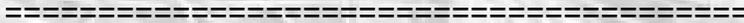


PATHWAY TO IMPROVED COMMUNITY  
SUPPORTED SCHOOL CAPITAL PROJECTS

FIRST COST REDUCTION STRATEGIES  
BEST PRACTICES  
FINANCIAL EXCELLENCE



PREPARED FOR:

*WOODLAND JOINT UNIFIED SCHOOL DISTRICT*

--

PREPARED BY:

**A Better Way For Schools In Yolo County**

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<http://www.betterwayforschools.org/>

**A BETTER WAY FOR SCHOOLS IN YOLO COUNTY**

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## WOODLAND JOINT UNIFIED SCHOOL DISTRICT

Greetings:

From First Cost Reduction Strategies to Best Practices to Financial Excellence, *A BETTER WAY FOR SCHOOLS IN YOLO COUNTY* offers a pathway to improve community supported capital projects for schools.

The Community of Woodland has a long history of supporting it's school district. Those of us who are graduates of Woodland Schools owe much of our long term success and positive attributes to the solid foundation cast for us by our experiences growing up with a quality school system. It is evident, however, that long term and at times rapid growth in our community may affect the balance of quality and cost within our educational system. The suggested policy implementations listed below will enhance the reliability of future bond offerings in our community and may assist the District in re- establishing effective management practices and achieving greater confidence among voters.

The following suggestions may already be incorporated in District Policy, although presently ineffective or under-utilized. Incorporating the suggested items into actionable policy statements will likely result in improved District evaluation and transparency. The concomitant movement toward management best practices will likely result in perceivable higher levels of public confidence and trust.

- Incorporate use of Pre-Checked or Re-Use Plan packages to save time and money.
- Promote Life Cycle Cost Analysis to demonstrate adequate returns and economic support for capital improvement, replacement, and modernization.
- Discourage percentage of cost bidding and / or no bid contracting favoring bond campaign contributors.
- Encourage Cost per sq ft or other common measures for more effective estimating, quotations and contracting. Improve and encourage common market comparison that support our school capital projects.
- When possible encourage Owner Furnished / Contractor Installed (OFICI) for competitive bids on component replacement or other applicable request for proposal.
- Improve accountability, transparency, and sustainability in development of Individual School Building Projects and Capital Planning.
- Incorporate policy discouraging use of State Board of Education debt waivers.

- Encourage transition to shorter term, local investment bonds offering more competitive interest obligations (Pay-Go). Encourage greater utilization of local contracting benefitting the community.

- Promote independence in selection of Bond Oversight Committee (BOC) members. CalBoc training for all members. In addition to current or former members of educational establishment include nominees from Chamber of Commerce, Building / Construction Trades, Veterans groups, Seniors groups, religious or church groups & Taxpayer Organizations. Promote thorough accountability consistent with Ed Code 15278 including the acceptance and review of Performance and Financial Audits.

Ultimately the above recommendations of *A Better Way For Schools In Yolo County* are primarily intended to promote cost-limiting design and effective leadership for the District. It is not the intent of *A Better Way For Schools In Yolo County* to create denial of potential projects. Proposed Best Practices are about subjecting proposed delivery to rigorous analysis and powers of the marketplace encouraging competition and ensuring our community gets the most for dollars that are required of the community in the form of taxes.

Schools Yes / Waste No

A Better Way For Schools In Yolo County

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# A BETTER WAY FOR SCHOOLS IN YOLO COUNTY

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**ACRONYM  
KEY**

**RESEARCH LINKS (URL'S)**

## ACRONYM KEY

The following pages detail some complex topics which utilize some acronyms for purpose of brevity and simplicity. While the acronym is typically explained within the body of text, some periodic reference to this table may be required.

