



**MEETING NOTES**

**MEETING:** **Bond Oversight Committee Meeting**  
2012 HISD Facilities Capital (Bond) Program

**LOCATION:** Hattie Mae White Educational Support Center  
Conference Room 2E02  
4400 West 18<sup>th</sup> Street  
Houston, Texas 77092

**DATE:** 29 July 2015 **TIME:** 8:30 A.M.

<b>PRESENT:</b>	<b>Bond Oversight Committee (BOC)</b> Mr. Michael G. Davis Ms. Jessica Diaz Mr. D.V. "Sonny" Flores Mr. Craig Johnson Mr. David Quan Mrs. Phoebe Tudor Mr. Gary J. White	<b>Houston Independent School District (HISD)</b> Mr. Leo Bobadilla, Business Operations Ms. Cheryl Smith, Business Operations Mr. Sundaresh Kamath, CFS Mr. Derrick Sanders, CFS Mr. Dan Bankhead, CFS Ms. Sue Robertson, CFS Mr. Andreas Peebles, CFS Ms. Alexis Licata, Business Assistance Ms. Iva Martinov, Business Assistance Ms. Yesenia Taylor, Business Assistance Ms. Sherrie Robinson, Controller Ms. Tonya Savoie, Controller's office Ms. Christine Manrique, CFS Mr. Joe Hill, CFS Ms. Sara Butler, Bond Communications Ms. Rebecca Kiest, Bond Communications Ms. Jade Mays, CFS Mr. John Gerwin, Construction Audit Ms. Tiffany Silva, Construction Audit
<b>ABSENT:</b>	Mr. Robert M. Eury Mr. Martin Debrovner	
<b>GUEST:</b>	Mr. Joe Hill	

The general purpose of the meeting was to brief the Bond Oversight Committee on the current status of the new construction and renovation projects funded through the 2012 Facilities Capital Program. Related issues, questions and activities were also discussed.

**Item 1 Welcome**

Leo Bobadilla, Chief Operating Officer, called the meeting to order at 8:37 a.m. and introduced Sundaresh Kamath, the new Officer for Construction and Facilities Services (CFS). He called attention to the slideshow showing work underway and noted his excitement at seeing projects under construction. Mr. Bobadilla noted that while there are challenges, the right team is in place to address them.

Mr. Kamath welcomed everyone and noted his pleasure at joining CFS. He reported there is exciting news to report despite the record rainfall and difficult bidding environment that is a reflection of hard work being done by bond staff. He stated that HISD is underway with the



largest volume of projects in HISD's history. Mr. Kamath then reviewed the agenda for the meeting.

**Item 2 April 28, 2015 Oversight Committee Meeting Minutes**

The committee approved the minutes as presented.

**Item 3 Bond Construction Update**

Derrick Sanders, General Manager of Facilities Construction informed the committee that thirteen projects are under construction. He noted that Group 2 projects are moving into the Design Development (DD) phase and that seven Construction Manager At Risk (CMAR) contracts have been executed for Group 3 & 4 projects. Mr. Sanders reviewed details of the work underway at several schools.

Craig Johnson noted that it appeared most of Milby had been demolished. Mr. Sanders responded that only the historic portion is being renovated; the majority of the project will be new construction.

**Item 4 Bond Design Update**

Mr. Dan Bankhead, General Manager of Facilities Design reported that all Group 2 projects currently in DD will complete their design by end of 2015 except one. He noted that since the last meeting, design charrettes to kick off and develop the concepts for the thirteen projects in group 3 and 4 were held.

Mr. Bankhead reported some of the Group 2 projects faced budget challenges but by working with campus administration, PAT, and CMAR, cost-effective strategies were identified to bring the projects into budget. Mr. Bankhead noted there had been no compromise of quality or program and that the teams worked hard to not eliminate spaces, kept 21<sup>st</sup> century learning environments as a focus, and that in some cases the efforts resulted in a better design.

