineering that was necessary to bring each school back within budget.

Several committee members have extensive and ongoing experience with public and private sector development, design, and construction challenges. They expressed familiarity with the inevitable tension between budget and scope at this stage of the projects. The design and pricing of projects as complex as Franklin and Roosevelt can be difficult to reconcile, especially in a rising market. The magnitude of the variances was certainly greater than we would have expected, but the fact that there were challenging gaps was not a surprise.

The teams are to be commended for working collaboratively to reconcile scope and price at both schools, and being able to maintain the required educational program. Project contingencies at both schools have remained at a combined 12%. The committee noted that, while this process was difficult, its resolution was possible because of the CM/GC process that the District had chosen. Traditional design/bid/build does not permit this early identification of budget/scope conflict.

The fact that this process is common does not, however, mean that it couldn't have been handled better, particularly in terms of public and stakeholder involvement. Some stakeholders, at least, feel that the District had "promised" some aspects of the project that have now been removed for budget reasons. The extensive nature of the District's public outreach during the design phase requires, in our view, some education about the process and the inevitable tensions between scope and budget. We recognize that few want to hear this message at the outset but, had it been given and heard, there might have been less disappointment at this point.

Schedules. Staff has continued to provide detail and transparency on each of the project schedules, and the format used has proved to be very helpful to us. Again, we appreciate staff's responsiveness to our requests in this regard.

The IP15 work, as noted above, must be completed in 65 calendar days. This is a significant challenge and staff will need to engage all the lessons learned from prior years to achieve this.

Both Roosevelt and Franklin designs remain behind the Baseline Schedule, as reflected by the "red" report at design levels in staff's Balanced Scorecard (although overall they are both "yellow"). These delays have many causes, including changes in school capacity requirements, the extensive public outreach and involvement processes, and discussions over the "additional criteria".

Land use approvals at both schools are complete, and staff is working closely with the City on the building permit approvals. We are concerned about delays that can occur because of development activity overloading City resources, and we know that staff is working hard to ensure no delays.

Bids have been received for the Tubman Campus Improvements, and the work necessary to receive Faubion students next term will be completed on time.

Equity. Staff reports on student involvement remain encouraging. The new reporting metric for student involvement in the Balanced Scorecard makes more sense to the Committee. Instead of trying to report by project, it will now report by year since many activities are not directly project-based. The District's consultants and contractors have been fully engaged, and we are particularly interested in student involvement at Roosevelt where construction and learning will be happening side by side. We will continue to monitor and encourage student involvement.

The employment of apprentices through the Workforce Hiring program exceeded expectations on IP14 and the work at Marshall. We expect similar results from IP15.

Contractors still lag behind the aspirational goal for MWESB involvement, a result of the fact that all work to date has been awarded on a low bid basis with only aspirational goals applied. We are now getting close to the point where the high school CM/GCs will be engaging subcontractors and we continue to expect this percentage to rise. Since the District reports MWESB involvement based on payments made, however, any improvement will take some time to show up on the Balanced Scorecard. We have asked for informal reports on MWESB contracts from the CM/GCs so that the likely outcome can be observed.

In total, consultants are meeting the District's 18% goal. However, a drill-down continues to show that there remains room for further improvement. All of the IP work has exceeded the goal, but the other individual projects are falling short. We will continue to remind staff that each of those consultant teams were evaluated and partly selected on their commitment to meeting the goals, so we expect improved performance.

Other. The BAC has worked hard to report on areas that have seemed to be most important to the Board. Inevitably, those have largely been focused on work scope, schedule, and budget objectives.

Staff is now also including reports on other criteria that were established during the bond development period. Prior to this meeting, we received reports on how accessibility and seismic requirements have been incorporated into the bond program work. We recommend that the District post these reports on the Bond website.

Summary

It has been an intense quarter for your bond program staff, but the level of activity will ramp up further during the summer. Portland taxpayers will have many opportunities to see their money at work as the District's teams will be onsite at 31 schools, including Franklin and Roosevelt.

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 part in what we still expect will be a very successful bond program.