

MEASURE A - STRONG SCHOOLS BOND  
CITIZEN'S OVERSIGHT COMMITTEE  
PALO ALTO UNIFIED SCHOOL DISTRICT

MINUTES FOR MEETING OF July 14, 2010

<u>Opening</u>	<p>The Citizens' Oversight Committee held a meeting in the conference room of Building D - Facilities &amp; Construction Building, 85 Churchill Avenue, Palo Alto, California.</p> <p>Members present: Mr. Ray Bacchetti, Senior Citizen, Taxpayer Organization Mr. Scott Darling, At Large Member Mr. Gary Hornbeek, Parent, PTA Member Mr. Deepak Kanungo, Parent Ms. Caroline Maser, Parent Mr. Jim McFall, Business Organization Member Mr. Steve Shevick, Parent</p> <p>Others present: Mr. Tom Hodges, O'Connor Construction Management Mr. Bob Crowder, Gilbane Building Company Mark Miller, Gilbane Building Company Ms. Heidi Rank, Gilbane Building Company Mr. Lori Alvarez, O'Connor Construction Management Mr. Alex Morrison, Gilbane Building Company</p> <p>District Staff Present: Dr. Robert Golton, CBO Mr. Ron Smith, Facility Project Manager</p> <p>COC Members (to be approved) present: Mary Marth, Parent Catharine Garber, Business Organization Todd Collins, Taxpayer Organization</p>
<u>Call to Order</u>	<p>The meeting was called to order at 5:05 p.m. noting that Steve Shevick and Deepak Kanugo had not arrived yet.</p>
<u>Public Comment</u>	<p>There was no request for public comment.</p>
<u>Approval of Minutes</u>	<p>MOTION: McFall moved to approve the minutes of April 21, 2010, with the correction to page 6, last paragraph, 3<sup>rd</sup> line over to the right: community changed to communication and adventitious changed to advantageous; Spell out VOIP (Voice Over Internet Protocol); page 5: Bacchetti said it is documented in a routine way, then it's really lost. Motion carried 5-0. Shevick and Kanugo arrived after the approval of the minutes.</p>
<u>Review of Agenda</u>	<p>On item J. there is no day on the January meeting; Bacchetti asked if there was a date for the January meeting? Golton said they will look at the calendar and provide some dates.</p>
<u>Program Status Update</u>	<p>Golton acknowledged retiring members: McFall, Maser, and Shevick.</p> <p><u>High Schools Master Plans:</u> Hodges said the CEQA process is wrapped up. They are planning on doing a master plan update and taking it back to the Board for both high schools; they completed a landscape master plan effort and would like to put it with the facilities master plan. Paly will have a</p>

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revised project list. McFall said the October 12<sup>th</sup> date looks like one month later than what was sent to them. Hodges said they are trying to do their Board planning for next fall and this is their target date. McFall said it used to be June 8, 2010, going to the Board, and then slipped to September, and then October, is that just general timeline? Hodges said the reason is they need some time with the site committees to figure out whether they are paying for these projects.

Gunn Classroom Building: Hodges said they have plans from DLM and are working on the constructability review; in previous reports they might have said they would submit to DSA July 1<sup>st</sup>, but are pushing it back a month to do a month on construction documents. Bacchetti said on the schedule, BOE approval to submit to DSA varies from 2 days to 10-11 months. Hodges said it shouldn't be 2 days; typically they will probably see a six month duration. Bacchetti said on the Paly Theatre calendar there is a big blank space, is something going on between BOE approval? Golton said they have a lot of Board approvals; they have BOE approval for architect contracts; they have BOE approval for schematic design. Bacchetti said it is the one between schematic design and submitting to DSA. Hodges said this project is a good example: Jan 26 they received approval for schematic design, after that they went into the design development phase and at the end of that phase, Gilbane did an estimate and a constructability review and value engineering effort. They made sure they were within budget which was an internal milestone and after that they went into development of construction documents. Bacchetti asked if that is what is submitted to DSA? Hodges said yes.

Portable Relocation Project: Hodges said this just started and most of the portables have been moved and they are being put back together.

