

LOS ANGELES UNIFIED SCHOOL DISTRICT

SCHOOL CONSTRUCTION BOND CITIZENS' OVERSIGHT COMMITTEE

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RESOLUTION 2017-36

BOARD REPORT NO. 048-17/18

**FACILITIES BOND PROGRAM STRATEGY TO ADDRESS UNFUNDED AND
PRESSING SCHOOL FACILITIES NEEDS RELATED TO SAFETY, COMPLIANCE
AND INSTRUCTIONAL REQUIREMENTS THROUGH 2018**

WHEREAS, District staff is proposing that the Board of Education take certain actions, as described in Board Report No. 048-17/18, attached hereto, to support the Facilities Services Division (Facilities) Bond Program strategy to address unfunded and pressing school facilities needs related to safety, compliance, and instructional requirements through 2018; and

WHEREAS, Since the establishment of the School Upgrade Program (SUP), Facilities has been focused on prioritizing capital needs, and developing and presenting new project proposals to the BOC and Board; and

WHEREAS, More than 300 projects in the SUP valued at approximately \$4,168,000,000 have been approved by the Board and are currently in various phases of planning, design or construction; and

WHEREAS, Approximately \$3,600,000,000 of the total value of approved SUP facilities work (nearly 90 percent) is in pre-construction, with the remaining approximately \$545,000,000 in construction; and

WHEREAS, After four years of District Staff focusing its efforts on identifying, planning, and designing projects within the Program, many projects are now bidding and transitioning into the construction phase; and

WHEREAS, Following this period of an intensive, multi-year focus on developing new project proposals and acquiring Board approval of these projects, SUP spending targets for three

Bond Oversight Committee

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RESOLUTION 2017-36

FACILITIES BOND PROGRAM STRATEGY TO ADDRESS UNFUNDED AND PRESSING SCHOOL FACILITIES NEEDS RELATED TO SAFETY, COMPLIANCE AND INSTRUCTIONAL REQUIREMENTS THROUGH 2018

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categories of capital need have been nearly reached or exceeded and an immediate and pressing need exists to continue the work to address needs associated with these categories of capital need; and

WHEREAS, District Staff is continuously working to secure new sources of funding; constantly monitoring funding requirements, sources and uses of funds, trends, and changes in the construction industry and economy; and

WHEREAS, District Staff makes ongoing efforts to monitor the Program risk factors mentioned above to ensure they can quickly and appropriately mitigate any potential impacts to the Facilities Bond Program, with the concurrent objective of identifying funding sources to fund increased costs of approved projects and/or enable new projects to be developed; and

WHEREAS, District staff has recently identified funding sources that can be made available to cover possible future cost increases and/or to enable the development of new project proposals; and

WHEREAS, District Staff has made adjustments to project cost estimates and updated its forecast of additional funds anticipated to be needed to complete projects already approved by the Board, and based on these adjustments and a review of Program Reserve funds, District Staff has a high degree of confidence it can complete all Board approved projects, and that it is reasonable to utilize the available sources of funds identified in this proposal to support the development of new project proposals; and

WHEREAS, District Staff has recently evaluated known facilities conditions and needs at schools, State compliance requirements for school facilities, and known instructional requirements for facilities improvements, in order to identify the most pressing school facilities needs that need to begin to be addressed before the end of 2018; and

WHEREAS, District Staff makes monthly reports to the School Construction Bond Citizens' Oversight Committee on the financial status of the SUP, and shall continue to provide regular reports and assessments related to Program risk considerations and potential future funding sources over the next year; and

NOW, THEREFORE, BE IT RESOLVED THAT:

1. The School Construction Bond Citizens' Oversight Committee (the "BOC") recommends that the Board of Education approve District Staff's proposal in support of the Facilities Bond Program strategy to address unfunded and pressing school facilities needs related to safety, compliance, and instructional requirements through 2018, as outlined in Board Report No. 048-17/18, a copy of which is attached hereto in the form it was presented to the BOC and is incorporated herein by reference.

RESOLUTION 2017-36
FACILITIES BOND PROGRAM STRATEGY TO ADDRESS UNFUNDED AND
PRESSING SCHOOL FACILITIES NEEDS RELATED TO SAFETY, COMPLIANCE
AND INSTRUCTIONAL REQUIREMENTS THROUGH 2018
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2. This resolution shall be transmitted to the Los Angeles Unified School District Board of Education and posted on the Bond Oversight Committee's website.
3. That a written response as required by the Charter and Memorandum of Understanding between the Oversight Committee and the Board be provided to the Oversight Committee within 30 days, reporting either on action taken or proposed to be taken in response to this resolution and each recommendation herein.