BOC -	Bond Oversight Committee
CAB -	Capital Appreciation Bond
CFCI -	Contractor Furnished / Contractor Installed
CPA -	Certified Public Accountant
DDC -	Direct Digital Control
DSA -	Division of The State Architect
GFOA -	The Government Financial Officers Association
GMP -	Guaranteed Maximum Price
MPA -	Master Price Agreement
OFCI -	Owner Furnished / Contractor Installed
RFP -	Request For Proposal
URL -	Uniform Resource Locator (Web Page Address)
USD -	Unified School District

# URL Research Links For First Cost Reduction Management Best Practices, Effective Borrowing

## Compensation Methods for Architects

[http://dennisglynn.com/files/Compensation\\_Methods\\_for\\_Architectural\\_Services.pdf](http://dennisglynn.com/files/Compensation_Methods_for_Architectural_Services.pdf)

## Find Law - Owner Vs. Architect who owns the design

<http://corporate.findlaw.com/intellectual-property/llp-owner-vs-architect-who-owns-the-design.html>

## Project Frog DSA pre approved building systems

<http://projectfrog.com/education>

## Project Frog DSA pre approved building systems - featured Projects (Some in Davis)

[http://projectfrog.com/schools/featured\\_projects/](http://projectfrog.com/schools/featured_projects/)

## Cal Trans Cost Incentive

<http://www.dot.ca.gov/hq/esc/osfp/osfp-manual/manual-sections/5-03.pdf>

## EPA - Cost Incentive Program

<http://nepis.epa.gov/Exe/ZyPURL.cgi?Dockey=2000GHCP.TXT>

## Sample Contract Forms - State of Montana, Owner & Architect

<http://architecture.mt.gov/Forms#12629280-architectengineer>

## Sample Contract University of Georgia

[http://www.usg.edu/building\\_project\\_procedures/chapter3/App3G.doc](http://www.usg.edu/building_project_procedures/chapter3/App3G.doc)

## Sac Bee article about “Better Way” in Sacramento Co.

<http://www.sacbee.com/2014/09/23/6728274/sacramento-taxpayer-group-tries.html>

## California Multiple Award Schedules (CMAS)

<http://www.dgs.ca.gov/pd/programs/leveraged/cmas.aspx>

## California Foundation For Community Colleges - College Buys

<http://www.foundationccc.org/CollegeBuys>

## LA Times Article on Capital Appreciation Bonds

<http://spreadsheets.latimes.com/capital-appreciation-bonds/>

## GFOA - Debt Management Toolkit Kern County Assistant Superintendent (Go to Page 40)

<http://kern.org/finance/wp-content/uploads/sites/26/2014/03/Debt-Toolkit-Final1.pdf>

# A BETTER WAY FOR SCHOOLS IN YOLO COUNTY

**3**

**FIRST COST REDUCTION  
STRATEGIES**

## **First Cost Reduction Strategies in School Construction**

### **A Better Way For Schools In Yolo County**

Schools are very expensive to build and modernize, but there are ways to make the process less expensive and of higher quality while still receiving the 21<sup>st</sup> Century classrooms that are desired. Various techniques are now available to achieve these goals in a more efficient and cost effective manner.

**Pre-Checked or Re-Useable Plans.** Items that are “custom” are typically more expensive than similar items purchased “off the rack.” The same logic holds true whether you are considering a skirt or a school, but when it comes to school designs, there are additional factors at play that help the use of standardized plans save substantially more. Nor is the use of “Re-Useable” plans a new idea: Prop 39, which passed in 2000, specifically directs the Bond Oversight Committees set up as part of that process to see whether the District is taking advantage of the savings associated with Re-Useable plans. First, however, some background on the cost structure of professional services for construction projects needs to be understood.

There are three-compensation models for the Architects, Engineers, Construction Managers and other professionals which Districts usually employ to build facilities: hourly, lump sum, and percentage of cost. Hourly and lump sum charges are easily understood but rarely used in schools. This is partly a function of tradition, partly a function of trying to understand the scope of work in advance that will be needed, and partly because it is lucrative for the professionals involved to continue the current norm of Percentage of Contract Cost, so the pressure to change is minimal.

