



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 October 2015

TIME: 8:30 A.M.

PRESENT: **Bond Oversight Committee**

Mr. Michael G. Davis
Ms. Jessica Diaz
Mr. Robert M. Eury
Mr. D.V. "Sonny" Flores
Mr. Craig Johnson
Mr. David Quan
Mrs. Phoebe Tudor
Mr. Gary J. White

Houston Independent School District (HISD)

Mr. Ken Huewitt, Deputy Superintendent
Mr. Jason Spencer, Chief of Staff
Mr. Lenny Shad, Chief Technology Officer
Ms. Helen Spencer, Chief Comm. Officer
Ms. Sandy Hellums, Counsel
Ms. Cheryl Smith, Business Operations
Mr. Sundaresh Kamath, CFS
Mr. Derrick Sanders, CFS
Mr. Dan Bankhead, CFS
Mr. Brian Busby, CFS
Mr. Andreas Peebles, CFS
Ms. Yesenia Taylor, Business Assistance
Ms. Sherrie Robinson, Controller
Ms. Tonya Savoie, Bond Finance office
Ms. Sara Butler, Bond Communications
Ms. Rebecca Kiest, Bond Communications
Ms. Jade Mays, CFS
Mr. Richard Patton, Chief Audit Executive
Mr. John Gerwin, Construction Audit
Ms. Mary Rochan, CFS
Ms. Ozella Whalton, CFS
Ms. Holly Huffman, Media Relations
Ms. Ashlea Graves, Government Relations

ABSENT: Mr. Martin Debrovner

GUESTS: Ms. Connie Esparza
Mr. Alex V Rios
Ms. Ericka Mellon
Ms. Laura Isensee
Mr. Pat Cullen
Mr. Ben G. Wilson
Mr. Gerald Monroe

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**

Sundaresh Kamath, CFS Officer called the meeting to order at 8:33 and welcomed the participants and guests. Mr. Kamath noted that there has been much headway on the bond projects. He stated his staff was prepared to answer what he believed would be a number of questions. He then introduced a short video showing the construction progress since the last quarterly Oversight Committee meeting.

HOUSTON INDEPENDENT SCHOOL DISTRICT

Construction and Facility Services • 3200 Center Street • Houston, Texas 77007-5909
www.HoustonISD.org • www.facebook.com/HoustonISD • www.twitter.com/HoustonISD



Item 2 July 29, 2015 Oversight Committee Meeting Minutes

Mr. Kamath noted the minutes of the previous meeting were in the back of each member's binder and Mr. Flores made a motion and the committee approved the minutes as presented.

Item 3 Bond Construction Update

Mr. Kamath introduced Derrick Sanders, General Manager of Facilities Construction to review the construction progress of the 17 projects (including the non-bond projects) under construction. Mr. Sanders reviewed each project individually and updated the committee on the current status. Mr. Kamath noted there is a ground breaking ceremony on Thursday at Furr High School and invited the committee members to attend if able.

Item 4 Bond Design Update

Dan Bankhead, General Manager of Facilities Design reported on the group three and four projects in the design phase. He noted that most have completed the Schematic Design phase and are entering Design Development. He noted that each team has worked diligently to reconcile the scope to the budget. He also informed the committee that Group 3 projects are on schedule while Group 4 projects are ahead of schedule.

Mr., Kamath reminded the committee that in previous sessions they had been informed of the impact of construction pricing escalation to the program. He noted that this resulted in a proposal for supplemental funding to the bond program. It was noted that funding this plan would not require a tax increase. Mr. Kamath informed the committee that the Board of Trustees and the Board's Audit Committee requested a Project by Project Analysis (PPA) of each project's finances. This report was given to the Board and a copy was presented to each member of the Oversight Committee. Mr. Bankhead noted that the design and construction teams continue to develop the projects using the original budgets. He assured the committee that to date neither program nor quality has been reduced.

Mr. White noted that at the last meeting, he understood that the district's promise was to provide the school as outlined by the bond documents. He asked if that would be achieved without the supplemental funding. Mr. Bankhead said to date that has been possible but that there is concern about the ability to do so in the future. Mr. White asked whether the concern included schools already under construction. Mr. Bankhead said generally the schools underway were less of a concern but at Milby, for example, significant unforeseen conditions have been discovered. He stated that while Milby can be completed, it is running very lean. Mr. Kamath noted that in order to fund the construction contracts various budget line items (contingency, FF&E, etc.) were used to some degree on each of the projects. Mr. Kamath stated the supplemental funding if approved will return monies to these budgets. For Group 3 and 4 projects, the supplemental funds will purely address escalation. Mr. Johnson asked for and received confirmation that there was no transfer of funds between projects. Mr. Johnson asked which projects required movement of funds from other budget line items. Mr. Bankhead responded that all projects awarded before December 2014 were contracted using only escalation and contingency funds while projects awarded since then have required funding from other line items such as testing and FF&E.