In response to a question from Michael Davis, Mr. Bankhead stated that the primary challenge resulted from increased construction and labor costs. He noted the unfavorable environment was evidenced by a lack of bidders as well as the high demand for materials. He reported that on one project, the CMAR recently determined that masonry would be more cost effective than concrete, which previously had been recommended. Mr. Bankhead noted that an advantage of using the CMAR delivery was learning of these cost trends prior to the completion of the design documents. Mr. Davis asked if any spaces were deleted from schools in order to meet budget. Mr. Bankhead stated that no core or main spaces were removed; instead the designs were made more efficient. He continued that in some cases non-essential facilities were deferred so that the core spaces could be afforded and an acceptable level of quality maintained.

Gary White asked if the completion schedule was impacted by addressing the budget challenges and how project reserves were affected. Mr. Bankhead reported that a portion of the reserves and all inflation budgets were moved into the construction budget for all projects. He continued that schedules had been affected; some of the Group 2 projects



would be slightly delayed. He reminded the committee that the planning and design of Group 3 and 4 projects were expedited so that if desired, they could be constructed early to stay ahead of inflation.

Mr. White asked if bonds would be sold early if construction proceeded earlier than initially planned. Sherrie Robinson answered that inflation, carrying costs and arbitrage regulations all impacted the sale dates for bonds.

Phoebe Tudor asked if all budgeted funds had been used to increase the construction budgets. Mr. Bankhead stated that reserves and inflation had both been tapped to increase the construction budget for all projects.

Mr. Johnson asked what percentage of each budget line item was moved. Mr. Bobadilla introduced Joe Hill, who assisted with the 2007 bond program and the initial 2012 budget development, and asked him to respond to Mr. Johnson's question. Mr. Hill noted that in 2012, inflation was in the range of 3-5% and the bond program budgets were developed with 7-8% annually for inflation or about 20% over the typical project duration. He noted this would support construction costs up to \$195 per square foot. However, according to the Association of General Contractors, the average in the Houston area was \$210/sf earlier this year and could reach \$233/sf in the future. He reported that based on actual inflation a potential shortfall of \$211 million has been calculated and reported to the Board of Trustees. Mr. White asked how the shortfall was being addressed. Mr. Bobadilla mentioned that addressing the market impacts had caused the schedule delays while negotiations, exploration of different materials and/or methods and redesign were undertaken. Further discussion involved these and other strategies to help address current market conditions.

In response to a question from Mr. White, Mr. Hill noted in 2014 some projects were awarded below \$195 per square foot but in 2015 some were above this figure.

Mr. Bobadilla explained that each project retained a contingency budget to address any future unknowns. Mrs. Tudor asked if that meant that funds could be moved from one project to another. Mr. Bobadilla noted in 2007 after a project was finished, remaining funds were moved to program reserves. Ms. Tudor noted in 2007 that some of the last scheduled projects didn't receive everything they desired.

Ms. Tudor asked if funds could be moved from later projects to ones earlier on the schedule. Tonya Savoie responded that no funds are moved until a project is completed. Mrs. Tudor asked if deferred items would be completed before contingency funds were moved from a project. Mr. Bobadilla noted that this would be a discussion with the Board. Mr. Bobadilla stated that no money is being moved from one project to another without the Board adjusting project budgets.

Mr. White asked if contingency funds can address amenities or can only be used for unknowns. Mr. Bobadilla said contingency is initially to be used only for unknowns.

In response to a question from Mrs. Tudor, Mr. Bobadilla stated action by the Board of



Trustees would be required to increase a project's overall budget. Mr. Johnson reminded the committee of 2007 bond funds that weren't used to improve a school slated to be demolished in the 2012 bond program. He asked if schools that were under budget would be allowed to construct the non-essential facilities. Mr. Hill expressed his appreciation for the remark about the 2007 bond procedure and noted he expects that this same procedure will be followed for the 2012 program; once the advertised scope was completed, the Board of Trustees approved a budget realignment using remaining funds to create a program-wide fund, which then addressed budget gaps on some projects. Mr. White noted the importance of emphasizing the advertised scope. Mr. Hill noted the budgets include funds for unknowns, especially for renovation projects. Even though the inflation and reserve dollars have been allocated to construction, there should be sufficient funds for unforeseen and that the hope is that not all projects will require their use.