Gunn High School Parking & Drop Off: Hodges said they are working on this schedule, but this is a project that will have to occur after they finish the classroom building so they are not intending on going to the Board next October with this. The dates will change.

New Gym at Gunn High School: Hodges said they are working on constructability review and are looking into submitting to DSA on August 1.

A/C at Gunn High School: Hodges said the A/C is for the existing buildings. There isn't really anything to show the Board as far as design because all they are doing is adding condensers, piping, and upgrading electrical so they can provide A/C. They will provide the Board with an information item. McFall asked if this was added, this wasn't part of the original scope, right? Hodges said right, the Gunn Site Steering Committee made a change to fund this project, the trade off was that they moved down adding two science classrooms; they felt they had enough science classrooms with the two added at the Industrial Arts Building. They also had some CTE grant funds. Hornbeek asked if it really takes six months to get DSA approval to put in A/C? Hodges said that is what they are planning because it is the whole process; the submittal, the bin time, their review time, they send it back, they have to make corrections and then go back to get a final sign off. Hodges said 6-8 months is pretty typical.

Paly Multi-Use Fields: Hodges said this project just begun at the beginning of last month. McFall said this is the project that has the 2 day approval between Board approval and submit to DSA. Hodges said he believes it is because they had to go to the Board twice with this project, but he will verify that was the case.

Paly Stadium Field: Hodges said this was taken to the Board in June. They had a conceptual design approved, but what hasn't been resolved is how big the project is going to be. That is why the Board agreed at that meeting to defer the decision to this October 25 meeting. Hodges said they aren't really doing any design work until they get the budget situation resolved.

New Classroom Building & Media Arts at Paly: Hodges said they are looking into submitting to DSA

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on August 1.

Portable Relocation at Paly: Hodges said they started this June 1 and it needs to be completed by August 13.

Theatre at Paly: Hodges said they have conceptual design approval. DLM is moving forward with schematic design and are meeting with theatre consultants/acoustical consultants. They are looking at coming back with schematic design in October or November. Hodges said there are a couple of things happening with theatre schedule that may shift either forward or backward. The first is the CTE grant funds; they could get notification from the State as early as September that they have a reservation of funds and will need to have DSA approval within one year of that notification. Hodges said it is about a \$3 million dollar grant and if they get that notification, they will be accelerating the design of this project. The second is from the campus perspective; they really don't want to start construction on this until the Media Arts building is finished so there are these conflicting interests. Golton said actually there are two \$3 million dollar grants; the State has about \$95 million dollars and so they have heard 15-day letters will be going out to the Districts that were high enough on their list in preparation for the State Board meeting in September. He said as Hodges mentioned the District has one year to get CDE and DSA approval. Hodges said if they received a notification letter in September, theoretically they would have to move the February 2012 date up to September 2011. Maser asked if the site committee requested a larger theatre? Hodges said yes, a larger building; they would like to incorporate a full fly, an orchestra pit, and trap room. They also added a drama classroom to this building.

Jordan: Hodges said they received Board approval on April 27.

JLS: Hodges said they received Board approval June 22 so its submittal date to DSA is December 22. They will be going back to the Board on this with landscape and site design; the project came under budget and so they are looking at adding some additional site scope.

Terman: Hodges said they received Board approval May 25 and they are hoping to submit it to DSA late November.

Ohlone: Hodges said they will have a July 20 Board meeting to award a bid project. They are hoping to get a notice to proceed before school starts, in August. Darling asked if the bid opening and award is really a week? Golton said that is correct. Darling asked how does that work? Hodges said it is a special Board meeting and they knew they would have the bid opening yesterday and scheduled it to be as quick as turnaround as possible. Darling asked if a week is enough time? Hodges said yes, it gives us enough time. The bid protest period is 72 hours. Smith said on this project they had a group of 7 prequalified bidders and that makes it easier to evaluate a bid opening. Golton said they take the lowest, responsible, responsive bidder. The bids are opened with all contractors present.

