



CHINO VALLEY UNIFIED SCHOOL DISTRICT Facilities/Planning Department

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CITIZENS' OVERSIGHT committee MEETING MINUTES March 21, 2005

The meeting was called to order at 5:02 p.m. with Roger Larkin, Steve Elie, Paul Rodriguez, Geoffrey Vanden Heuvel, Sylvia Orozco, Andy Anderson, Mike Milliner, Gary Larson and Paul Andersen present. Gerald Bruce arrived at 5:06 p.m. and Alan Wapner arrived at 5:27 p.m.

Also Present: Preston Carr, Bill Fawell, Tom Wertanen, Jim DiCamillo, John Grow, and Steve Bachor

1. Approval of minutes from January 10th and 24th, 2005

A quorum of members was not present at the meeting, so the approval of the minutes was postponed.

2. Introduction of new members

Dr. Andersen explained that at the March 3rd board meeting, two new members were appointed to the committee. He introduced and welcomed Sylvia Orozco as the parent/guardian of a student attending CVUSD who is also an active member of the Parent Faculty Association (PFA); and Mike Milliner who is an active member of a bona fide taxpayers' organization.

3. Comments from the public

There were no public comments.

4. Measure M concerns

Mr. Larkin explained that he had received some emails with questions and concerns about Measure M. He asked Dr. Andersen to address the concerns. Dr. Andersen referred to a letter from Mr. Larkin itemizing some concerns he had received through email. Dr. Andersen read the concerns as follows: "1) What are the costs for the program manager, PCM3, and can it be shown that this can or has been a savings to the overall project cost? 2) Is there an update for future Measure M projects? 3) I think we should address the issue of how much money has been spent and how much is left out of the current bonds. This could be accomplished by showing that PCM3 will have this information completed within several weeks and available to the public. 4) What work did B.E. McMurray do outside the scope of their authority and was there any extra cost associated with this work? 5) Show the cost of Don Lugo showing that the project is not \$8 million dollars over budget. 6) I would also like to discuss the COC's involvement in favor of hiring a program manager. I am asking for this as Mr. Truett claims that he cannot show this because the district has withheld financial records."

Dr. Andersen said the first three concerns would be addressed in the Performance Audit and asked Mr. Bachor to speak on these three concerns. Mr. Bachor gave some examples of the value of PCM3's contract with the district, as follows:

- PCM3 is instrumental in closing out the first seven Measure M projects working through various outstanding issues such as over 10% contracts;
- The implementation plan will answer most of the questions and concerns. The implementation plan included setting up curriculum standards, district standards, new contracting mechanisms, roles and responsibilities, new consulting, architectural, construction manager contracts that will have roles and responsibilities cross-referenced;
- During the Walnut bidding process, PCM3 recommended that Vanir Construction perform a second re-bid in August 2004 for the electrical bid package separating the modernization from the growth project which saved just over \$600,000;

- In preparation for the Blue Phase at Don Lugo, PCM3 recommended that the architects and consultants confirm what's underground prior to grading, which cost \$5,000 and netted information that saved the district approximately \$150,000;
- PCM3 recommended keeping B.E. McMurray as the construction manager at Woodcrest at an estimated savings to the district of about \$240,000;
- At Woodcrest, PCM3 advised B.E. McMurray to review and renegotiate pending change orders that were originally forecast at an additional \$130,000 that have now been reduced to -\$1,000.

Mr. Bachor explained that once the plan is implemented, PCM3's staff would be reduced to provide monitoring. He said the new contract documents would protect the district and provide for smooth operation of projects.