ADOPTED on Thursday, September 28, 2017, by the following vote:

AYES: 14

ABSTENTIONS: 0

NAYS: 0

ABSENCES: 1

Quynh Nguyen

Quynh Nguyen
Chair

Barry Waite

Barry Waite
Vice Chair



Board of Education Report

File #: Rep-048-17/18, **Version:** 1

Facilities Bond Program Strategy to Address Unfunded and Pressing School Facilities Needs Related to Safety, Compliance and Instructional Requirements Through 2018

October 10, 2017

Facilities Services Division

Action Proposed:

Staff proposes that the Board of Education (Board) approve the following actions in support of the Facilities Services Division (Facilities) Bond Program strategy to address unfunded and pressing school facilities needs related to safety, compliance, and instructional requirements through 2018:

1. Approve the allocation of new sources of capital funds into the Facilities managed portion of the School Upgrade Program (SUP) as follows:
 - \$26,000,000 in interest that has been earned on State bond cash balances; and
 - \$52,000,000 associated with the closeout of projects or programs included in the legacy Two-Semester Neighborhood School Program and Repair & Modernization Program, and the Capital Improvement Program Reserve.
2. With the completion of the Information Technology (IT) school network infrastructure upgrades executed by Facilities under the SUP, approve the reallocation of the remaining spending target, estimated at \$58,000,000, to support enhanced IT scope undertaken as part of comprehensive modernization, seismic modernization, and classroom addition/replacement projects.
3. Approve an increase in the spending targets associated with three SUP categories of capital need that have nearly reached or exceeded their spending target, as follows:
 - \$80,000,000 to the major renovations, modernizations & reconfigurations category of capital need;
 - \$100,000,000 to the critical school repair and safety improvements category of capital need; and
 - \$40,000,000 to the school upgrades and reconfigurations to support specialized instructional programs category of capital need.

Refer to Attachment A for a spreadsheet reflecting the status of the SUP categories of capital need and associated spending targets based on this proposal.

Background:

Overview and Status of School Upgrade Program

On January 14, 2014, the Board approved the establishment of the SUP, the District's latest capital bond program, to support the development of projects that would upgrade, build and repair school facilities to improve student health, safety and educational quality (Board Report No. 143-13/14). At that time, the SUP was valued at \$7,852,970,000 and 18 categories of capital need with associated spending targets were established as the priorities and parameters by which project proposals would be created and presented to the School Construction Bond Citizens' Oversight Committee (BOC) for consideration and recommendation, and

the Board for approval. SUP goals and principles were also set to further focus the development of projects. SUP projects are intended to align with the shared goals that schools should be safe and secure, school building systems should be sound and efficient, and facilities should align with instructional requirements and vision.

Subsequent to the establishment to the SUP, on November 10, 2015, the Board approved an update to the SUP to reallocate and prioritize funding to support improvements to school facilities in order to comply with the program accessibility requirements of the Americans with Disabilities Act (ADA) Title II Regulations. As part of this proposal, the Board also approved several other changes to spending targets to reflect the District's needs and priorities at that time.

Facilities is responsible for 12 of the SUP categories of capital need, nine of which are considered specialized client programs wherein Facilities partners with a different Division or organization within the District to identify priorities for improvements to a particular type of facility. The Facilities managed portion of the SUP is included in the Facilities Strategic Execution Plan (SEP), which encompasses previous capital facilities programs including the legacy Two-Semester Neighborhood School Program and Repair and Modernization Program, as well as the Capital Improvement Program.

Since the establishment of the SUP, Facilities has been focused on prioritizing capital needs, and developing and presenting new project proposals to the BOC and Board. Under the SUP alone, more than 300 projects valued at approximately \$4,200,000,000 have been approved by the Board and are underway. Nearly 90 percent, approximately \$3,650,000,000, of the total value of approved SUP facilities work is in pre-construction, with the remaining approximately \$550,000,000 in construction. After four years focusing on identifying, planning, and designing, many projects are now bidding and transitioning into the construction phase.

With the intensive, multi-year focus on developing new project proposals, SUP spending targets for four categories of capital need have nearly been reached or exceeded. This is not to say that any of these categories of capital need have been completely addressed, but rather that the funding targeted in the SUP to help address these particular needs has been allocated. The District's school facility needs continue to far exceed available funding and no single priority (category of capital need) will be completely addressed within available funding.

