

2018 Bond Report

An interim report on the bond program was requested on October 9, 2020. The following objectives were defined:

- Review the original bond plan by project as communicated to the community and validate the projects developed in the PeopleSoft system (district financial system) and construction reports reflect the same budgets.
- Review of the current revised budget identifying the changes from the original budget and subsequent use of contingency.
- Review of current contingency balances.
- Review overages from current budget to actual costs.
- Make recommendations for changes in processes or communication to the Capital Asset Advisory Committee (CAAC) and/or Board to be included.

The following documents were used in the process, in addition to using ad hoc queries into the PeopleSoft system and support from the construction staff:

- Community Flip book – The flip book was developed as a marketing tool to enable the community to find their respective schools to see what work was planned and the estimated budget. The flip book was not a comprehensive list of projects or the specific project schedule; it was intended to be a high-level summary of the bond and projects. : <https://www.paperturn-view.com/us/jeffco-public-schools/wiifm-booklet?pid=MzM33695&p=9&v=6>
- Original budget – from source documents in construction including full detailed project listings and cash flow reports.
- Current budget – from the PeopleSoft system and from construction work sheets. Includes adjustments from actual bids and scope adjustments to date through 09/30/2020.

FINDINGS

- The flip book, a valuable tool for the community to see the planned scope for schools was not a comprehensive project list and noted the costs were estimates. These estimates, in some instances, were for projects that would occur in six years.
- Charter schools were listed as a combined estimate.
- Errors were found when comparing to the original budgets. The flip book was a separately created document, not linked to actual planning schedules. Even with continued reviews, errors did occur. These errors were .35% of the total budget and were a net decrease to the overall budget.
- Projects with \$9.5M budgeted from the 2019 Capital Transfer Program (19M Program) were moved into the bond program budget. The \$9.5M in funds were not included in the estimates for funding sources and the amount of capital transfer dedicated to the bond program needed to be increased for these projects.
- The original bond program budget has increased \$70M as of 09/30/2020. Upon reviewing the variances, it was noted that the variances over \$500,000 equaled \$70M, representing the majority of the budget increase.

- The construction department has provided the Capital Asset Advisory Committee (CAAC) information on changes in project budgets but with current questions and concerns from Board of Education members a concise process and documentation of each review is needed for the Board of Education.

RECOMMENDATIONS:

1. Revise the capital transfer amounts dedicated to the bond program to include the 2019 Capital Transfer projects of \$9.5M that were transferred to the bond.
2. CAAC should formally designate what dollar variances they would like to review. A review of all variances from current budget over \$500,000 is recommended at a minimum. A vote on the proposal to increase the project budget should be taken by the CAAC, this vote to be attached to the consent agenda item for the Board of Education.
3. Clear notification on consent items of budget increases over current budgets and attached recommendations from the CAAC for any over \$500,000.
4. Approvals for use of bond premium and interest earnings are not necessary as they are reflected in the approvals for variances in budgets as noted in item 2 above and would be redundant.
5. If there are remaining funds to allocate at the end of the 2018 Capital Improvement Program as recommended by CAAC, the Board of Education should approve new projects not within the current bond program project scope.

RECONCILIATION OF FLIP BOOK TO ORIGINAL BUDGET FOR PROJECTS

During this review, issues were noted regarding the flip book:

- Central sites such as outdoor lab, stadiums and north transportation were not listed in the flip book; however, the Board of Education was informed these sites were part of the bond program. Meetings with Board members and the Chief Operating Officer occurred May 4–11, 2018, to go over project scope in detail that included these central projects. These projects were also in the 2016 District Wide Facility Master Plan which served as the foundation for the 2018 Capital Improvement Program.
- The capital transfers noted were the total amount from the budget, rounded for six years. However, the total transfer could not be used because of existing Certificates of Participation (COP) that funded Three Creeks K8 and Phase II of Sierra ES. The payments are approximately \$2.1M annually and made from the Capital Reserve fund. The transfer was overstated for the life of the bond by \$12.6M in the flip book. The transfers presented in the October 7, 2020, presentation to the Board of Education from Tim Reed reflects the corrected transfer amount.
- The total bond program amount listed was \$705M; however, it should be noted the grouping of categories of outlay in the flip book were not reflected accurately. The detailed projects in the flip book total \$575M; after adding charter estimates, the total amount of \$631M in projects would not have left \$86M for contingency. In addition, correcting the actual transfers amounts, adding the central projects and corrections to actual projects (see reconciliation below), would have brought the amount to an estimate of \$47M contingency prior to issuance. Of note, each project estimate in the flip book contained a 10 percent contingency.

