



Date: July 13, 2020
To: Board of Education
From: Dan Jung, Chief Operating Officer
Subject: 2020 Bond Budget Summary

Over the past several months staff have developed potential 2020 bond scopes of work and associated costs, ranging from relatively small facility improvements to full school modernizations. This document provides a summary of the 2020 bond cost budgeting efforts to date.

OVERVIEW

All budgets are based upon the best available data. It's worth noting that data sources can vary in detail and specificity. Sources used for bond estimates include the recently completed Facilities Condition Assessment (these are "high-level" estimates based upon rapid visual inspections), completed project cost data (scope specific data but not project specific) and in the case of the high school modernizations, estimates from professional construction cost estimators, among other sources.

Cost estimates change over time as new information is learned and conditions change. To account for inevitable fluctuations various risk management strategies are used to contain costs and align scope with budgets. Examples we use include (i) utilizing project specific contingency budgets; (ii) including a robust program contingency budget; (iii) targeting a range of improvements for less defined scopes of work; and (iv) allowing flexibility in the bond language to modify scope and funding to address highest priorities as conditions change over time.

Staff has met with the Bond Accountability Committee (BAC) six times to review 2020 bond cost estimates, with the most recent meeting on June 30. Estimates in this update reflect input received from the BAC. Additionally the BAC will be provided the enclosed information to allow for any additional comments/recommendations to staff and the board.

The cost updating efforts over the past several weeks have not changed overall costs significantly. For example, in the table below Column A summarizes the 2020 bond option provided at the July 9 board work session (which primarily utilizes the estimating data from May 2020). Column B is the same option with the updated estimates. The total change is less than 1%.

	A	B	C (B-A)	
	7/9/2020 OPTION	7/9/2020 OPTION (UPDATED COSTS)	DELTA	
MODERNIZATIONS	620,000,000	619,000,000	-1,000,000	
EDUCATIONAL IMPROVEMENTS	179,044,000	170,844,000	-8,200,000	
PHYSICAL FACILITY IMPROVEMENTS	198,500,000	200,800,000	2,300,000	
CAPACITY	0	0	0	
CONTINGENCY & ADMINISTRATION	149,631,600	158,503,040	8,871,440	
TOTAL	1,147,175,600	1,149,147,040	1,971,440	0.17%
TOTAL - ROUNDED	1,150,000,000	1,150,000,000	0	0.00%

MODERNIZATIONS

CONCEPTUAL MASTER PLANS

In early 2020 staff completed Conceptual Master Plans (CMPs) for Cleveland HS, Jefferson HS and Madison HS. The goal of the CMP process was to provide a high-level scope of work for each project with an associated budget. After the November 2020 vote, all high schools that are included in the 2020 bond will complete the master planning process, which will include (i) additional community and stakeholder engagement; (ii) identifying the final modernization option; (iii) aligning the scope of the selected option with the district's High School Education Specifications; and (iv) finalizing the project budget.

The CMPs were informed by the district's High School Education Specifications, Design Guidelines and input from staff, stakeholders and the community. The construction cost estimates were provided by a professional construction cost estimator with additional design, permitting and other associated soft costs calculated based upon recent project data. Below is a summary table, including updated project budgets.

Jefferson HS	Preferred Option A	Preferred Option C	1000 Students	New Construction
Renovation / New Construction	Renovation	Renovation	Renovation	New Construction
Base Estimate	305,000,000 *	317,000,000	281,000,000	276,000,000
Base w/ Seismic Upgrade	311,000,000	323,000,000	286,000,000	281,000,000
Cleveland HS	Preferred Option 1	Preferred Option 2	Preferred Option 3	
Renovation / New Construction	Renovation	Renovation	New Construction	
Base Estimate	305,000,000	304,000,000 *	240,000,000	
Base w/ Seismic Upgrade	311,000,000	310,000,000	244,000,000	
Wilson HS	Preferred Option E	Preferred Option G	Renovation	
Renovation / New Construction	New Construction	New Construction	Renovation	
Base Estimate	252,000,000	251,000,000 *	251,000,000	
Base w/ Seismic Upgrade	256,000,000	255,000,000	256,000,000	