The needs associated with the four categories of capital need that have nearly reached or exceeded their spending target have recently been assessed. There is an immediate and pressing need to continue the work to address needs associated with three of these categories of capital need:

- Critical school repair and safety improvements;
- Major school renovations, modernizations & reconfigurations; and
- School upgrades and reconfigurations to support specialized instructional programs.

The fourth category of capital need that has nearly reached its spending target is for projects that enhance facilities to support partnership and community use. This spending target has been allocated to projects to enable 11 new or expanded wellness clinics in high need areas and other prioritized partnership and community use projects. All of these projects are in various stages of pre-construction. While the District continues to have a need and desire to continue to develop new, and improve existing school facilities to enable additional partnerships and community use, based on the recent assessment there is not an immediate need to undertake additional projects at this time.

Sources of Funds

Facilities is continuously working to secure new sources of funding. Moreover, Facilities staff is constantly monitoring funding requirements, sources and uses of funds, trends, and changes in the construction industry and economy. These ongoing efforts help ensure staff can quickly and appropriately mitigate any potential impacts to the Facilities Bond Program, and also provides the opportunity to identify sources to fund increased costs of approved projects and/or enable new projects to be developed.

Staff has recently identified the following four funding sources that can be made available to cover possible future cost increases and/or to enable the development of new project proposals:

1. \$26,000,000 in interest earned on State bond cash balances associated with funding apportioned for Facilities projects. Use of these funds is restricted and may only be used for high priority capital projects similar to those that would be considered eligible for State matching funds.
2. \$52,000,000 associated with the closeout of projects or programs included in the legacy Two-Semester Neighborhood School Program and Repair & Modernization Program, and the Capital Improvement Program Reserve. This is not considered a new funding source for the overall Facilities managed Bond Program. The funding is already in the Facilities SEP, associated with previous capital facilities programs.
3. \$58,000,000 of available funds associated with the completion and closeout of the IT school network infrastructure upgrades category of capital need executed by Facilities. The required projects have been completed under the original spending target amount. This is not considered a new funding source, it is already in the Facilities SEP and is associated with the SUP.
4. \$84,000,000 of Developer Fee revenue for Fiscal Year 2017. This source is added to the Facilities SEP each year under existing Board policy, as indicated in Board Report No. 431-04/05. The use of the funds follow applicable State statutes, Board policy, and the SEP process for the construction of new school facilities.

Very recently SUP projects have started transitioning into the construction phase. The bid results received so far indicate that prices are increasing and that it will cost more to complete already approved Facilities projects than was originally budgeted. With this new information, staff has made adjustments to project cost estimates and updated its forecast of additional funds anticipated to be needed to complete projects already approved by the Board. Based on these adjustments and a review of Program Reserve funds, staff believes it is reasonable to make the sources discussed above available to support the development of new project proposals.

Uses of Funds

Despite the significant investments the District has been able to make in its students' school facilities over the last two decades, District schools are aging, deteriorating, and do not align with instructional requirements. All inferior facilities conditions should be addressed, but the District's capital needs far exceed available funding, so priorities for the expenditure of capital funding must be evaluated to ensure the District's most pressing priorities are being addressed.

Based on a recent evaluation of known facilities conditions and needs at schools, State compliance requirements for school facilities, and known instructional requirements for facilities improvements, the following unfunded needs have been identified as the most pressing:

- Failing school air conditioning systems
- Deteriorated school building roofs
- School buildings damaged by fire incidents
- School buildings and/or rooms deemed unsafe for occupancy
- Removal and replacement of Department of Housing (DOH) relocatable classroom buildings to comply with California Education Code Section 17292
- Addressing neighborhood overcrowding
- New or expanded instructional programs which require a facilities solution
- Incorporating enhanced IT standards into comprehensive modernization, seismic modernization, and classroom addition/replacement projects
- Initiating due diligence activities for yet-to-be identified school sites to receive a future comprehensive modernization project
- Replacement of unsafe student desks and chairs

The identification of the sources of funds described above provides the District with the opportunity to continue addressing unfunded pressing school facilities needs through 2018, and resolve the negative remaining spending target balances.

This proposal does not request approval to authorize any new projects. If approved, individual project proposals will be presented to the BOC for its consideration and recommendation, and the Board for its approval at a later date.

Expected Outcomes:

It is anticipated that the Board will approve staff's proposal which will enable immediate and pressing school facilities needs related to safety, compliance, and instructional requirements to continue to be addressed through the end of 2018 within three SUP categories of capital need that have nearly reached or exceeded their spending target.

