



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 18th Street
Houston, Texas 77092

DATE: 27 January 2015 **TIME:** 8:30 A.M.

PRESENT:	Bond Oversight Committee (BOC) Mr. Gary J. White Mr. Martin Debrovner Mr. D.V. "Sonny" Flores Mr. Robert M. Eury Mr. Craig Johnson Mrs. Phoebe Tudor Mr. David Quan Ms. Jessica Diaz	Houston Independent School District (HISD) Mr. Leo Bobadilla, Business Operations Mr. Mark Miranda, Business Operations Mr. Robert Sands, CFS Ms. Sue Robertson, CFS Mr. Dan Bankhead, CFS Mr. Derrick Sanders, CFS Mr. Andreas Peebles, CFS Ms. Alexis Licata, Business Assistance Ms. Sherrie Robinson, Controller Ms. Tonya Savoie, Controller's office Ms. Sylvia Wood, Communications Ms. Christine Manrique, CFS Ms. Mary Rochon, CFS Mr. John Hill, CFS Ms. Sara Butler, Bond Communications Ms. Rebecca Kiest, Bond Communications Ms. Jade Mays, CFS Mr. Chris Barnett, CFS Mr. John Gerwin, Construction Audit
ABSENT:	Mr. Michael G. Davis	
GUEST:	Mr. Rodney Bell, Prime Construction Mr. Lee Dodson, Prime Construction	

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**
Robert Sands, CFS Officer, called the meeting to order at 8:35 a.m. and welcomed everyone to the meeting.
- Item 2 October 28, 2014 Oversight Committee Meeting Minutes**
The committee approved the minutes as presented.
- Item 3 Bond Construction Update**
Mr. Sands informed the committee that within the last three to four months issues with market inflation and the project budgets have developed. He noted that the presentation being shown to the Oversight Committee was previously presented to the Board of Trustees. He noted the presentation outlines HISD's efforts to address the high degree of escalation in

HOUSTON INDEPENDENT SCHOOL DISTRICT



the construction industry and recommendations in order to meet the promises of the 2012 Bond Program.

Item 4 Rising Demand and 2012 Construction Costs

Sue Robertson, General Manager of Facilities Planning, noted the first point made to the Board during their recent workshop is that 2012 Bond program will deliver on all commitments.

Ms. Robertson reminded the committee that an economic boom such as the current one has not been seen in Houston since the 1980s. She noted that even though it is good for the City, it is not necessarily positive for the bond projects. The high demand for construction labor and materials has brought about unprecedented escalation. She reminded the committee of information shared in the previous Oversight Committee meeting. In 2012 the average cost for new school construction was about \$146 per square foot, according to the State Controller's Office. The 2012 bond project budgets were developed using an average of \$160 per square foot, the difference was to allow for inflation. In 2013 the average cost per square foot rose to \$153 and for the projects bid late in 2014 the cost reached \$210 per square foot, which is a 44% increase since the bond referendum.

Ms. Robertson reported on the efforts underway to address this budget gap while preserving the programmed spaces. 100 percent of the inflation funds and 50% of the project reserve funds within each project's budget have been reallocated into its construction budget. This results in an average of \$182 dollars per square foot for construction. Ms. Robertson noted however that this is still short of the funding needed given the current market. She stated that the team is reviewing each project to determine what cost saving methods can be implemented to allow the project to be built within the reallocated construction budget.

Gary White asked if the reallocation of the inflation and reserve budgets was done from a system-wide fund or from each project's budget. Ms. Robertson responded the reallocation was done within each project.

Sonny Flores asked about the process for determining that \$210 per square foot was the current construction cost. Ms. Robertson responded that the figure was based on design phase estimates and actual bids received. Dan Bankhead, General Manager of Facilities Design, also confirmed that early Guarantee Maximum Prices (GMP) from contractors also confirmed this square footage cost. Ms. Robertson noted that while the construction budgets have been reallocated, there has been no change to the overall \$1.89 billion program budget.

Craig Johnson asked how Group 1 projects that are underway are being affected. Ms. Robertson responded there are two categories within Group 1. One group includes projects that have been bid and a GMP within budget has been received and approved. The second group includes projects that have not yet bid or the GMP has not been submitted because it is not within budget. Mr. Sands noted those are a concern because there can continue to be a rise in construction costs.

Martin Debrovner asked if the approved GMPs were based on the original budget or the original budget plus inflation. He asked if funds from the inflation budget from a project under



contract could be used on a separate project. Mr. Sands commented that the revised budgets for all projects were developed using the same formula - the original budget plus 100% of the inflation budget and 50% of the project reserves budget. He stated that each project is budgeted individually and that to date no funds have been moved from one project to another. Ms. Robertson further clarified that each project has its own distinct budget and it is not the district's intention at this time to move unused dollars from one project to another.

Ms. Robertson noted that at each design submittal, every project undergoes a scope-to-budget reconciliation process to confirm that the design is affordable. This process involves the preparation and reconciliation of estimates from the Architect, the Construction Manager at Risk (CMAR) and the Program Manager. Once the estimates are reconciled and the design modified as necessary to keep the project within budget, authorization to proceed to the next design phase is given. Unfortunately in some cases, the actual bids have been significantly higher than the estimated costs. She noted that the reallocation of escalation and a portion of the reserves have addressed this gap for some projects. In others, it has provided a reduction in the gap sufficient so that after negotiations the budget and GMP align.