* Staff Recommended Option

JEFFERSON - NEW CONSTRUCTION OPTION

The CMPs are informed by the district's High School Educational Specifications which identify a student enrollment target of 1700 students. The CMP process for Jefferson reviewed several potential modernization options and identified 2 preferred options, both of which included a student enrollment capacity of 1700 and retained the original Jefferson High School building. Prior to completion of the CMP an additional 1000 student capacity option was requested and provided.

A fourth option was requested, after completion of the CMP, that included removing the original high school building and replacing it with new construction. This option is included in the updated cost information. Of note, the new construction option is not based on a specific layout, rather the costs are based upon an estimated building square footage and an assumed cost per square foot provided by a professional cost estimator.

SEISMIC

All new modernization projects meet building code standards for seismic safety. Additionally PPS's current structural standard includes increasing the structural system of one common space within each building to Risk Category IV (immediate occupancy). The intent of this increased structural component (typically the gymnasium or cafeteria¹) is to provide a potential structurally safe relief area if needed in the event of an emergency. Recent discussions have revolved around increasing PPS's standard to require all new construction buildings to meet the Risk Category IV structural standards. As requested, estimates to increase the structural system for new construction buildings to Risk Category IV are included in the modernization budgets as an independent line item.²

ESCALATION

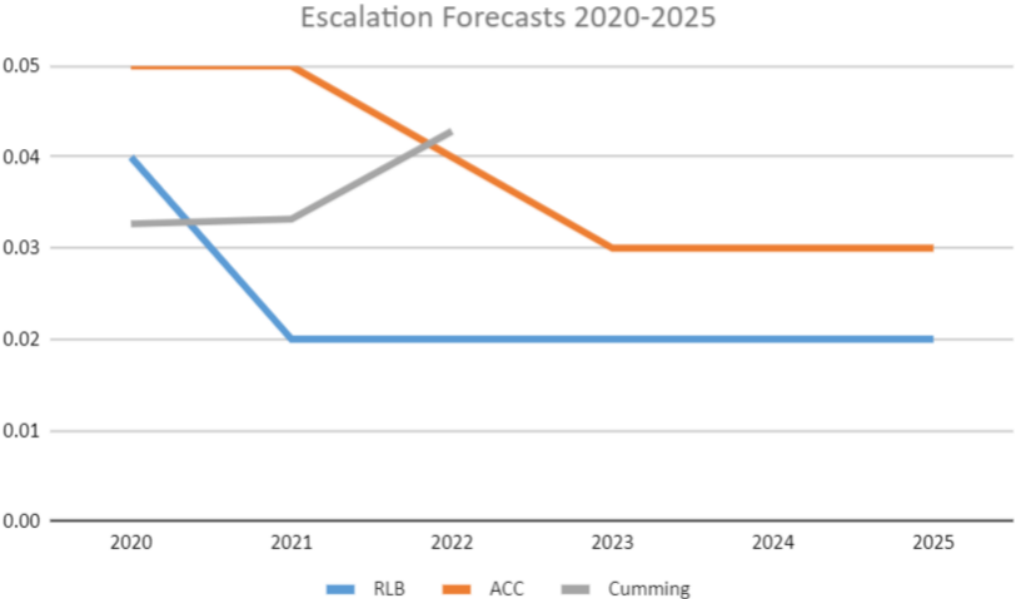
Staff have consulted with 3 professional cost estimators in recent weeks to update forecasted escalation rates based on the current market. Though some forecasts anticipate escalation rates to decrease in coming years, where others forecast an increase in rates, the overall trend appears to be a 3% - 5% increase over the next year, then dropping slightly in coming years.