Regarding Item No. 3, Dr. Andersen explained that Warren Hennagin from Glenn M. Gelman & Associates has completed the second Performance Audit, ending June 30, 2004. He said Mr. Hennagin was not able to attend tonight's meeting but will be scheduled for the next meeting. His presentation will address the issues regarding where the funds are currently. He distributed and explained a page from the audit entitled, "Statement of Receipts, Disbursements and Changes in Cash for the Year Ending June 30, 2004," as follows:

Receipts	
Interest received	\$ 973,911
Proceeds from issuance of bonds	<u>35,000,000</u>
Total Receipts	<u>35,973,911</u>
Disbursements	
New construction/adds to buildings	9,442,791
Other construction costs and improvements	5,002,025
Building inspections (capitalized)	395,899
Contracted services	1,266,840
Other costs of construction	2,088,984
Equipment	<u>2,410,185</u>
Total Disbursements	<u>20,606,724</u>
Increase in cash	15,367,187
Cash, beginning of period	<u>27,574,436</u>
Cash, end of period	<u>\$ 42,941,623</u>

Dr. Andersen said all of the proceeds from the first issuance have been expended. Mr. Vanden Heuvel asked if a cash flow schedule exists that shows how the \$43 million will be spent and when it will be expended. Dr. Andersen said PCM3 would have that information in their presentation to the board and will spell out the cash flow expectations specifically. Mr. Vanden Heuvel asked approximately how long the \$43 million would last before the district would need more money and if the projects the district is currently working on would consume most of it. Mr. Bachor said the funds were anticipated to last through the 2005 calendar year, and the current projects, as well as the Cortez, Dickson and Buena Vista projects would use most of the \$43 million.

Mr. Vanden Heuvel asked if the district is spending the money as quickly as it practically could, if more could be done if there were more money, or if the current pace is practical. Mr. Bachor said the recommended pace is good, which will average between four and five schools per year through the year 2011. He said it would be a comfortable pace not only for the consultants and the school sites, but also for the administrative staff. He said the Facilities staff is at about 50% of what it should be. Mr. Bachor also explained that the modernization projects should be timed carefully for when the buildings are 25 years and eligible for matching state funds.

Mr. Milliner asked about leveraging of cost for Woodcrest Junior High School and asked if there has been a decrease in the overall cost. Dr. Andersen explained that PCM3 worked with the construction manager, who had given estimates of potential change orders of \$250,000 and \$130,000, etc., for various contractors on the project, and after discussion and direction, the construction manager "managed" the extra costs away without reducing the scope.

Mr. Milliner asked if there were any arbitrage issues related to the bond. Dr. Andersen said the bond funds would be expended within the required three years of issuance.

Regarding Item No. 4 on the concerns list, Dr. Andersen referred the members to the executive summary of the County Audit, specifically to answers 3, 4, 5, and 11, and said a review of those would provide an outline of what was done by B.E. McMurray that exceeded their authority.

Regarding Item No. 5, about the costs of Don Lugo, Dr. Andersen said a presentation would be given during the meeting that might answer this question.

Regarding Item No. 6, about who recommended what as far as project management, construction management, and program management, Dr. Andersen offered the following:

- Warren Hennagin of Glenn M. Gelman & Associates, in the 2003 audit, specifically recommended additional project management support and project oversight, which Dr. Andersen interprets as being additional staff, such as district or professional staff.
- The genesis of additional construction management was raised by the oversight committee at their November 17, 2003 meeting, and subsequently was approved and adopted by the school board at their December 2003 meeting when Mr. Pruitt supported the selection of a second construction manager.
- Program management evolved in discussions between Dr. Saul and Mr. Pruitt soon after Mr. Pruitt became board president and the district issued an RFP, advertised in January 2004, requesting proposals for program management. As the result of this RFP, PCM3 was recommended to the board as the program manager.

Mr. Anderson asked if Mr. Larkin would give a brief background about these issues. Mr. Larkin explained that former board member, Lonnie Truett, had emailed him numerous times regarding the concerns that Mr. Larkin put into the memo for Dr. Andersen. Mr. Larkin said he tried to explain that the committee felt district staff had done an outstanding job in addressing the concerns adequately and providing information to the public, but Mr. Truett didn't want to accept his explanation. Mr. Larkin told Mr. Truett the items would be on the next agenda to get specific answers. Mr. Larkin said that Mr. Truett reprimanded two of the committee members for allegedly forcing the board to hire a program manager. Mr. Larkin also said that with the information Dr. Andersen gave and other information he reviewed from the meetings he felt that the committee had discussed what was going on during that time period and the problems with ineffective oversight of Measure M projects. His opinion is that in the past year the situation has turned 180 degrees around, the district is back on track, there is a better knowledge of where the money is, where it's being spent, and how it's going to be spent. Mr. Larkin invited Mr. Truett and everyone who had received the emails to attend the meeting and have any other concerns addressed.