Mr. Johnson asked how long the contingencies were held after the projects were completed. He noted several schools he was familiar with have roof leaks within a few years of their completion. Mr. Bobadilla noted that all buildings have warranties and those warranties should address the type of issues noted by Mr. Johnson. He also stated that he intends to have discussion with the board about future maintenance budgets for new facilities. Mr. Bobadilla continued that if issues were the result of failure of work by a contractor that should be reported and tracked. Mr. White asked for an explanation of this reporting mechanism. Mr. Bobadilla stated that in addition to completion inspections, the school reports through maintenance requests. Sonny Flores noted there is also typically a warranty walkthrough. Mr. White inquired regarding inspections once the project was out of warranty. It was noted that both the school administration and the plant operator typically are the first to be aware of any issues. Mr. Bankhead noted during each of the design submittals, teams from maintenance review the plans to share lessons learned from the field.

David Quan inquired about the schedule for financial closeout of the project. Mr. Bobadilla said once construction is complete, the project will also be closed out financially. Mr. Quan asked if this was after the warranty period. A discussion about warranty and closeout followed. Mr. Kamath noted that many systems, roof, HVAC, electrical, etc., have longer warranties but most are 12 months. Mr. Sanders noted that roof leaks would be a latent defect and as such should be handled by manufacturer. Mrs. Tudor asked for confirmation that once the warranty period is completed, that the board would need to approve moving remaining contingencies. Mr. Bobadilla stated that once projects are completed and no other financial obligations exist, unencumbered funds move to program reserves.

Sue Robertson mentioned three documents that are inviolate, the "blue sheet," which describes the scope for each 2012 project, the Educational Specifications, which are customized for each school based on a standard template, and the Design Guidelines, which state HISD's expected quality levels. She noted that delivering on the bond commitment necessitates meeting the requirements of these three documents.

Jessica Diaz expressed concern that Group 4 projects might not have as aesthetically pleasing results as projects from earlier groups. Mr. Quan concurred and noted it was his takeaway that Group 1 projects had a greater chance of an aesthetically pleasing school than the latter groups. Mr. Bankhead responded that all groups were being treated similarly. Ms. Robertson stated that to date, no project has been able to afford all the non-essential



amenities that the PAT wished to see included in the project. Mr. Hill noted that cost issues arose while the Group 1 projects were in design so those projects faced the same issues as the latter groups. Ms. Robertson noted that all projects have gone through the same planning, design and scope to budget efforts.

Ms. Tudor asked if there were a standard percentage of soft costs vs. hard costs. Mr. Bankhead stated that 25-30% of the total budget was allocated for soft costs.

**Item 5 Business Assistance (M/WBE) Report and Community Outreach**

Alexis Licata, General Manager of Business Assistance, announced that 51% of professional services are awarded to M/WBE firms and commitments from the CMAR firms range between 20% and 40%. Ms. Licata noted that the Mentor Protégé program had been completed and that Workshop Wednesdays continued. She informed the committee that Goodwille Pierre, LLC invited HISD to present information on the district's M/WBE program. This presentation was led by the chair of the Board of Trustees. In response to a question from Mr. Johnson, Ms. Licata responded that the Workshop Wednesday program includes both informational sessions and opportunities for networking. Mr. Davis asked if a commitment of 100% meant the firm was an M/WBE. Ms. Licata answered in the affirmative and noted in some cases the contractor also meets or exceeds the M/WBE goals in their subcontracting.