Board Options and Consequences:

If the Board does not approve staff's proposal, additional project proposals to: address critical school repair and safety conditions, support instructional programs and initiatives, remove/replace DOH relocatable buildings, and provide neighborhood overcrowding relief will not be developed and presented to the BOC and Board. Moreover, the District may be unable to fully implement its plan to satisfy the requirements of California Education Code Section 17292; the inequity between new and older school facilities will persist, and the backlog of critical school repair and safety needs will continue to grow.

Policy Implications:

Staff's proposal is consistent with the goals and principles of the SUP, the project lists contained in the District's local bond measures, and District policy pertaining to the use and expenditure of Developer Fees.

The expenditure of bond proceeds require legal review to determine bond eligibility; inclusion in the Facilities SEP identifying a defined scope, schedule and budget; consideration by the BOC and approval by the Board. Per the District's Memorandum of Understanding with the BOC, project proposals funded with bond proceeds must be presented to the BOC for their consideration prior to presentation to the Board for action.

Budget Impact:

Staff's proposal increases the spending targets associated with three SUP categories of capital need that have nearly reached or exceeded their spending target, as follows:

- \$80,000,000 to the major renovations, modernizations & reconfigurations category of capital need;
- \$100,000,000 to the critical school repair and safety improvements category of capital need; and
- \$40,000,000 to the school upgrades and reconfigurations to support specialized instructional programs category of capital need.

Staff's proposal also reduces the spending target associated with the IT school network infrastructure upgrades category of capital need executed by Facilities, as the projects have been completed under the original spending target amount.

Moreover, as result of the proposal, and in conjunction with it, the total sources of funds available in the Facilities managed portion of the SUP will be increased by \$162,000,000 (Developer Fees: \$84,000,000; State bond interest: \$26,000,000; and closeout of legacy projects and programs: \$52,000,000). The Facilities SEP will be updated to reflect this proposal and related changes to the School Upgrade Program.

The proposal, if approved, does not authorize funding for any new projects.

Student Impact:

Staff's proposal will enable future project proposals to be presented to the BOC and Board through the end of 2018 to address critical school facilities needs related to safety, compliance, and instructional needs. As a result of staff's proposal, additional work can be undertaken to provide students with a safe and healthy learning environment, and up-to-date facilities that promote learning.

Issues and Analysis:

Approach for New Project Proposals through 2018

Traditionally projects are initially presented to the BOC and Board to authorize funding for both pre-construction and construction activities. An alternative approach is to request initial funding for only pre-construction activities. This approach allows more pressing needs to be addressed through design and Division of the State Architect (DSA) approval and allocates significantly less funding today. Staff has undertaken a preliminary budgeting exercise based on funds available now and known pressing school facility needs. Staff has determined that using this alternative approach for some future projects would allow more of these needs to be addressed sooner because more projects would be ready to start construction when funding becomes available in the future.

Future projects that require a significant period of design may be initially proposed for funding for only pre-construction activities. Pre-construction activities include: due diligence, planning, and design activities, and may include the placement of interim housing and environmental analysis in accordance with the California Environmental Quality Act (CEQA) regulations. This type of project proposal will require staff to return to the BOC and Board at a later date for authorization and funding for construction related activities.

Before a project can proceed into construction, the design, plans, and specifications must be completed and approved by DSA, and CEQA review must be complete, and as applicable, certified by the Board. At least two years are needed to complete these activities and obtain DSA approval. Once DSA approval is obtained, the

District has one year to begin construction activities and may request renewal of the approval for up to three additional years.

In instances where a significant design is not required or other factors necessitate the commitment of the full project budget, staff will propose new project proposals requesting authorization to fund and execute all project related activities.

Risk Considerations and Potential Future Funding Sources

Facilities staff is continuously monitoring funding requirements, existing sources and uses of funds, trends, and changes in the construction industry and economy in order to mitigate potential impacts to the Facilities managed Bond Program. Very recently, SUP projects have started to transition into the construction phase. The bid results received so far are indicating that prices are increasing faster than expected and that it will cost more to complete approved Facilities projects than was originally budgeted. With this new information, staff has made adjustments to project cost estimates and updated its forecast of additional funds anticipated to be needed to complete projects already approved by the Board. Based on these adjustments and a review of Program Reserve funds, staff believes that existing funding sources are sufficient to enable all Board-approved projects to be completed. Staff's proposal preserves the existing Program Reserve, enabling funds to be retained to cover increased costs associated with unforeseen project site conditions, scope increases and cost escalation. Based on these assessments, staff believes the sources of funds identified can be made available to support the development of new project proposals.

Staff has a high degree of confidence that over the course of the next six years additional sources of funds will be identified. The possible future sources appear to be sufficient to fund the construction activities for projects that will be authorized only for pre-construction activities. Future sources of funds may include annual Developer Fee revenue, funds associated with the continued close-out of legacy projects, and State matching funds.