Mr. Bruce asked about the memo, saying the other members were not familiar with it. Mr. Larkin said he went through the emails he had received over a period of time from Mr. Truett and listed the concerns and forgot to send to the other members. He said Mr. Truett's emails said that Measure M is "in the hole, Don Lugo is in the hole, the committee forced the board to hire people and that's why so much money is being taken out of Measure M to pay for management as opposed to construction." Mr. Larkin said he asked Mr. Truett to come to the meeting as a member of the public to address his concerns and Mr. Truett chose not to attend. Mr. Elie said he thought these concerns should be addressed to the committee as a whole, rather than just the chairman. Mr. Larkin said he told Mr. Truett that some of the issues had been addressed in the county audit, and Mr. Truett responded that the audit was wrong. At that point Mr. Larkin said he discontinued the email correspondence because Mr. Truett was not accepting his answers. Mr. Larkin confirmed that many of the emails he received during the time that Mr. Truett was a board member.

Mr. Vanden Heuvel thanked Mr. Larkin for handling the situation and said he appreciated the update.

5. Performance Audit Update

Dr. Andersen said Mr. Warren Hennagin was unable to attend the meeting. Dr. Andersen passed out a copy of a portion of the minutes from the last board meeting which reference a summary of Mr. Hennagin's presentation to the board. He will attend the next meeting to address the audit.

6. Construction Update

The monthly report produced by PCM3 was distributed to the committee members. Mr. Vanden Heuvel asked what "NOC" and "BEC" meant. Mr. Bachor said they stood for "Notice of Completion" and "Budget Electrical Contractors." Mr. Milliner asked if there was an update of completion for Woodcrest. Mr. Bachor said the school itself is close to completion except for the gymnasium. He said they have to wait for the humidity level of the gym floor to get to a certain level before it can be covered to avoid buckling. The rest of the school is nearly complete, looks good and the plan is for occupancy in September. Transition into the new classrooms may start as early as April.

7. Don Lugo Presentation

Dr. Andersen introduced Don Lugo Principal Preston Carr, Jim DiCamillo, WLC Architects, Steve Bachor, and Tom Wertanen, Bernards Bros. Construction Management.

Mr. Carr distributed a rough draft of the newsletter he will be sending to Don Lugo parents. He is planning a presentation before the parent conference on April 6th giving parents an update on the scope of work at Don Lugo. He shared slides taken during construction as well as completed areas of modernization at the school where teachers have moved in. He said staff and students are pleased and happy with the work that's been done. Mr. Carr said in the beginning of the project, the dream was to have all of the items planned for the school. Due to the 30% increase in construction costs, it was realized that some concessions and changes were needed. Input from staff and administration indicate the following changes to the plans will be requested:

- Remove Independent Study Lab,
- Remove Driver's Education classroom because the program no longer exists,
- Build three agriculture classrooms,
- Build the leadership classroom,
- Build lunch shelter,
- Build foyer into gym, and
- Build athletic facilities, or just the lights.

Mr. Carr said staff and students are very excited about what's going on at Don Lugo and appreciate the fact that they have a \$22.8 million project going on at their school.

Mr. Bachor said that Don Lugo was the ninth contract, for the red phase only, given to B.E. McMurray. When PCM3 was hired, B.E. McMurray wanted a contract for the entire project or they wouldn't do any of it. So the result was that the contract was rescinded. An immediate RFP was put out to find another construction manager. Bernards Bros. was hired and was requested to produce a forecast budget on the entire project. The budget given was construction cost, not including soft costs on the project, such as construction management, architect, and consultant fees. The estimated construction cost was \$31.9 million for the entire project. The entire project cost, including construction and soft costs, were then estimated by PCM3 at \$42.8 million, which was way over budget, 25% of the value of the entire bond. At that point seeing that the estimates were over budget, the total project budget was re-established by district officials at \$30 million, reducing the construction cost to \$22.8 million.