Robert Eury noted that at the last meeting there had been discussion of the possibility of delaying projects so that the slowing local economy might result in lower construction pricing. Mr. Bankhead noted that discussions with developers and economists on this subject led to the planning and design for Group 3 and 4 projects being accelerated. Mr. Sanders noted that a number of Texas school districts have bond referendums on the ballot this year which could offset slowing construction in other markets. Mr. Kamath remarked that the expedited designs will allow each project to be bid at the most opportune time.

David Quan asked for clarification as to how funds were reallocated within a project – how would transfer of FF&E budget to construction impact the furniture purchased for the school. Mr. Bankhead responded that there would likely be a lower quantity not a reduced quality. He further stated that generally speaking, the budgets first used were those for moving, testing, etc. Mr. Quan asked if there was a difference in the bidders prior to December 2014 which could explain the price increase. Mr. Sanders stated that the same bidders were participating and that the cost increases appeared to be strictly related to market conditions.

Sonny Flores asked why HISD wasn't trying different delivery methods to address the cost issues. Mr. Kamath responded that in addition to Construction Management at Risk (CMAR) the Competitive Sealed Proposal (CSP) method for obtaining construction was also being employed. Mr. Kamath continued that supply and demand was driving up project costs for both methods. Mr. Sanders noted that the last three bids were CSP which was employed after termination of CMAR. In response to a question from Mr. Flores, he confirmed these projects were over \$30 million each.

Mr. Quan asked what costs Cy-Fair ISD was experiencing. Mr. Sanders reported their costs were \$268 per square foot and they are dealing with same escalation. It was noted that Katy ISD is contracting around \$217 per square foot.

Mr. Eury asked for clarification that the projects could be completed without the Supplemental Funding by reducing FF&E and other line items or are the last projects in danger of losing their funding. Mr. Bankhead noted that was not the case, the intent is to finish all projects. Gary White asked what had been removed from the projects so that they can to be built within their budget. Mr. Bankhead noted that each project has addressed this issue individually but in general there was a reduction in some of the building's features. Among the examples he listed were: interior glass walls reduced by 50%, fewer operable partitions, fewer exterior windows, etc.

Michael Davis asked if the PATs were involved in determining how to address budget issues. Mr. Bankhead stated the PATs have been engaged throughout the process. Mr. Davis questioned if the community was involved in decisions like reducing glass by 50%. Mr. Bankhead said they were but the campus administration is more involved since some issues directly related to the educational program of the school. Mr. Kamath noted that while the community remains involved, the conversations become more and more difficult as the impact of the economic issues increase.



Mr. White asked if the current supplemental funding request is sufficient or will additional requests be forthcoming. Mr. Kamath stated that based on information available today, it is sufficient. He stated however that it is impossible for anyone to fully know the economic future. Mr. Kamath stated that based on best projections available through the end of the program, the supplemental funding request should be sufficient.

**Project by
Project
Analysis**

The group then decided to review the Project by Project Analysis (PPA) rather than at the end of the agenda as originally planned.

Mr. Bankhead identified each of the columns on the analysis and how they were determined. Mr. White asked how HISD could award more than was budgeted. Mr. Bankhead noted that after working with the design team to “tighten the belt” as much possible and negotiating with the CMAR, if required to award the construction contract, monies were moved from other line items within a particular project’s budget.

Sonny Flores reminded the group that the committee had previously been informed that monies are not being moved between projects. Mr. Kamath confirmed this was and remains the case.

Mr. Bankhead noted that the PPA compares the expected contract amount for each project to the current budget and the difference between those amounts is the total supplemental funding being requested.

Ms. Tudor noted that the information provided for the contracted projects is straightforward but expressed concern that the Board of Trustees may be unwilling to allocate additional funding for a project until bids are received. Mr. Bankhead stated that if supplemental funding is provided, the design teams will not have to remove features from the projects, whereas if the funding isn’t provided until the design is complete and bids received, redesign will be required.