For the appropriate scopes of work within this bond package, staff has utilized an escalation model that anticipates 4% growth for the next two years, then reducing to 3% growth for remaining years of each individual scope of work. Escalation is typically estimated to the midpoint of construction to account for timing of bidding and purchasing of materials and

¹ Current standards do not specify the space to allow projects to identify the space that is the most useful and has the least cost impact.

² Feedback from our professional cost estimator notes upgrading a building's structure from a Category III (Life Safety) to Category IV (Immediate Occupancy) will only add somewhere between 1-5% (often more toward the lower end of that range) to the total construction cost for a new build, depending on the building's size and geometry. Most CMP modernization options include a mixture of renovation and new construction, however the cost estimates do not separate renovation from new construction costs. For budgeting purposes, 2% has been added to the hard cost estimates for each option.

services, however exceptions do apply. Below is a table of the recent input received from the cost estimators.



2017 PROJECTS (BENSON AND MGP)

Though sometimes referred to as “Benson and MPG” or simply “Benson” the cost to complete all of the 2017 Bond projects is the delta between the total 2017 Bond project budgets and the estimate at completion. Each quarter OSM reports on the overall bond program status and updates the estimate at completion. The last report in May identified a delta of approximately \$202 million. Below is a simplified cost breakdown.

2017 PROJECT	BUDGET	ESTIMATE AT COMPLETION	DELTA
BENSON/MPG	78,702,500	357,728,000	279,025,500
LINCOLN	242,500,000	242,500,000	0
KELLOGG	59,811,150	59,811,150	0
MADISON	201,502,499	201,502,499	0
ACTIVE H&S PROJECTS	119,823,626	119,152,065	-671,561
ADMIN & UNALLOCATED BUDGET	190,197,087	113,826,392	-76,370,695
	892,536,862	1,094,520,106	201,983,244

Included in the estimate at completion is anticipated interest earnings from invested bond proceeds. Early investment projections anticipated total interest revenue of \$34 million over the life of the bond program, however due in large part to the current health pandemic, interest rates have recently dropped dramatically, reducing the overall anticipated revenue to approximately \$21.3 million, a reduction of over \$12 million. Below is a summary of the updated interest projections.

	Original Projection	Updated Projection	Delta
Earned Interest (Through August 2018)	6,500,000	5,582,726	-917,274
Earned Interest (Forecasted) 2017 Issuance	13,500,000	12,528,877	-971,123
Earned Interest (Forecasted) Future Issuance	14,000,000	3,143,898	-10,856,102
Total	34,000,000	21,255,502	-12,744,498

	2017 Issuance	2020 Issuance
FY2018 Actual	4,356,960	-
FY2019 Actual	4,885,069	-
FY2020 Preliminary	3,775,321	777,063
FY2021 Projected	2,197,669	1,673,696
FY2022 Projected	1,769,591	649,204
FY2023 Projected	1,114,163	43,935
FY2024 Projected	12,831	-
	<u>18,111,603</u>	<u>3,143,898</u>
		<u>21,255,502</u>

Based on this information, staff recommends budgeting \$214,000,000 to complete the 2017 Bond projects.

CLEVELAND & WILSON - MASTER PLANNING & DESIGN

Included in the potential 2020 bond scope of work are funds to continue master planning and designing of Cleveland HS and Wilson HS. The intent of these funds is to complete the master planning phase (including finalizing the project modernization option and budget) and proceeding into the design phase in anticipation of a future bond that will include the remaining funds necessary to complete construction.

The Lincoln and Madison projects expended approximately 5% of their total project budgets when they began construction. Taking into account project uniqueness and still undetermined final master plans and schedules, staff recommends allocating approximately 7% of the current preferred option budget for Cleveland and Wilson, which averages to approximately \$20 million for each.