Mr. Vanden Heuvel asked what process was followed to get from \$42.8 million down to \$22.8 million. Dr. Andersen said staff went back to the original Facilities Assessment Report (FAR) and looked at the original estimate for the project at Don Lugo. One thing that is difficult to estimate is the cost for the handicapped accessibility requirements. The entire cost estimate for Don Lugo included in the FAR came out to about \$26 million; \$4 million was added to cover ADA requirements to equal a total of \$30 million for the total project budget.

Mr. Vanden Heuvel wanted to know how the estimate got to \$42.8 from \$26 million and what was the process of bringing it down to \$30 million. Mr. Bachor said the review of the standards used in the plans showed that the scope of work would be expensive. An example was the foyer at the gymnasium was an expensive and would have looked like the Staples Center. The same thing could have been accomplished with \$500,000 instead of \$2 million. The foyer is on the FAR, so it needs to be addressed. They had to go to a more reasonable design for the cost. Mr. Bachor also said that costs have increased 30% and that has affected the overall bond budget. He said that with the controls being established through the implementation plan created by PCM3, they would be able to report to the committee and the school board that all of the projects listed will be finished. The plan and the controls have to start now. PCM3 stated that project budgets normally consist of 70% construction costs and 30% soft costs.

Mr. Milliner asked if the 30% soft costs were industry-wide and if they could be negotiated down. Mr. Bachor explained that the district previously had contracts with the "C" team and were now working with an "A" team, and the costs will reflect the quality of the team. The good part is they were no longer getting complaints, projects are getting completed, people are moving in, administrators, teachers and students are happy, close to budget, almost on time. Mr. Carr explained that there have been ongoing consultations between staff, administrators, program manager, construction manager, and architect to refine the scope of the project to fit within the budget. He also pointed out that the program at Don Lugo has changed since three years ago; they had 2500 students and now they have 2300, and consequently their needs have changed. He said site personnel are willing to simplify the plans and still accomplish the same goals.

Dr. Andersen said staff would be investigating the possibility of getting more state funding instead of using more bond money on some of the projects. Mr. Bruce asked what the state funding would pay for. Dr. Andersen said state funding could help pay for more of the deferred maintenance type of work that is proposed under Measure M.

Mr. Bruce asked if the Richland school would still be built. Mr. Bachor said that whatever was in the FAR would be addressed. Mr. Bruce said his understanding was that there was not enough money to finish all of the schools. Mr. Bachor said that it would be important to exhaust all efforts working with the state getting different matching funds that are available. Dr. Andersen said the cost listed in the FAR for Richland was the full amount, and that cost would be cut in half if it's funded 50/50 with the state. Mr. Bruce said the committee had been told from the beginning that there was not enough money in the bond to complete all the projects on the list and now they are being told all projects will be addressed. Dr. Andersen explained that the information he's receiving from PCM3 is that the total revenues, including state funds, will be in the neighborhood of \$280 million and if that's true, then there probably will be enough money. He said that when putting a bond together, it's impossible to predict how much the state per pupil allowance will change. At the time of the bond, district staff estimated receiving only about \$50 million in state funding, but now the estimate is much higher. Also PCM3 has been working on implementing curriculum and district standards that will enable the district to get more for their money.

Mr. Vanden Heuvel asked for more information about the construction costs and project costs at Don Lugo. He wanted to know if B.E. McMurray bid the first phase without any projected construction cost. Dr. Andersen said he didn't believe there was a projected construction cost, but that was not for lack of asking. Mr. Vanden Heuvel asked if the architect initially gave an estimate for the entire project based on the plans. Mr. Bachor said the architect's estimate is the broad-stroke estimate. The architect, Jim DiCamillo, said the Don Lugo project is very complex and only \$5 million is currently under construction out of the \$23 million projected. They are trying to estimate a very large piece with a very small sampling. Virtually half of the entire project will be bid on April 28th, so the total cost remains to be seen. He said the costs have increased at least 25% in the time since they started designing the project. He said in some ways it's good that the project is being bid this year because prices have settled. For example, Wickman and Rhodes bid for \$8.5 million apiece, and Chaparral, which is the exact same school, bid at \$12 million just a couple of years later at the height of the market.