- Transposition errors when entering project totals were also found when comparing to starting budgets.

Bond budget total from the flip book:

Authorized bond issuance:	\$567,000,000
6 years capital transfer	<u>138,000,000</u>
Total Budget	<u><u>\$705,000,000</u></u>

After the passage of the first issuance, the revised bond budget was as follows:

Revised budget after issuance (actual capital transfer, no interest included)	
Actual proceeds from issuance	\$326,490,000
Premium from issuance	50,165,349
6 years capital transfer	125,402,886
Remaining authorization	240,510,000
Issuance costs	<u>(1,655,349)</u>
Total revised bond budget after first issuance	<u><u>\$740,912,886</u></u>

After the election passed, the original budget for cash flow and project entry was prepared. The following reconciliation shows the adjustments for items from the flip book to the original budget load.

Flip book total	<u>\$575,713,230</u>
Projects not listed in the flip book:	
North area transportation site	7,350,000
Trailblazer stadium	4,415,250
Windy Peak outdoor lab	3,340,982
Mt. Evans outdoor lab	3,210,190
20th & Hoyt	518,877
Patterson Cottages	360,591
Anderson Preschool	126,219
Litz Preschool	87,010
Irwin Preschool	59,098
Charter budgets not listed in the flip book	52,532,583
Corrections to flip book project totals:	
Other adjustments under \$10K	(772)
Reduction to Moore MS	(455,465)
Reduction to RVHS	(524,671)
Reduction to Dennison ES	(610,131)
Reduction to Pleasant View ES	(768,230)
Add to Hutchinson ES	<u>100,046</u>
	<u><u>\$645,454,808</u></u>

FLIP BOOK TO ORIGINAL BUDGET VARIANCE REVIEW:

- The total adjustments from the flip book equal \$69,741,578. Adjustments for project totals and central projects (excluding charter adjustment) equal \$17,208,995.
- The projects not listed in the flip book were central based projects reviewed with the Board members during development of the bond.
- The scopes for charter schools were listed in the flip book but the actual project totals were not listed; the funding would be calculated from the October funded pupil counts in October 2018.
- The corrections for More, Ralston Valley HS, Dennison, Pleasant View and Hutchinson were to correct project total errors in the flip book. The scope for the schools did not change.

The actual contingency after issuance was **\$95,458,078**, the difference between the original project budgets of \$645,454,808 and the revised bond budget of \$740,912,886 after issuance.

CHANGES FROM ORIGINAL BUDGET TO CURRENT BUDGET FOR PROJECTS (USE OF CONTINGENCY)

As projects have progressed, budgets have been adjusted to reflect market conditions, revised scope and actual project costs. The current budget for the program as of October 15, 2020, is \$715,468,269.

Below are the changes made from the original budget in December of 2018 to October 15, 2020:

Original Budget Load	<u>\$645,454,808</u>
Kendrick Lakes ES Replace School	(1,806,918)
Wayne Carle MS Addition & General Upgrades	(716,425)
Pomona HS FF&E Phase 2	(402,600)
Coronado ES FF&E	(316,425)
Dutch Creek ES FF&E	(311,814)
Arvada HS FF&E	(305,378)
Sheridan Green ES FF&E	(302,800)
Green Gables ES FF&E	(282,701)
Trailblazer Stadium Efficiency & Future Ready	(258,016)
Lasley ES FF&E	(240,625)
Foothills ES FF&E	(233,700)
Foster ES FF&E	(207,750)
Welchester ES FF&E	(187,145)
Hutchinson ES FF&E	(177,200)
Allendale ES FF&E	(169,519)
Hackberry Hill ES Efficiency & Future Ready	(160,574)
Green Mountain HS FF&E	(156,500)
Adams ES FF&E	(152,725)
Eiber ES FF&E	(151,400)
Patterson Cottages Efficiency & Future Ready	(126,849)
Hutchinson ES Efficiency & Future Ready	(86,413)
Everitt MS Library & Furniture & Fixture	(74,835)
West Jefferson MS Efficiency & Future Ready	(74,175)
Witt ES FF&E	(72,425)
Adams ES Efficiency & Future Ready	(61,507)
Lukas ES FF&E	(54,176)
Coronado ES Efficiency & Future Ready	(51,977)
Lumberg ES FF&E	(28,250)
Kendrick Lakes ES FF&E	(25,340)