Bond Oversight Committee Recommendations:

This item was considered by the School Construction Bond Citizens' Oversight Committee (BOC) at its meeting on September 28, 2017. Staff has concluded that this proposed SEP amendment will help facilitate implementation of the FSD-SEP and, therefore, it will not adversely affect the District's ability to successfully complete the FSD-SEP.

Attachments:

Attachment A- Overview of SUP Categories of Capital Need and Spending Targets
BOC Resolution

Informatives:

None.

Submitted:

9/22/17

RESPECTFULLY SUBMITTED,

APPROVED & PRESENTED BY:

MICHELLE KING, Ed.D.
Superintendent

MARK HOVATTER
Chief Facilities Executive
Facilities Services Division

REVIEWED BY:

DAVID HOLMQUIST
General Counsel

___ Approved as to form.

REVIEWED BY:

CHERYL SIMPSON
Director, Budget Services and Financial Planning

___ Approved as to budget impact statement.

ATTACHMENT A

SCHOOL UPGRADE PROGRAM SPENDING TARGETS

Upgrading, Building, and Repairing School Facilities to Improve Student Health, Safety, and Educational Quality

		Spending Target			
		Original Board Approved January 2014	Remaining Available As of 8/31/17	Board Action to Increase/ Decrease	Remaining After 10/10/17 Board Action
FACILITIES SERVICES DIVISION STRATEGIC EXECUTION PLAN					
FSD-Stakeholder Programs					
Major Renovations/Modernizations/Reconfigurations to School Buildings	\$4,293,396,567		\$32,821,719	\$80,000,000	\$112,821,719
Critical School Repair and Safety Improvements to School Building Components	\$938,841,200		(\$6,806,018)	\$100,000,000	\$93,193,982
Leverage Partnerships to Provide After School Activities & Programming and Community Use of Facilities	\$50,000,000		\$100,586		\$100,586
Specialized Client Programs					
IT School Network Infrastructure Upgrades Executed by FSD	\$324,486,889		\$58,225,277	(\$58,000,000)	\$225,277
Modernize and Repair School Cafeterias	\$212,000,000		\$35,604,338		\$35,604,338
School Upgrades and Reconfigurations to Support Specialized Instructional Programs	\$193,973,646		(\$2,721,928)	\$40,000,000	\$37,278,072
Build New and Repair Aging Early Childhood Education Centers	\$110,000,000		\$51,234,672		\$51,234,672
Provide/Upgrade Adult and Career Education Facilities	\$91,900,000		\$8,811,661		\$8,811,661
Renovate Special Education Centers - <i>Compliance with ADA Title II</i>	\$50,000,000		\$493,336,976		\$493,336,976
Districtwide Charter School Facilities	\$402,110,000		\$168,214,637		\$168,214,637
Board Member Priority Projects	\$35,000,000		\$27,147,542		\$27,147,542
Local District Priority Projects	\$35,000,000		\$29,225,000		\$29,225,000
INFORMATION TECHNOLOGY DIVISION STRATEGIC EXECUTION PLAN					
Technology Infrastructure and System Upgrades - <i>ISIS, Core IT Network Upgrades, Disaster Recovery Systems</i>	\$151,816,592		\$17,863,644		\$17,863,644
Upgrade and Equip Schools with 21st Century Technology - <i>ITI</i>	\$327,945,106		\$150,086,123		\$150,086,123
Upgrade Districtwide Emergency Radio System Servicing Schools	\$50,000,000		\$35,875,000		\$35,875,000
TRANSPORTATION SERVICES STRATEGIC EXECUTION PLAN					
Replace Aging and Polluting School Buses	\$46,500,000		\$85,000		\$85,000
OFFICE OF THE INSPECTOR GENERAL					
Conduct Ongoing Inspector General Independent Audits of Bond Projects	\$40,000,000		\$29,420,564		\$29,420,564
UNALLOCATED					
Unallocated funds for to-be-determined needs	\$500,000,000		\$0		\$0
TOTAL	\$7,852,970,000		\$1,128,524,793	\$162,000,000	\$1,290,524,793

Additional Funding to be Added to SUP	\$162,000,000
Funding Available from Closeout of IT Network Infrastructure Upgrades by Facilities	\$58,000,000
Total Available (New and Reallocated Sources) for Three Reached/Exceeded Categories of Capital Need	\$220,000,000
Combined Increase to Three Spending Targets for SUP Categories of Need	\$220,000,000