Ms. Robertson reiterated to the committee that budgets are not being reduced. Rather, while the overall project budget remains constant, the construction budgets are increasing. She noted that within the challenging market all efforts to meet the educational needs are being made. She stated that unanticipated events occur, so scope to budget alignment and negotiations with the CMAR will continue. Ms. Robertson reported that more effective communications with the school and PAT of the scope to budget issues are underway. Additionally, it was noted that various methods of communication for different communities will be used. As an example, Ms. Robertson remarked that in some communities the bond website is an effective communication tool while in other communities the church bulletin is the best way to share information. She noted the team is committed to determine which method of communication works best for each project and their community.

Ms. Robertson also noted that the evaluation of market trends and the strategic timing of the projects will be a focus for the team. She noted that during the workshop, the Board listed revisions in timing as an alternative to be considered. It was suggested that rather than accelerating the projects, it could be more economical to bid the projects when the economic conditions have cooled. This option is being researched. Ms. Robertson informed the committee that no final decisions has been made. Additionally, she made it clear that no decisions will be implemented before the communication to the project's community, the Oversight Committee and the Board of Trustees has occurred. Ms. Robertson noted that the bond program is a process, not an event, patience is required as various options and solutions are explored.

Phoebe Tudor stated that it was her perception that communication had been successful until the fall of 2014 when there were periods of silence. Ms. Tudor noted that there were community reports of budget negotiations and changes made to projects. She noted her appreciation that the team intends to have good communication because rumors spread quickly. She stated her belief that's it is good to continue to find ways to communicate with the public. Leo Bobadilla, Chief Operating Officer, agreed with Ms. Tudor and noted that during the bidding and GMP process that it is often necessary to contain information during



the negotiations; however it is important to keep the community informed of the status of the project so that they are aware that progress is being made.

Robert Eury noted that in the committee's materials, there was discussion about moving quickly on Groups 3 and 4 projects in order to stay ahead of cost escalation. He stated that while it would be wise to accelerate the design, it would be better to determine when to start construction based on market conditions. He suggested that rather than accelerating construction that it could be prudent to delay it or rebid some projects in order to see improvement in the bids received. Mr. Eury suggested research at the micro-economic level to determine the trends with the construction market just not for institutional construction but heavy industry or other sectors also. Mr. Sands noted that any drop in the price of oil may produce a small dip in construction prices but other construction markets also heavily influence the cost of schools. He noted that the healthcare market is still huge and thriving. Mr. Sands acknowledged that when bids were received in November and December the reality of the current market was fully realized. Previously, it was thought that accelerating Groups 3 and 4 could be the best solution. However, he noted that the peak could be taking place currently so reevaluation and research of future cost trends while the designs are completed seems to be a wise course.

Mr. Eury stated that as design moves forward with Groups 3 and 4 projects it will be critical to clearly communicate the strategy. The various communities need to understand while the design could be finished well ahead of the initial schedule, that doesn't mean that construction will start immediately as was the case with Group 1.

Mr. Debrovner stated his belief is that there will be an economic slowdown but that it could be longer than anticipated before we start seeing a reduction in construction costs.

Mr. White stated that the team needs to continue to communicate with everyone that the program is a work in progress in the middle phases and not at the end.

Mr. Flores expressed that if he were a parent in a Group 4 PAT, he would start making calls if Groups 1, 2 or 3 were going to take money from Group 4 projects. Ms. Robertson agreed with Mr. Flores and stated that at this point there is no inclination or plan to do that. Mr. Sands noted that each project has an individual budget and that no one intends to move funds from one project to another. He noted that doing so would be a Board of Trustee decision.

Mr. White expressed concern with the traffic light report. He stated that even though the scope to budget process is underway on a project, it is reported as a green light, which the committee understands to mean the project is on track. He suggested that there needs to be an indication to the public and the committee that the project is facing issues but that they are being addressed. Mr. White stated that only projects that are within budget and on scheduled should be reported as a Green Light. Mr. Bobadilla recognized Mr. White's concern and noted that his team had also discussed this issue. He noted this was particularly true during the GMP process because until the negotiations are completed the traffic light status is not known. One possibility is to replace the traffic light with a note stating that GMP negotiations are underway. Once the GMP is approved, then the traffic light report would be updated.



Mr. Bobadilla stated the bond program will continue to be very dynamic; he stressed that it is not an event, it is a process. Mr. Bobadilla noted that it takes time to review each project, determine the issues and their magnitude and develop a plan to address them. Mr. Bobadilla noted his belief that the best option is to continue to move forward making decisions in the best interest of each of the school communities. He informed the Committee that at upcoming PAT meetings the agenda will include a budget presentation similar to that shown to the Board of Trustees and the Oversight Committee. Additionally, the principals of the schools have been made aware of the concerns and the path forward. Mr. Bobadilla noted that the team hears a lot of concerns from the school communities. He noted that the team is just as concerned but intend to deliver on the promises made. Mr. Bobadilla reported that the program remains as it was approved by the voters; \$1.89 billion. He reminded the committee that since the election 44% of the purchasing power has however been lost, but no project's construction budget has been reduced. He stated, in fact, they have been increased by the reallocation of other funds within the project.

Mr. White asked if there are any contingencies outside of each project's budget. He noted that the team has analyzed each project so that after any reallocation that the contingency that remains is enough to address unforeseen construction events. He noted that the alternative to reallocating the reserves was to make significant program reductions. The goal has been to find the proper balance between meeting the promises of the bond while maintaining a reasonable contingency for any unexpected issues.

Item 5 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.