CTE South New School FF&E	(22,250)
Columbine HS FF&E	(17,900)
Parmalee ES FF&E	1,500
Slater ES Asbestos Abatement	6,084
Semper ES Efficiency & Future Ready	41,130
Foster ES Addition & General Upgrades	49,500
Green Gables ES Efficiency & Future Ready	55,693
Lukas ES Efficiency & Future Ready	70,100
Ken Caryl MS FACS CR + Bldg Signage	78,029
Wilmot ES FF&E	87,800
Pomona HS FF&E	90,913
Arvada K-8 Efficiency & Future Ready	102,682
Kyffin ES FF&E	109,000
Conifer HS FF&E	111,750
Kullerstrand ES FF&E	131,375
Stober ES FF&E	131,775
North Transportation-Joyce Renovation	134,876
Maple Grove ES FF&E	162,125
Creighton MS FF&E	162,251
Fremont ES Efficiency & Future Ready	164,725
Manning School Addition & General Upgrades	167,440
Jefferson HS FF&E	175,500
Ryan ES FF&E	183,000
Ken Caryl MS FF&E	188,133
Summit Ridge MS FF&E	192,838
Ralston ES Efficiency & Future Ready	194,129
Dutch Creek ES Efficiency & Future Ready	201,470
Three Creeks K-8 FF&E	209,576
Belmar ES Efficiency/Future + Paving	220,730
Columbine Hills ES Efficiency & Future Ready	239,245
Stober ES Efficiency & Future Ready	247,822
Foothills ES Efficiency & Future Ready	248,437
Devinny ES FF&E	251,375
Vivian ES Efficiency & Future Ready	299,855
Fremont ES FF&E	309,100
Fitzmorris ES FF&E	326,250
Belmar School of Integ. Arts FF&E	342,050
Welchester ES Efficiency & Future Ready	345,035
Evergreen HS Storm Drain Repair	389,281
Witt ES Efficiency & Future Ready	390,411
Manning School FF&E	429,020
Eiber ES Efficiency & Future Ready	520,898
Dennison ES FF&E	528,035
Alameda Intl Jr-Sr Asb Abate Ph1	535,099
Alameda HS FF&E	551,500
Parmalee ES Addition & General Upgrades	575,567
Carmody MS FF&E	672,500
Arvada K8 FF&E	710,075
Three Creeks K-8 Addition & General Upgrades	747,729
Bell MS FF&E	753,250

Westridge ES HVAC	763,502
Charter adjustment for actual count and interest	864,359
DW HVAC	1,314,441
Green Mountain HS Addition & General Upgrades	1,346,795
DW roofing	1,635,329
Ralston Valley Roof	1,670,244
New DW projects added	2,253,403
Conifer HS Addition & General Upgrades	3,014,852
Arvada HS Addition & General Upgrades	3,466,575
Wilmot ES Addition & General Upgrades	5,057,526
Districtwide projects - budgets pulled from site VAR under \$1M	5,084,126
Columbine HS Addition & General Upgrades	7,338,247
DW Site Improvements	8,169,903
Alameda HS Addition & General Upgrades	11,194,402
DW Field Improvements	11,239,411
Current Budget as of October 15, 2020	<u><u>\$715,468,269</u></u>

The original budget has been increased by \$70,013,461. These variances represent projects under budget, over budget and scope changes.

- During the review, it was noted that \$9,552,220 in projects planned from the 2019 annual Capital Transfer (19M Program) were in the bond project scope. These projects started in early 2018, in case the bond did not pass, and were planned to be completed. These projects were added to the bond budget. It should be noted that the capital transfer money dedicated for these projects will be used for the bond program. Therefore, \$9,552,220 of 2019 annual Capital Transfer must be added to the capital transfer savings over the six years to accurately reflect the funding dedicated to the 2018 Capital Improvement Program. See the revised total bond budget with the revision below.
- Adding variances over \$500,000 totals \$70,007,768, an indication (seen in the table above) that reviewing variances over \$500,000 would capture the majority of budget increase and triggers additional review by the CAAC.

