



TO: Board of Education
M. Magdalena Carrillo Mejia, Ph.D., Superintendent

FROM: Bond Oversight Committee Members

SUBJECT: 2007 Annual Report

I. Site Visit Report – 2007

New South Elementary School

New South Elementary is a new K-6 campus of over 50,000 square feet. It is substantially complete and administration staff are moving furnishings in. There appears to be plenty of room for growth and the space functions well.

The design team and construction manager were not pleased with the contractor's work and we were told that the contractor required a lot of "pushing" to complete the project. The contract delivery is Lease Lease-back which requires a GMP from the contractor; however, the contractor is requesting change orders for items being disputed by the District. We were also told that the construction manager has had to respond to over 500 letters from the contractor.

Luther Burbank High School

Luther Burbank High School is a modernization project that includes renovating existing spaces for additional classrooms, ADA and HVAC scope of work. There was a minimum amount of abatement required. A few of the rooftop units were moved that required additional structural support.

The project is still under construction awaiting moisture test results for completion of flooring. There are other items, i.e. doors, base and painting outstanding.

Sacramento High School (St. Hope Charter School)

Sacramento High School is still under construction. Scope of work includes modernization of Administration, Multi-Purpose, Gymnasium, Classrooms and Courtyards. Phase II construction and site work has not begun. There was moisture behind some existing walls that required removal of the exterior framing and finishes. This unforeseen condition raised the cost of the modernization to approximately \$24M. The State is expected to reimburse the District 60% of the cost of the change order.

Albert Einstein Middle School

Albert Einstein is a modernization project that includes Administration, Classrooms, Restrooms and Gymnasiums. The project is currently in progress. We learned that DSA has implemented unscheduled site visits. During one of these visits the inspector observed wall framing in a restroom that no longer met code requirements. Re-framing this wall added approximately \$20,000 to the cost of construction.

Sub-Committee Recommendations

The district and its project manager are doing a tremendous job on these projects. Our recommendation would be that Luther Burbank High School program be reviewed. Items that should be replaced, such as existing sinks, remain and there are some classrooms that do not have any natural ventilation. Overall, the program design does not appear to have been given the attention both Einstein and Sacramento High School were given.

II. Value Assessment Sub-Committee Report - 2007

The Value Assessment Sub-committee would like to commend the activities of district staff with regards to changes made in bond expenditure processes since our last report. The changes made have been significant, and more than meet our requests for both examination and potential change in areas that were noted of concern by the CBOC.

One area of particular concern to the CBOC was the contracting procedure known as "lease-lease back". The original lease-lease back contracts that the District entered into had limited numbers of firms participating and no public bid opening. While this met the letter of the law it also raised concerns as to whether the District was getting the most value for its dollar. Led by Jim Dobson and Bill West, the latest version of the process is nothing short of remarkable. Where previously there was a negotiated project with a small number or even a single team, there is now a much larger pool of candidate partners for the District to work with. Going beyond what was required, District staff put out a request for qualifications that drew in over a dozen respondents. From this list a rather healthy eight qualified bidders were invited to submit proposals. This significant increase in competition should be enough to calm any

fears that the benefits offered by guaranteed maximum price (GMP) do not come at the expense of an inflated contract value.

The second change that the staff is working on, and which is perhaps even more significant, involves cost reduction. As noted in numerous previous reports, members of the contracting/design team had a disincentive to reduce project costs. Simply put, as the cost of the project increased their fee increased as well. This meant that any reduction in project cost would be reflected in a reduction in their design fee. Needless to say this is not the most conducive arrangement for reducing project costs.

Staff, however, has figured out an answer to this problem. Utilizing the lease-lease back/GMP contracting process, staff has developed a method whereby cost reductions that result in a price lower than GMP are shared between the District and the design/construction team. When combined with a competitive request for proposal process to ensure reasonable GMP quotes on the original contract, this unleashes the knowledge and creativity of the design and construction community. The arrangement allows team members to float ideas that will save the District money without hurting their own financial interests.

A second area where staff deserves kudos is in the area of single source specifications. As noted in previous reports, CBOC had questions regarding the value to the District of certain types of single source specifications. In response the District has taken steps which must be publicly commended. Specifications often tend to “fossilize” over time: once they are put in they are rarely reviewed or questioned later. Like most institutions this was the case several years ago when the CBOC looked into SCUSD specification processes. Since that time, District staff and management have looked into many different sole source specifications and subjected them to review. In some cases the specifications are found to be outdated. When this is the case, and the specifications have been opened, considerable savings for the District have been realized without compromising the long term needs of the District. In other cases the District has found that the current sole source specifications are appropriate and in the District’s interest.

What is particularly commendable is not any one result but is instead the process. Reviewing specifications and asking hard questions is not easy work, and is often neglected. Many District staffs rarely if ever review specifications. To their credit, SCUSD staff and management took on this thankless task and came up with answers that saved the District money.

One final element in this that deserves special note is a proposal by Bill West to schedule regular reviews of single source specifications whereby the vendors of competing products are invited to the proceedings. This type of competitive review is the best way to ensure not only that the District is getting the best deal for its money and knows about new

developments in technology, but also to ensure that the public has confidence in the wisdom of District policies in expending limited funds.