Ms. Tudor asked about the status of third party audit. Richard Patton, Chief Audit Executive stated that the Board has not yet determined if another audit is going to be undertaken. Mr. Kamath noted that while the escalation figure is in dispute, there is no dispute that there is escalation. Ms. Tudor noted that the inflation figure in dispute impacts the total increase that would be needed. Mr. Kamath stated that the Board authorizing the supplemental funding would not necessarily mean the funds would be spent; they would only be allocated to a project if needed after bids were received.

Mr. Eury noted the internal audit referenced a national escalation rate not a local one and therefore using the local figure was the fiscally conservative way to determine. He asked if the supplemental funding will be tracked separately and not used if not needed. Mr. Kamath stated this was the case. The Board would be authorizing the funds to be available but it would be necessary to go back to the board for specific project increases.

Ms. Tudor asked about the allocation of the supplemental funding between projects. She noted that distributing it proportionally did not seem appropriate. Mr. Bankhead stated that the Board had asked for the PPA for that reason.



Ken Huewitt, Deputy Superintendent stated that until the Board advises differently, CFS is proceeding based upon the original budgets. If the Board approves the supplemental funding request, then the funds can be made available if needed. Mr. Huewitt noted however that if deflation occurs, which some have suggested, the funds might not be needed. He stated the additional funding will not be obtained unless needed.

Mr. Patton clarified that the audit was not written to get into an argument about the inflation rate but the auditors were unable to find a published construction escalation rate. Mr. Quan inquired about using anecdotal information. Mr. Patton stated that they used published documents and did not want to use data from contractor groups (ACG) as those are not independent groups. Mr. Quan asked why there was such a large variance between the audit's costs and escalation figures and those reported or estimated by CFS. Mr. Patton stated that much of what is being reported as escalation by CFS is contractor negotiated higher costs. Mr. Eury stated Houston is a hot market which differs from the national data. Mr. Kamath stated that the RS Means and ENR data which the audit relied upon comes from the same contractors as the AGC data. He noted that using the 8% total escalation from 2012-2015 suggested by the Audit to escalate the original \$160 per square foot budget would result in a cost today of \$176 per square foot. Mr. Kamath noted he was unaware of any districts building schools in the Houston area at that low a cost per square foot. Mr. Bankhead agreed and noted that the CMAR that built Carnegie-Vanguard recently re-priced that school based on the original plans. The building was built for around \$160 per square foot but would now cost \$210-\$215 per square foot. He noted that whether the change was attributed to inflation or escalation, it was the cost in Houston's current market.

Mr. Quan asked if any of the suggested cost control proposals from the Audit can be implemented. Mr. Kamath noted CFS was open to suggestion and improvements. One of the items noted in the audit was the lack of bids. Mr. Kamath noted it was difficult to get numerous subcontractor bids in the current market but that efforts have been underway and will continue to be made. Mr. Patton noted that part of the cost increase is the lack of competition. Mr. Bankhead noted that the amount of commercial construction underway draws subcontractors to larger commercial projects as they provide more profit. Mr. Eury stated only way to address the shortage of bidders is to delay the program in the hopes that a slowing Houston market will mean less competition. Mr. Eury stated however in his opinion delaying is not an acceptable alternative. Mr. Patton noted the audit ties the lack of competition to higher costs but he did not consider that to be inflation.

Returning to the agenda, Mr. Bankhead reviewed several projects with challenges. The PPA reports that Bellaire is facing challenges ranging from lack of community consensus on design and site plans to phasing options and parking facilities, which have led to a delay in implementing the project and a potential \$20 million dollar shortfall.

Ms. Tudor noted her concern that sufficient time wasn't spent prior to the bond budgets being developed. She stated her belief that using the same formula for each school on a per student basis does not seem to result in budgets reflective of the needs at each individual school. She also questioned the grossing factor of 38%. She noted other districts use 50%



or more. Mr. Bankhead addressed her concern regarding the grossing fact noting that it forced the architects to design efficiently and frugally. Ms. Tudor suggested it might be better prototypes argue her point; having a known design allows for the budget to be more specific to the project's design. Mr. Eury suggested including funds for future projects for advance planning and design. Mr. Kamath noted that other districts often do this.

Continuing with his review of projects with issues, Mr. Bankhead noted Davis needs supplemental funding due to the previously unknown existing conditions. For HSPVA, the second level of underground parking was not originally budgeted and therefore the supplemental funding is needed. At Lamar, the City has not agreed to the full parking variance and is requiring more parking than the budget will allow. Mr. Bankhead noted that due to unforeseen conditions and title issues, Milby requires additional funding. Sharpstown's phasing and bid amounts have resulted in the need for supplemental funding whereas at Washington, the redesign and rescheduling due to the unforeseen site conditions (geographical fault) have increased the project costs.