Listed below are the projects with variances over \$500, 000, the reason for the overage, and CAAC and Board of Education (BOE) review dates from the construction department:

- Eiber ES Efficiency & Future Ready: Scope increased to include play pad and parking lot paving and reclamation of site from modular removal. Approved by BOE 4/2/2020.
- Alameda HS FF&E: This is an estimate, selections have not been made nor ordered.
- Parmalee ES Addition/Renovation: Base bid was under budget, two alternates were added, one to build out a music room, the other to convert the current Kindergarten into administration and vice versa and install a secure entry. The difference between the low bidder and second low bidder on the kindergarten/administration alternate was \$100K. Approved by BOE 10/01/2020.
- Carmody MS FF&E: This is an estimate, selections have not been made nor ordered.
- Arvada K-8 FF&E: This project was originally to be funded by the 19M Program, noted above. Scope included replacement of furniture throughout.

- Three Creeks Classroom Addition: Guaranteed maximum price (GMP) in the pre-COVID market, construction occurred in an occupied building. BOE approved 8/22/2019.
- Bell MS FF&E: This is an estimate, selections have not been made nor ordered.
- Green Mountain HS Addition/Renovation: Relocate water line, extensive site work, expanded scope of food and nutrition kitchen, pre-COVID market conditions were such that subcontractors had been approved by the BOE in January 2020 to lock them into a contract. Interior work was originally staged and to be performed while the building was occupied. Construction Manager/General Contractor (CM/GC) delivery method with GMP, approved by BOE 4/2/2020. Currently under construction, not a final cost.
- Ralston Valley HS Roof: This project was originally to be funded by the 19M Program, noted above. Original budget \$2.6M, work was \$1.0M under budget. BOE approved 2/7/2019.
- Conifer HS Addition/Renovation: Site conditions, rock, working in occupied building & site, mountain area market conditions, CM/GC delivery method, discussed with CAAC 2/6/2020, approved by BOE 3/5/2020. Currently under construction, not a final cost. A year ahead of schedule.
- Arvada HS Addition/Renovation: Working in occupied building, existing conditions, HVAC replacement, CM/GC delivery method with GMP. Discussed with CAAC 6/6/2019, approved by BOE 11/7/2019. Project in closeout.
- Wilmot ES Addition/Remodel: Site conditions, replaced main gas line, high water table, insufficient water pressure required fire pump, Evergreen/mountain area pricing. Working in occupied building. CM/GC delivery method with GMP. Discussed with CAAC 9/5/2019, approved by BOE 10/7/2019. Project in closeout.
- Columbine HS Addition/Renovation: \$2M additional for replacing and looping waterline around building and adding fire hydrants. Directed by leadership to increase entry security and exterior beyond original scope added \$3.4M. Working in occupied building, CM/GC delivery method with GMP. Discussed with CAAC 2/6/2020, approved by BOE 3/5/2020. Currently under construction, not a final cost.
- Alameda HS Addition/Renovation: The largest and most expensive and complex project in the CIP. A thorough review of the existing west end was performed, it was determined that adding square footage and doing an overhaul of the area would be more expensive than constructing a new academic wing similar to what was done in 2008. An addition/renovation of the west end would require relocation of students or greatly increase the project schedule if work was limited to summers. Removal of the west end and a partial reconstruction consisting of an east new academic wing, along with admin, music suite, LMC was best approach and had the least impact on student learning. Additional utility infrastructure and site redevelopment was required. CM/GC delivery method with GMP. Discussed with CAAC 2/6/2020, approved by BOE 5/7/2020. Currently under construction, not a final cost.
- New DW projects: Some of these projects were originally to be funded by the 19M Program. These are miscellaneous projects that include irrigation systems, stage curtain rigging, gym divider curtains, elevator code upgrades, modular building removal. These projects may not have had a defined budget. Projects of a similar nature in multiple locations are best combined, but each DW type is bid separately and does not exceed the threshold for BOE action.
- DW Roofing: Involve four sites, Lakewood HS, Eiber ES, Green Gables ES and Wilmot ES. Roofing consultant performed an evaluation of seven sites and identified these four as

most critical. The recommendation was complete replacement instead of partial. Identified as project to CAAC 1/3/2019, bid among four roofing contractors, approved by BOE, two on 3/5/2019 and two on 4/4/2019.