The last item concerns the project stabilization agreement (PSA). When approved this controversial measure was enacted for two years to allow evaluation of its performance. At the time of the PSA's enactment, the CBOC stated that it did not have sufficient information on which to base a recommendation as to whether the PSA was in the interest of all concerned. Now that one complete building cycle under the PSA has been completed it is appropriate to review its performance.

Both proponents and opponents of the PSA made claims. Those claims which were not possible to verify prior to the enactment of the PSA can now be fairly evaluated. Some of the claims included:

- **How many additional SCUSD students have entered into apprenticeship training due to the PSA?**
- **Did the number of subcontracting bidders increase, decrease, or remain the same after the enactment of the PSA?**
- **Is there a way to gauge whether the quality of the work performed under the PSA was better than it was previously?**
- **Comparing actual costs with estimated costs, did the work on SCUSD projects increase more, less, or about equally to the construction cost increases at K-12 districts that did not adopt a PSA?**

Answering these questions should be a task included in the next performance audit.

In closing, the value assessment sub-committee again wishes to thank SCUSD staff for acknowledging our concerns and improving the processes by which bond dollars are spent.

III. Deferred Maintenance Report – 2007

On September 17, 2007 the SCUSD Bond Oversight sub-committee on Deferred Maintenance met with Maintenance director Luis Freese at the District's Maintenance offices. The discussion focused on Deferred Maintenance (DM) funding and program process.

The DM program is a dollar for dollar state match program which contributes to projects for major repair or replacement of existing school building components such as roofing, plumbing, HVAC and various other building system components. Currently the full budget for DM at SCUSD is just under \$4 million per year. Prior to fiscal year 2006/07 the school districts portion of the matching funds has come from a "one-time" funding source labeled Local Agency Investment Fund (LAIF). Starting this fiscal year, the district has begun funding DM with general fund dollars and in fiscal year 2007/08 the plan is to fund the entire DM program out of the general fund. Past BOC committees have

recommended that the District’s State match component be funded via the bond. If the bond were to fund the DM state match, it would leave more funding in the general maintenance fund. If the funding source remained the same, more funding would remain in the bond program. The fact that the DM program is fully funded, regardless of the source, is a positive fact. As stated above, the DM program is for major repairs necessary for building integrity and safety that potentially may go un-funded if not for the additional state funds.

The DM program is required to maintain a five-year plan which outlines projects and budgets in order to receive state funding. The plan can be updated yearly if desired but is required to be updated once every five years at a minimum. Site surveys are completed using in-house staff to help determine project scope and priority. This plan is then coordinated against the District’s master plan for overlap and conflict. The plan is adjusted as needed. Not all needs are shown on the five-year plan and it was clear that the DM need far outweighs the funding. This is of concern because as buildings fall into disrepair the cost of maintenance grows as does the cost to eventually repair or replace damage via future bond measures. As a means to address a portion of this funding deficiency, the department is focusing on maximizing outside funding in the form of Emergency Repair Program (ERP) dollars as a result of the Williams Act. The ERP is a grant based program providing funds for repairs at low performing schools. Currently there are 35 schools, 5 of which are charter schools, within SCUSD that qualify for ERP funds as a result of the Williams Act settlement.

DM priorities are focused on roofing, paving and paint projects. The concept behind addressing these project areas is that they focus on building integrity (roofing), safety (paving) and site appeal (paint). This approach has been coordinated with ongoing bond projects which have addressed site improvements, HVAC, alarm and fire systems, classroom improvements, computer wiring and State mandated upgrades. Several of the more significant deferred maintenance projects over the last year are as follows:

School	Project	Budget
John Morse Elementary	Exterior Paving & Storm Drain Repair	\$200,211
Tahoe Elementary	Interior/Exterior Paint, Roof Gutters and Asphalt Seal and Stripe	\$105,847
William Land Elementary	Cafeteria Paint, Exterior Paint and Concrete Sidewalk repair	\$132,535

California Middle School	Exterior Beam Replacement and AC Paving Design	\$89,886
Kennedy High School	HVAC Upgrades	\$424,862

DM projects currently run through the same process as bond projects. Need is identified and project management responsibilities are assigned to staff in the SCUSD Planning and Construction Department. District standards are used to ensure that consistency is maintained and efficiencies created. The Maintenance Department is kept in the loop via updates from project staff.

To summarize, the DM program is funded to the maximum level allowed to receive matching funds from the State, but unfortunately the funding doesn't meet the needs of the District. There seems to be a logical process in place to complete DM projects with quality and efficiency. In general it is my belief that the DM program is administered appropriately and is a critical component of successful facilities throughout the district. Below are several recommendations related to the DM program.

RECOMMENDATIONS

1. Continue to maximize outside funding sources such as the Williams Act and search out other sources of funds that complement the DM program
2. As both "one time" funds and bond funds shrink, place a priority on developing a fiscally responsible alternative to funding the DM program to achieve the maximum State contribution.
3. Update district standards continually in an attempt to create standardization across systems which should allow for increased maintenance efficiencies, ideally reducing DM needs in the future.
4. Create a lessons learned process that combines the experience of the Maintenance personnel with the experience of the Planning and Construction Department with the goal being improved projects, both bond and DM.
5. In future bonds consider building in DM matching funds into overall Bond program.