Mr. Bankhead concluded by reporting that Groups 3 & 4 are progressing well and almost all have held their first community meetings. He stated that by the end of the year, all will be finished with Schematic Design,

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

Yesenia Taylor, Supplier Diversity Team Lead, Business Assistance Office, announced that 51% of professional services have been awarded to M/WBE firms and that commitments from the CMAR firms range between 20% and 30%. Ms. Taylor noted that 19 applicants have completed the mentor protégé program. She also directed the Committee members to Page 125 of the binder which reviews the workshops and outreach events offered for M/WBE firms.

Item 6 Financial Reports

Sherrie Robinson, Controller, reported that \$205 million has been spent with an additional \$339 million encumbered. She noted that detailed information including a breakdown by project can be found on page 131 of the binder.

In response to a question, Mr. Robinson noted that Finance works with the bond office to determine when bond sales are needed and expects that the next is likely to be in the first quarter of 2016.

Item 7 Bond Communications

Sylvia Wood, General Manager, Business & Bond Communications, provided an overview of communications efforts since the beginning of the bond program as well as over the last quarter. She issued the attached handout which identified these efforts. Ms. Wood reported that the department has worked with the Program Managers to enhance community engagement. Additionally, she noted that HISD is active on social media and has worked directly with HISD leadership to assist in delivering information regarding the escalation issues. Ms. Wood concluded by noting that the quarter ahead will be busy with Community meetings, ground breakings, etc.

Item 8 Looking Ahead

Mr. Kamath summarized the meeting and noted construction will continue on a number of projects. He stated that Notices to Proceed will be issued on a number of projects before the next committee meeting. He also informed the committee that Grady and Worthing (Phase 1) are both expected to be ready for students in early 2016.

Mr. Eury noted that HSPVA is shown as a red light on the traffic light report and asked for its status. Mr. Sanders noted that bids were just received and are currently under review. Mr. Sanders confirmed that the garage was priced separately.

Item 9 Project by Project Analysis

The committee continued discussion of the PPA.

Mr. Flores noted that Sue Robertson, General Manager of Facilities Planning was absent. Mr. Sanders informed the committee that Ms. Robertson had been in a car accident with minor injuries and was home recuperating.

Ms. Tudor asked about the status of the supplemental funding request. Mr. Kamath stated the PPA had been presented to Board and to internal audit. He noted that the board may elect to have an audit done by an external firm prior to making a decision on whether to approve the supplemental funding.

Mr. Quan noted that the supplemental funding request only addresses increases in construction and asked if there was similar escalation in the project's other costs. Mr. Kamath stated that Furniture, Fixtures & Equipment, technology, and construction testing costs are not increasing at the same rate and therefore a shortfall is not projected. Mr. Quan stated that from the public's standpoint, an additional funding request at a later date would not be positive. Mr. Kamath pointed out to the committee that a line item for soft costs is included in the supplemental funding request. Mr. Bankhead noted most of the soft costs are expended in the beginning phases of projects, so most have already been expended.

Ms. Tudor asked if the Board needs to hear that CFS is willing to implement some of the audit suggestions. Mr. Kamath stated CFS has responded and will be sitting with Board to discuss. Mr. Quan stated he agreed with Ms. Tudor and suggested that the response calling into question the items was counterproductive. He believes that the public and therefore the Board would react positively to CFS acknowledging suggestions that can be implemented. Mr. Kamath noted that CFS works with Construction Audit regularly and welcomes their input. He stated all staff members are open to improvement.

Ms. Tudor noted her appreciation that CFS was willing discuss the recommendations from the audit with the Board and asked if there was a mechanism for doing so. Mr. Huewitt stated he was working with Board to facilitate their understanding of the supplemental funding request. He stated the Project by Project Analysis report will assist greatly in the board's understanding. He stated that the discussions will take place this week.



Mr. Flores asked if the board would approve the third party audit. Mr. Hewitt stated that is a board decision and they may determine one is not needed once their concerns both financial and operational are addressed.

Jessica Diaz asked how the goal of 21st century schools was being maintained with the budget driven reductions that have been discussed. Mr. Sanders replied that one of the reasons for the supplemental funding is to maintain that goal. Mr. Huewitt stated the goal of the program is to build the schools that community desires and that while currently it appears additional funding will be needed, that if the construction market changes, and the supplemental funding isn't needed it won't be spent.

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.