- DW HVAC: Boiler and pump replacement at Bell MS, chiller replacement at Drake MS. Consultant identified more scope to the work at Bell than was planned for; chiller failure at Drake resulted in having to replace it. Approved by BOE 5/2/2019.
- Site Improvements: Six sites. Overage due to change from asphalt track base to post tensioned concrete. Golden & A-West turf approaching end of life cycle, decision made to replace now instead of one to two years out. CM/GC delivery method with GMP. Discussed with CAAC 2/6/2020, approved by BOE 3/5/2020. Currently under construction, not a final cost.
- Field Improvements: Some of these projects were to be funded through the 19M Program. Eight sites. Overage due to change from asphalt track base to post tensioned concrete due to soil conditions. Artificial turf at Lakewood HS, Evergreen HS, and Conifer HS originally scheduled for replacement under 19M Program. CM/GC delivery method with GMP. Discussed with CAAC 1/3/2019, approved by BOE 4/4/2019.

Revised budget after issuance (actual capital transfer with 19M, no interest included)	
Actual proceeds from issuance	\$ 326,490,000
Premium from issuance	50,165,349
6 years capital transfer and portion of 19M	134,955,106
Remaining authorization	240,510,000
Issuance costs	(1,655,349)
	\$ 750,465,106

Interest, net of bank fees, recorded through September 30, 2020 equaled \$11,713,929.

Revised Contingency	
Starting contingency after issuance	\$95,458,078
Adjustment to capital transfer	9,552,220
Interest through September 30, 2020	11,713,929
Revised contingency prior to revised budget	116,724,227
Contingency allocated with revised budget as of September 2020	(70,013,461)
September 30, 2020 contingency	\$46,710,766
Percent of program contingency allocated as of September 30, 2020	60%

Contingency

There are two types of contingencies in the bond program:

1. Project specific contingency; 10% built into each project.
 - a. The current contingency in projects is \$37,410,593.
 - b. This is from actual contingency lines and estimates of 10% on projects still in planning phases.
2. Program contingency; bond program contingency not allocated to a specific project, \$46,710,766.
3. Total contingency currently in the bond program \$84,121,359.

Program contingency will fluctuate throughout the program. In addition to increasing with interest earnings, as individual projects finish, unused project contingency will be moved to program contingency. Increases in project activities will deplete the contingency as the projects start and may replenish as projects finish.

Historically, contingency usage is not a straight-line rate. Depending on the risk of projects and scheduling, rate of usage may be higher during certain project cycles compared to others. During the review, the following is information from Tim Reed about the projects currently in construction and contingency:

Construction Project Methodology & Delivery

A capital program of this magnitude and complexity requires a varied approach to delivering the projects. Monitoring the market, seeking the best approach to receiving value for the work, awareness of availability of labor and materials, being aware of IRS arbitrage regulations are all considered when selecting the best method of construction.

High value and complex projects were scheduled first. These were high school projects that included significant renovation, additions, furnishings, and site development. The planning time could take a year prior to construction starting. Because of the complexity of these projects it was decided to use a Construction Manager / General Contractor (CM/GC) approach. The advantages are the CM/GC is involved during the design, can monitor pricing, produce realistic schedules and is in contact with the marketplace allowing the design team to make modifications that work with the current construction conditions. In the case of these projects, the CM/GC would be working in occupied buildings requiring a high level of coordination with the Construction Management team and school leadership.

There are disadvantages to the CM/GC method; they tend to be more expensive. The CM/GC will provide a guaranteed maximum price (GMP) for the work. The GMP is usually provided before final drawings are complete, usually at 90%; they are sufficiently developed to receive subcontractor bids. The GMP will also carry a contingency to cover unknown conditions that may arise either due to the incomplete drawings or unforeseen job conditions. Receiving a GMP in lieu of a 'hard bid' results in a four to six week reduction in the schedule.