A few notes:

1. It is anticipated that if the cost for this scope comes in below \$20 million, the savings would be rolled into the project budgets to complete construction.
2. The Cleveland and Wilson modernization estimates have been updated to reflect current escalation estimate percentages and durations.
3. The timing of this master planning and design is dependent upon the timing of the future bond (which influences when construction will begin).

CENTER FOR BLACK STUDENT EXCELLENCE

Included in the options for 2020 are funds to support and progress the concept of a Center for Black Student Excellence. It is important to note that this concept does not necessarily refer to a singular physical campus or facility, but rather envisions a broader definition referring to: a geographical community as well as an overall culturally-affirming approach and set of community-developed strategies, aligned towards promoting Black student excellence, from cradle to career. These funds represent a significant investment and step forward in further developing and realizing this vision of Black children, youth, and families thriving. The below table outlines the proposed scope and budget.

Amount	Line Item
\$2 Million	<p>Conceptual Design In concert with Black elders, youth and families, design a Center for Black Student Excellence that:</p> <ol style="list-style-type: none"> 1. Reflects the lived experiences and aspirations for Portland’s Black children; 2. Acknowledges Portland’s (Public Schools) trouble history with institutional, cultural and systemic racism, and centers a community engagement process that leads to healing between PPS (as an institution) and Portland’s Black community; 3. Establishes a robust Center for Black Student Excellence as both a physical built environment and as a designated set of culturally responsive strategies, immediate and long term plans and culturally-specific partnerships to advance Black student achievement in line with “PPS reimagined;” and 4. Is congruent with the Master Design Plan and Academic Programs of Jefferson High School.
\$14 Million	<p>Master Design Plan At minimum, the Master Design Plan should incorporate an interconnected early learning to eighth grade campus(es) congruent with the rebuild of Jefferson HS.</p>
\$2 Million	<p>Community Engagement and Project Management The Center for Black Student Excellence will require culturally specific strategies, outreach and engagement plans that center the lived experiences of our PPS Black families and students. This will require a dedicated team and resources to lead a meaningful process to realize the goals for the Center for Black Student Excellence.</p>
\$42 Million	<p>Construction and Implementation (Phase I) Based on the conceptual design and overall plan for the Center for Black Student Excellence, begin the phased implementation of:</p> <ul style="list-style-type: none"> ● Interconnected Early Learning to Eight Grade Campus(es) that is/are congruent with the Jefferson HS Master Plan and concepts for a Center for Black Student Excellence. ● Potential enhancements to schools in the Jefferson Cohort.
\$60 Million	Total Investment in Bond 2020 Renewal for Black Student Excellence

EDUCATION & FACILITY IMPROVEMENTS - UPDATED 07 13 2020

Beginning in March, staff have utilized the Educational & Facility Improvement Summary document to provide an overview of educational and facility improvement options and budgets. An updated Educational & Facility Improvement Summary is provided herein based on new information, refinement of scope and estimates, and recent feedback.

A few notes:

1. The curriculum scope of work has been updated to reflect full funding for the adoption of more comprehensive instructional resources and materials, across core subject areas (including language arts, math, science, the arts and social emotional learning) as well as resources to support more innovative PPS vision-oriented courses of study (e.g. climate justice, ethnic studies, middle school redesign, experiential education and portfolios, computer science).
2. All estimates (where appropriate) include the updated escalation rates.
3. The most notable decrease in cost is for the SPED Classrooms scope of work. As the estimating assumptions were re-reviewed, staff found some costs (such as overhead and administration) were being accounted for in multiple scopes and have updated the estimates.
4. The most notable increase in cost (with the exception of curriculum) is for the ADA scope of work. As staff re-reviewed the accessibility costs per square foot we realized we were using a lower per square foot estimate than appropriate based on recent work completed (particularly for the elevator work). These numbers have been updated. Please note: the scope of the work has not been reduced, only the estimated cost to complete the work has been reduced.
5. If one or more high schools are included in the 2020 bond, the scope of work for those schools will be reviewed and, if appropriate, removed. The most notable example of this is the ADA improvements for Cleveland, Jefferson and Wilson. Included in the ADA scope is approximately \$8.8 million for improvements at the three high schools, these funds would be removed if one or more schools are included in the 2020 bond. Staff are judicious and mindful of improvements to buildings that are scheduled for full modernization.