Fairmeadow: Hodges said the Board approved the conceptual plan in April and they are looking at bringing this back to the Board for schematic design approval in September. Hodges said this will be a new 2-story classroom building, a little addition to the library, they are moving the kindergarten classrooms, and there will be some modernization to the classrooms.

Hoover: Hodges said they just started on this one and are looking at getting conceptual design done by October.

Duveneck: Hodges said this is the same as Hoover. The conceptual design is taking the number of portables they have and putting in permanent classrooms; adding a flex room; at both Duveneck and Hoover they need a new or an expanded library. He said they are also asking Gelfand to look at what potential expansion capacity they may have.

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Elementary School Classroom Improvements: Hodges said they are bidding out interactive white boards in each of the classrooms; they also have more extensive improvements that will happen in those classrooms like improve lighting, trying to increase ventilation, replacing ceiling tiles, and a sound system (a wireless microphone and four speakers).

McFall said on the executive summary there are capital projects and inactive capital projects; inactive to him means on hold. Hodges said these are completed. McFall suggests there be a separate category for completed projects.

Hornbeek said they requested a paragraph on technology. Hodges asked if they said they would do that in the executive summary? Hornbeek said yes. Hodges will have that included.

### Monthly Reports

Hornbeek said the Board action included a renewal of the O'Connor contract for the next year as well as negotiations to amend the Gilbane contract; he asked if there were any major changes? McFall asked how much were they for? Hodges said the amount is \$1.13 million for this year and it was \$1.32 million for last year. Golton said it is essentially staff and rates (the rates have stayed the same). He said O'Connor manages the program as a whole and they do design through schematic development; there is a handoff at schematic to Gilbane and they do the design development and the construction documents. McFall asked if the 10% is District staff, Gilbane & O'Connor? Golton said yes, he is funded .4 by the bond. McFall asked if it would be a consistent 10% of the money that is spent? Golton said it will go down because as the program moves, there won't be as much conceptual and schematic design work because the program itself would have moved on to construction.

Kanugo said on the total budget it says \$346 shouldn't it be \$378? Golton said the \$346 is what has been appropriated. They have not appropriated the planned maintenance fund, the furniture fixtures and equipment money and so there is still money to be appropriated. Kanugo asked what kind of interest they are making on the budget balance? Golton said at this point their money is with the County. He said school districts generally place their money with the County pool. Kanugo asked if they could find out what is the interest of finance benefits they have received? Golton said yes, they are planning to appropriate unappropriated interest money, they had budgeted \$2.25 million worth of interest money. He said their plan is to go to the Board in August with an up to date appropriation; he thinks they will appropriate \$1.5 million more. Golton said the District has a AAA rating. They recently issued the QSCB (Qualified School Construction Bonds). Darling asked what is the strategy for selling the rest of the notes? Golton said they believe they will run themselves out of cash maybe in about 2013.

Darling asked Golton about the change in the structure of the Gilbane contract? Golton said they did a major change in the Gilbane contract. They have done a multi-year contract through October of 2013 in the lump sum amount of \$6.7 million. He said this contract contemplates management of projects that are scheduled to be completed by 2013. It is all in the agenda item #13 on the Board agenda of 6/22. Golton introduced Bob Crowder, Vice President and District Manager in Northern California with Gilbane. Golton said they had a conversation on what these projects would cost if they simply went with the time and materials basis. He said they were able to negotiate a lump sum agreement for \$6.7 million dollars which is in a way advantageous to both parties. First, it gives Gilbane some certainty in an uncertain world as far as this contract and their staffing. As far as the District is concerned, it gives them a fixed price if in fact these major classroom projects involve additional work, if there are issues with contractors, or additional project management work needs to be done, then Gilbane will have to step up to the plate and they will need to do it. Golton said in exchange for that certainty that they have given them, they have projected the staffing that would be required and the cost of that staffing given no increases in hourly rates and they negotiated a pretty substantial discount on those rates. Darling asked what do they estimate the cost savings were? Golton said it is in the Board presentation. The Committee agreed they would discuss it later. Darling said it is not in the budget? Golton said it wouldn't be because these \$6.7 million are all project

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related costs. Darling said it doesn't hit the program administration line? Golton said no, it doesn't. It is sprinkled throughout.