The CM/GC method has been used primarily at the high school projects and the artificial turf and all-weather track projects. Due to the complexity of these projects and the magnitude, the use of contingency will be greater than with other less complex projects.

The 'design, bid, build' (DBB) approach has been used for the majority of the projects in the Program. A consultant prepares the drawings and specifications, contacts several pre-

qualified contractors, and the contractors bid against each other. The District enters into an agreement with the low bidder (usually) and the contractor completes the work. The proposal is based upon what is included in the drawings; should modifications arise a change order covering the costs is executed. Each project carries a 10% contingency to cover possible changes due to unforeseen conditions or changes/modifications to the original scope. The DBB is used for less complex projects or those with a shorter schedule. DBB is the most competitive method. In a competitive market, it can be advantageous to an owner, providing good pricing. In a tighter market, the number of bidders may diminish and pricing will be higher.

“Bundling” of projects is used where there are a number of the same type of project. In the case of this Program, this technique is used for roofing, paving, HVAC, LED lighting, flooring, playgrounds. These are projects that a specialty contractor performs and may consist of four to twenty (LED) projects of the same limited type at different locations. The costs assigned to this work are subtracted from the overall project budget and a new budget is built from a series of similar projects.

The benefit of having a specialty contractor instead of a general contractor is a savings of overhead and profit that would be applied to a, for example, roofing contractor, proposal. This approach also results in lower consultant costs, since the specialty consultant designs to the specific project without an architect or engineer overseeing and applying overhead and profit to their proposal. These projects are bid in the same manner as the DBB, method amongst pre-qualified specialty contractors.

Furnishings, Fixtures and Equipment (FFE): Early in the Program, the planning team worked with the education departments to develop furniture and equipment standards. From these standards, catalogs were developed. Working with the Purchasing Department, the selections were distributed to select vendors to provide price quotes. School leadership teams are provided the catalogs and select FFE. This method allows for cost control, standardization with flexibility over product selection, and a school’s ability to add FFE on their own when site resources are available, that will be compatible with that provided by the Program.

The Construction Market: At the start of the Program, the local construction market was very strong and pricing was on or over budget. CM/GC projects in design were reflecting the market conditions. DBB proposals varied with projects being bid early in the calendar year more in line with budgets versus those bid in spring when contractor workloads were filling up and prices rising. In March 2020, when the district closed buildings due to COVID-19, those contractors with projects under construction were directed to take advantage of the empty buildings and complete as much work as possible. Contractors who were awarded work in first quarter 2020 were also directed to proceed with construction rapidly. Over \$100M in construction was performed in the March to September period, when schools reopened to in-person learning.

In periods where the construction market is tight, scope is carefully monitored with alternates identified and bid as a way to increase the value of the project. When the market is favorable to the District, more work has been bid, larger projects are moved up in the design schedule, alternates are still added to projects and, with the currently favorable climate, more alternates are being selected.

IRS Arbitrage Regulations: 85% of the proceeds from the sale of bonds, any premium and interest received on the proceeds must be spent within three years of the bonds' issuance. In the case of the first issuance, the 85% amount is approximately \$330M to be spent prior to January 1, 2022. The number of projects currently under construction, in design and scheduled for spring 2021 bidding should assure the target will be reached in second calendar quarter of 2021.

Budget to Actual Review:

Two projects show over budget on the reports:

- CTE South (Warren Tech) \$289,860: Funds from the career tech 5A monies will be used to help with the setup of the program. (Refer to the Adopted Budget book and quarterly reports for information on 5A fund uses).
- Jeffco Net upgrade \$3,000,000: A BEST grant for \$2M was awarded for the project with the remainder being funded by Information Technology.

This report was prepared by Kathleen Askelson, former chief financial officer, Jeffco Public Schools, 2014-2020. Prior to becoming the chief financial officer, Kathleen was director of Finance and actively worked on the 1998, 2004, 2012 and 2018 bond programs. Kathleen helped with the design and roll out of the current facility master plan that is updated annually to provide an ongoing evaluation of the district's capital assets. In addition to supporting the district team on the Capital Asset Advisory Committee, Kathleen has been involved with audits by external auditors, the IRS, and performance audits with successful outcomes for Jeffco Public Schools in all cases.