CAPACITY & ENROLLMENT

2020 Bond scenarios have included various potential scopes of work to support student capacity and enrollment. To date no specific capital improvements have been identified as required to meet capacity or enrollment needs, however the district is currently undertaking a multi-year enrollment review process that may result in capital needs.

At this time staff is not recommending a specific amount for capacity or enrollment needs, however staff recommends the 2020 bond include a robust program contingency and flexible

bond language that will allow program contingency funds to be allocated to capacity and enrollment needs if/when necessary.

ADMINISTRATION AND CONTINGENCY

ADMINISTRATION

Since 2012 bond administration costs have generally run in the 5% - 6% range. The table below provides an overview of the 2017 Bond program's current administration estimate.

2017		
Management	52,339,534	4.8%
Bond Issuance	5,000,000	0.5%
Corporate Activities Tax	4,400,000	0.4%
Owner Controlled Insurance Program	5,000,000	0.5%
TOTAL	66,739,534	6.1%

Several variables influence administration costs including the type of work managed (technology and curriculum requires less resources; health and safety improvements require more), duration of work, etc. OSM recently approximated a staffing model based upon the \$1.1 billion bond option and estimated total administration cost within the 5% - 6% range. Staff recommends budgeting 6% for program administration. Consistent with previous practice, any bond administration savings will be allocated to bond funded projects.

PROGRAM CONTINGENCY

Program contingency is a risk management tool used to buffer against unanticipated costs. Program contingency is available to cover costs including:

- Estimating errors
- Discretionary scope additions
- Higher than anticipated escalation costs
- Building code or zoning code changes
- Emergency facility needs
- Pandemic related cost impacts
- Additional staff and resources for community engagement
- Or any other unanticipated cost whether it be discretionary or nondiscretionary

It is worth noting that both the 2012 and 2017 bond experienced significant scope increases after passage of the bond. For example, after the 2012 bond vote the high school student capacity target increased from 1500 students to 1700 students, increasing the base high school size from 220,000 square feet to 280,000 square feet during the design of the Roosevelt and Franklin projects.

Anticipating unanticipated costs is by definition challenging, however a few sample scenarios that could require additional resources based upon the recent potential 2020 bond options include:

- Educational Improvements - though we have detailed many of the highest priority educational capital needs, PPS has many other areas that require attention as well including performing and visual arts, athletics, physical education, all user restrooms, CTE, etc. It's conceivable one or more of these categories of work may become a priority in coming years and require capital improvements.
- Facility improvements - recent estimates put the district's deferred maintenance needs at over \$2 billion, with many failing or near failing systems. It's reasonable to assume some additional categories of work may need capital support in coming years including (but not limited to) electrical systems, plumbing systems, playground equipment, exterior closure systems, fire sprinklers, etc.
- Capacity & Enrollment - as noted above the district is undertaking a multi-year enrollment review. Capital improvements to support enrollment needs are a possibility.
- Center for Black Student Excellence - the scope of the Center for Black Student Excellence effort is undefined, and though significant funds are being discussed to support this, additional funding may become necessary as the plans develop.

Staff recommends budgeting no less than 10% for program contingency.

A couple of notes:

- 1) All program contingency funds are ultimately allocated to and spent on capital projects.
- 2) Staff does not recommend forecasting bond premium or interest earnings in the bond budget. Though proceeds can be significant, they are also highly dependent upon the market and largely out of PPS's ability to influence.

EXHIBITS

- a. Educational & Facility Improvements Summary - Updated 07 13 2020
- b. High School Modernization Cost Summary
- c. Bond Options Comparison