### Change Orders

McFall asked if there were any change orders? Golton said no.

### COC Administrative Items

The new COC members introduced themselves.

- Catherine Garber, parent of two boys that graduated through the Paly system; she is an architect, and has lived in Palo Alto for 13 years. She runs a practice with her husband with about 13 employees and is located right behind the Town & Country shopping center.
- Mary Marth, parent of a daughter at Paly and two up and comers in the District as well. She is a forensic psychologist, works with adolescents and is also an active member of the steering committee for California Coalition on Sexual Offending.
- Todd Collins, parent with three kids in the District: one at Gunn, one at Terman, and one in special ed. placement. He has lived in Palo Alto for six years and runs a private equity firm.

### Annual Audit

McFall asked if they had a date when the auditors are coming? Golton said they will be here in September. He said the auditors want to meet with the COC. They will meet with a subgroup as they did last year and then they will come to do a presentation to the committee. Golton said they do a performance audit and they do a financial audit.

### Annual Report

McFall said the timeline for the annual report is after the audit – October and he believes they presented to the Board in November. He said his intent would be to start roughing out the letter and staff will handle the majority of the information. McFall said he and Darling can coordinate on that until the end of his term and he will then hand that off since he cannot officially represent the committee.

### Interim Chair/Vice Chair

McFall said the interim chair/vice chair will need to change because of the offset in the end of terms vs. the election of officers. McFall said it makes sense to have Darling rollover to interim chair and they also need a vice chair. McFall said he would encourage Hornbeek to take on this role. Hornbeek said he would be interested. Motion: McFall moved to nominate Darling and Hornbeek as interim chair and vice chair. Motioned carried 7-0.

### Election Dates for Future Chair Terms

McFall said depending on what the committee would like to do as far as start and stop of those terms whether they coincide with the terms of the committee membership or they keep them offset. He said right now they are offset by a year. Hornbeek asked if the Board has approved the new members and could they extend them from a two-year term to a two-year and 3 months term? Golton said no, the reason for the start in August is they need to replace the members within 60 days of the election. Secondly, these are two-year terms. Hornbeek asked per the law? Golton said yes, it is in statute. McFall said they have discussed this and the only variables they can control are the election of the chair and vice chair. Darling thinks the election should be in October so that they represent the full fiscal year and the presentation to the Board. Bacchetti said if they elect in October, the chair would give the report for the year just finished not for the year when they are chair. Darling said they could do it in November. McFall said they could elect in October to start at the January meeting. Hodges asked if the election could be deferred until the January meeting? Hornbeek said Darling could be the interim chair until the end of the calendar year and at the October meeting they can elect the new chair that will start in January. Darling said that is a good idea. McFall said elections will be placed for the October 20<sup>th</sup> meeting agenda. Hornbeek said looking at the calendar they did have a meeting in the first week of October because in order for them to approve the annual report they had to have that earlier meeting to review the draft and talk with the auditors. McFall asked if those dates should be scheduled now? Hornbeek said they can set the dates after they meet with the auditors. Golton said as information the annual report will be less work because the report has already been formatted so essentially a lot of the work has been done. Darling said they are just going to redline it, basically. McFall asked do they want a third person on the audit subcommittee? Darling said he thinks one of the new members should be part of the subcommittee. McFall said since they don't

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officially have new members yet, they should wait until after August for a member to be appointed. Golton said the Board meeting will be on August 24, and the auditors will be here the week of September 13. Darling said they will get the audit report at the end of September, they will have 2 weeks to prepare the annual report, and then they can distribute a draft a week in advance and discuss it at the October 20<sup>th</sup> meeting. Hornbeek said there needs to be an earlier meeting with the auditors. Darling asked if they should setup 2 meetings in October? The committee agrees there should be two meetings: October 6 and October 20.