Mr. DiCamillo said what's being called the "green" phase was never part of the original estimate, so the district needed to carve out money from the earlier phases to set aside money to complete the "green" phase. The \$26 million didn't include the green phase. The green phase still hasn't been drawn so half of the amount over \$26 million is an expectation of what the green phase might cost, comparing it with the approximately \$5 million that was recently spent on the Ayala stadium. The architect said the green phase was in jeopardy unless something was done to reduce the blue, red and yellow phases. At that point in October '03 they started working to reduce the scope of the other three phases to accommodate the green phase, which includes athletic facilities. There was and still is no clear scope of work for these facilities, so it's difficult to estimate. Another part of the cost increase is that when the bond was written the state program was 80/20 then it changed to 60/40. The program has changed to the point that districts have to put in twice as much money to get the same matching state money.

Mr. DiCamillo said that many of these issues would be clarified after the bids come in at the end of April. He complimented the principal and staff at Don Lugo and said they've been fabulous to work with. He pointed out that large projects like a high school are not stagnant; programs and needs change all the time and the plans and construction need to adjust accordingly.

Mr. Bruce said the committee's understanding from the beginning was that new construction was 50/50 and modernization was 60/40; he didn't remember hearing about an 80/20 split and didn't think it would have affected the cost estimates. Mr. DiCamillo said that the state's number is adjusting all the time. The state can adjust for inflation and this year increased the per pupil grant by 11%. But school district money is frozen, so districts have to come up with increased funds from somewhere to match the increased state funds, which will have an ongoing impact on the calculation of available funds. There was further discussion about the different phases and ongoing adjustments to plans at Don Lugo.

Mr. Milliner asked for a list of the services included in the estimated 30% soft costs. Mr. Bachor verbally listed the following: Miscellaneous expenses: toxic studies, environmental cleanup, DSA plan check fees, CDE plan check fees, DTSC fees, legal consultants, county, city, utility fees, electrical, sewer, water, gas, telephone, cable; Consultant expenses: program manager, architect/engineers, construction manager, legal consultants, specialty, electrical, data, LAN, health department, kitchen, door and hardware; Community Outreach; Hazmat; Bidding Process: printing, distribution, advertising; Construction Testing: DSA Inspector, laboratory testing, surveying controls, security; Furniture

& Equipment: moving expenses, telecommunications equipment, library materials, interim housing, building and ground maintenance, waste disposal, and contingencies.

Mr. Milliner asked if the committee could receive this list in writing. Mr. Bachor said he would provide the list. Mr. Milliner said he would like to review progress payments and contract documents in detail. He asked if the committee impacts decisions made at a policy level. Mr. Larkin explained that the committee has no part of the decision-making process. The committee reviews decisions after the fact and report the effect to the public. Mr. Larkin said Mr. Milliner was welcome to review the paperwork. Mr. Milliner said he was looking for some authority to prioritize. Mr. Larkin explained that the committee has no authority to prioritize. Mr. Milliner said he was interested in reviewing the documents that will help him correspond actual construction costs with overall project cost. Mr. Larkin said that Mr. Milliner would need to submit that request to Dr. Andersen in writing, and Dr. Andersen would provide the necessary documents.

Mr. Bachor said that the presentation that will be given to the board on April 21st on the implementation plan would answer 99% of the questions. The plan is five volumes of contracting mechanisms and consultant contracts that they will be asking the board to adopt. PCM3 is planning to modify their monthly report to supply more detailed information.

Mr. Milliner said he's interested in seeing progress payments made on contracts on a regularly scheduled basis per terms and conditions of the contract. He thought that people will have to really shuffle through a lot of paper to supply the documentation, but in order to justify and validate that expenditure there has to be some documentation associated with it and he wants to be able to review it. Several other members said it would be volumes of paperwork and they had no desire to review it.

8. Sale of Bonds in Current Market

Mr. Anderson requested that this topic be placed on the agenda. He asked that, given the current rate environment, has the district taken a look at the forecast of the cost of issuing the bonds as previously scheduled as being the optimum way of operating with balancing the construction schedule. Dr. Andersen said he asked Bill Fawell to address the committee about the current environment. Mr. Fawell represented the district as an independent advisor on the second issuance of the bonds.