**Financial Reports**

**Item 6** Sherrie Robinson, Controller, reviewed the quarterly financial report, noting that \$459,626,853 has been committed either through encumbrances or actual expenditures. She reported this is up \$35 million since the last report. Ms. Robinson reported that \$690 million of bonds have been sold and the next sale is likely to be in late October or early November. In response to a question, Mr. Flores was told that the last bond funds would likely be spent in 2018. *(Subsequent to the meeting, it was recognized that the response should have been 2020.)* Mr. Flores advocated slowing down the program as he believed the high construction costs currently being experienced may be reduced due to the lower cost of oil and its negative impact on the Houston economy. Mr. Hill noted his agreement mentioning slowing inflation and recently announced job losses. Mr. Hill also noted that the bond interest rates being paid are lower than what was expected. Mr. Bankhead noted that planning and design had been accelerated so that the district has the option to accelerate the construction schedule but that no decision had yet been made on whether to do so.

**Bond Communications**

**Item 7** Ms. Robertson, General Manager, Facilities Planning (on behalf of Sylvia Wood) reported on communication efforts over the last quarter. She noted that the focus has been on being more proactive and this effort included coaching Program Managers and Architects on effective communication. In addition to preparing for four community meetings, Bond Communications held an internal workshop on the use of social media. Ms. Robertson noted that work is underway on the annual mailer.

Mr. Davis asked how budget concerns were shared with communities. Ms. Robertson noted that a narrated version of the PowerPoint presentation to the Board of Trustees was an agenda item at a PAT meeting at each campus. Mr. Bobadilla noted that this subject is also





**Item 8**

**Looking Ahead**

Mr. Kamath noted that it is a daily challenge to assure that projects are not compromised but the team is well equipped and is doing a good job to assure that parity is maintained throughout the program. He noted that all projects are currently in design and that within the next month there will be six community meetings, and two high schools will break ground.

In response to a question from Mr. White regarding the traffic light report, Mr. Sanders noted that all of a project's issues are discussed when determining the status of a project and that usually if a budget issue is going to affect schedule, the traffic light becomes yellow. Mr. Sanders reviewed several projects to explain the rationale used to turn the traffic light from green to yellow.

Ms. Diaz asked whether once a completion date is revised and reported does the traffic light change back to green. Mr. Sanders noted her understanding was correct and stated that the change in date will be reported in a transparent manner prior to the change in the traffic light.

In response to a question from Mr. Johnson, it was stated that no funds were lost by terminating one CMAR contract and executing a contract with a different CMAR.

In response to a question from Ms. Tudor, Mr. Sanders noted that a new CMAR had been awarded the work at HSPVA as terms could not be agreed with the original CMAR. When asked if this had resolved the budget issues, it was stated that the district was in a better position but still was working to resolve. Mr. Davis asked about the procedure for switching CMARs. Mr. Sanders stated that if the CMAR delivery method will continue to be used then the second ranked CMAR is contacted. If it is determined that it is in HISD's best interest to use a different contracting method, then action by the Board of Trustees is required.

In response to a question about the status of Bellaire, Ms. Robertson reported that the large school size and small site at Bellaire has provided many challenges particularly as related to swing space. She noted that various iterations of numerous options have been explored. Currently an option is being explored with the many stakeholders. Mr. Quan asked if the option to "flip" the campus was again being explored. Ms. Robertson stated that the "flip" option was opposed by nearby residents, the city and the PAT, and therefore was not currently under consideration. Mr. Quan stated he understood moving students off campus was also not acceptable to the school. Ms. Robertson stated this resulted in phased options that are expensive and not achievable within the budget. Mr. White asked if a better solution had been offered by any of those who have objections. Ms. Robertson noted that renovation of the existing building had been proposed and while complicated is being explored.

There being no further questions or discussion, the committee entered Executive Session.

The information outlined above reflects the author's understanding of the key discussions and decisions reached during this meeting. Should you have any additions and/or clarifications to these meeting notes, please notify the author in writing promptly. These notes will be relied upon as the approved record of the meeting, unless a written notice to the contrary is sent to the author within seven (7) days of the submission of these meeting notes. *(Prepared by Construction and Facilities Services)*