### Hedging Against Future Price Increases

Golton said Kanugo brought this up at the last meeting. Kanugo said one of the Gilbane members said they expected project costs to increase in the future and he asked if they were doing anything to hedge that, they thought our contracts were small. He suggested, either they negotiate to fix the prices or they do some hedging in the futures market. Kanugo said he sent an e-mail to Golton, McFall, and Darling to see if they could explore it because he was not satisfied with the answer. Crowder said he thinks those are good ideas and they think the costs of work will go up. He said the cost of work is basically material cost, labor cost, and the most important cost is the market before the margin. The margin is made up of a lot of different things; it's time, backlog of work, profit, and risk. He said what you have seen go down significantly is the margin; the bids are coming in 10-20% below what they would expect. Crowder said conversely the cost of material has continued to rise. They are seeing that material prices overall have started to level off at about 3-5% increase per year. He said they haven't seen any stabilization on what is called the margin; it's all over the place. Crowder said material is roughly 40% of the cost of work, labor is about another 40%, and the margin is typically is about 20%. What is driving the cost of work today is the margin. He said a second point is the cost of the work they are talking about right now is \$120 million for series A. Series A will be pretty much 100% bought out within 9 months; a lot of it will be bought out within 6 months. Crowder said this time next year they will have already bought out all of series A so timing is very important when they look at hedging, should they look ahead and try to anticipate what the market will be in 2 years? He said they don't need to go that far, you only need to look ahead 6 months. Basically they don't know if the costs are going to go up or down. Kanugo said they were projecting increases in the future so if they are projecting that then they want to be consistent and if 20% of the cost is material, well is there a way to hedge because they want to be consistent with their projections. Crowder said if they do prepurchase material, there is a cost to that; the supplier puts a risk factor, there is also storage cost, protection cost, and there is the cost of taking 40% away from the contractor. He said contractors do not like them to take away their materials and store them and there is waste. They could prepurchase steel beams that are 30 feet long, well what if the building needs (2) 20 foot beams; you have an 8 foot waste factor that could come into play. Crowder said they might get a good price today with hedging, but there are a lot of costs they have to add on. He thinks they are going to buy out every single series A project with the exception of the theatre by March or April of next year so they will capture all the potential savings they can. Miller, Gilbane's Senior Preconstruction Manager said the other component to this is field labor, field labor is increasing and those are contracts; they can't do anything about that, they are locked. Miller asked in terms of materials, buying futures, which means buying space/buying a future commodity at today's price, is that what you are talking about? Kanugo said he is actually talking about in the public market, they are not actually storing anything; they buy a contract. Miller said Kanugo is basically saying they are going to buy 200 tons of steel in September and they are going to give it to them for \$1200 a ton rock and then when they buy it in September, they are going to give it to them at \$1200 a ton. He said that is not done in their industry; it would be an extremely unusual circumstance to try and do that because the suppliers will throw their risk factor into that. He said a lot of the competition in construction costs/construction projects comes from the contractors being able to work the system. They increase productivity so they cut their labor costs, they figure they are going to buy stuff out from subcontractors and so they will discount subcontractors who in turn discount the materials and they get to go to their preferred suppliers to work that deal. Miller said after the bid there is a whole bunch of dealing that goes on. If they prepurchase that stuff, they are taking that from the contractors' hands and their margins and their evaluations are not going to be what they have been. They are not going to give you that 15-20% they may only give you 8-12% because you took that opportunity

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away from them. Crowder said if they knew that on series B and series C they were going to use all glue ins throughout all the buildings and they were all going to be 9 ½ inches wide by 18 inches deep with 30 foot spans, it might make sense to go out and buy a lot of glue ins, hedging on the fact that price material continues to rise. He said they don't even know that, they haven't even finished programming series B; a lot of that work has not happened yet. Kanugo said he understands that is not done in their industry, but it was something worth exploring.

### July 14, 2010 Agenda

The agenda for the October 20<sup>th</sup> meeting includes:

- Project status update
- Chair/Vice Chair elections
- Annual audit

Darling said they will work the October 20<sup>th</sup> meeting agenda through Golton. It was agreed the meeting in January would take place on January 12, 2011.

### Next Meeting and Future Meetings Schedule

January 12, 2011

April 20, 2011

July 20, 2011

### Adjournment

The meeting was adjourned at 7:13 p.m.