Mr. Fawell distributed a spreadsheet that showed the rates and yields that were achieved when the first two bond issues were sold about one year apart. Now it's been almost two years since the last issuance. He said rates are still historically at good levels. He highlighted the yields and said the yields on issues just sold a week prior to the meeting for Corona-Norco U.S.D. and San Carlos S.D., and the yields are below what CVUSD achieved on the Series A issuance in June 13, 2002. He said CVUSD hit the market just right on Series B, hitting almost the low of the market. Rates today are between the Series A and Series B rates. Mr. Fawell said practically speaking, the district wouldn't want to run out of money. He said it would be better to get the money a little early than run the risk of running out of money. He said rates are still at an attractive level. He said if the district will be expending the current issuances by the end of the year, it would take from three to four months from the time the process starts until it closes. His suggestion was to start the process early. He thought the rates might be increasing judging from the current comments and signals from the "Feds." Dr. Andersen said he is waiting to hear the PCM3 presentation before making a decision. Mr. Anderson asked if the presentation would include a projection of when to issue the next round of bonds. Mr. Bachor said a cash flow analysis would be part of the presentation. He said the district couldn't commit to a contract without having the funds.

Mr. Milliner asked what the district's rating was at the last issuance. Mr. Fawell said it was triple A insured, underlying rating was "A" category.

9. Measure M Litigations

Mr. Anderson said he'd been asked by parents from Don Lugo about pending items that are in the process of litigation and how would that affect future projects. Dr. Andersen said several issues have been resolved, but some big issues still remain. The outcome of that litigation is unresolved and unknown. Mr. Anderson said the parents were concerned that litigation costs not interfere with the ability to do the listed projects. They want someone to be the "keeper of the gate and say we're going to burn all these legal fees, settle, come to the table and come to some agreement to save bond funds." Mr. Elie asked how many lawsuits are in court presently. Mr. Bachor said there are two lawsuits on Measure M projects: Budget Electrical for Wickman and Liberty and Shawnan for Rhodes. After further discussion, Mr. Elie requested a list of claims and the stage of litigation for each, whether it's in lawsuit, and the expenditures for each claim.

10. Master Plan from PCM3

Mr. Bachor said the Implementation Plan would be presented to the board during a study session on April 21st at 6:00 p.m. He said this plan would answer all of the concerns from various audits. It will present all of the documents and procedures that should be in place for the rest of the bond program.

Mr. Bruce said he was expecting an updated document and this meeting showing each of projects defined by the district and how much the projects will cost. Mr. Bachor said this is information covered in the Implementation Plan and it has to be presented to the board first. It was scheduled to be presented to the board earlier but was rescheduled because the board had another study session regarding the superintendent search. He invited committee members to attend the study session on April 21st and said there will be an executive summary available.

11. Change Order Update

Committee members were provided with copies of the latest change orders from all Measure M projects for their review. Dr. Andersen asked that committee members send any questions to him by email at paul_andersen@chino.k12.ca.us and he will provide answers at the next meeting.

12. District Response to County Audit

Dr. Andersen said this topic was put on the agenda to give members an opportunity to speak to the issue as requested at the last meeting. The response has been sent to the county and there has been no further communication from them. There are some invoices that are being reviewed by an independent counsel to ensure they are appropriate to pay using Measure M funds.

13. Third Quarterly Report

Mr. Bruce requested this be included on the agenda and he said he realized the minutes for this meeting need to be a part of the quarterly report. He said he would have a draft of the report and email it to the other members for review

There was further discussion regarding completion of minutes for inclusion in the report and scheduling of the next meeting, which will be May 16, 2005 at 5:00 p.m. The meeting was adjourned at 7:07 p.m.

Next agenda:

1. Warren Hennagin will attend the next meeting to address the audit.
2. Mr. Milliner asked for a list of the services included in the estimated 30% soft costs.
3. Mr. Anderson and Mr. Elie requested a list of claims and the stage of litigation for each, whether it's in lawsuit, and the expenditures for each claim.