The problem is that the Percentage of Construction Cost method sets up a very basic conflict of interest in that the designer of the project is penalized if the cost of the project goes down and is incentivized if the cost of the project goes up. One publication puts it like this:

"Percentage of construction cost" is a method which has been used extensively in the past for establishing compensation for professional services. Compensation based on this method is not necessarily best suited to professional encouragement and reward, since it penalizes rather than rewards the Architect for reducing construction costs through economical design."

Any of the three-compensation models can be used with a project, whether it is a Re-Use, a Pre-checked plan or a design started from a clean sheet of vellum, but there are unique opportunities that occur when combining the less-used models with Re-use or Pre-check.

**Re-Use.** What may be surprising to many is that in most cases the District that paid for school design does not own the rights to that design, the Architect that was in charge of the design team does. Because of this, the Architect owns the rights to build a second, third, or forty-third copy of the plan, not the District that paid for it the first time.

A Re-Use plan has several advantages. The plans still go to the Division of the State Architect (DSA) for a rigorous review process, but because they have already been recently reviewed and backchecked, the number of new items to be addressed should be quite low. Additionally, the review process at DSA can be significantly faster when the previously approved plans and the identical new plans are available for examination side by side. This in turn can give the design team an important benchmark in terms of

pricing a lump-sum or hourly/not to exceed offer for their services because they can have a higher confidence level in how many hours a Re-use project will take than they do in how many hours a new set of plans will take to get through the DSA process.

Re-Used plans, either previously used in the District or built in a District a hundred miles away can often be offered by architects to Districts at a deep discount. For the design team, getting paid multiple times for design instead of just once is a potentially beneficial business decision. Because of this ability to be drawn once but sold multiple times, the firms that engage in this process can design beautiful, functional, long lasting instructional spaces that are prepared for 21<sup>st</sup> century educational needs, but offer those plans at a discounted rate and still come out ahead.

A Re-used school design that has recently been used has other advantages as well. In addition to being available at a discount and being much faster to deploy, Re-used plans save money by avoiding “change orders”. Change orders are common in school projects, and in some cases end up being 30% or more of the final cost of the school. Re-used plans avoid change orders in several different ways: first, because the plans have been built one or several times before, the inevitable “kinks” that occur in building any complex structure the first time will have already been worked out. In addition to reducing costs, this “already been built” aspect means that construction quality is typically higher as well. Second, in order to keep the DSA process as smooth as possible, as few changes to the plans as possible are preferred. This acts to temper the desire of many parties that frequently change plans, which increase project costs.

A school that has recently been built can also be visited by school leaders, staff, and even kids to get a feel for the final product. Lastly, while local variations in prevailing wage rates and geotechnical conditions are certainly variables, the District can know with a fairly high degree of certainty what the cost will be to build a given school design. This allows different complete designs to be evaluated against each other for aesthetics, functionality, and price.

**Pre-Checked (PC)** plans are a similar, but slightly different concept, and are already available through DSA. Some PC plans are for things such as portables, or shade structures while others are for full permanent structures. These plans go through a rigorous pre-inspection process and then are offered to potential building owners. As opposed to the standard year-long design and DSA review process typical of custom plans, Pre-Checked plans can be approved in a remarkably short time, in some cases in a single “over the counter” meeting with DSA where the only items being looked at are the site adaptations. A few examples of DSA approved Pre-Checked school permanent structure plans can be found within the URL Links Page .

Pre-Checked plans are even faster than Re-Used plans in getting through DSA review. Second, the DSA process only allows minor changes to Pre-Checked plans. This acts to temper the desire for changes even further than with Re-Used plans, with the result of additional cost savings.

Use of both Re-Used and Pre-Checked plans can also help reduce construction costs in another way: contractor experience. Bids for contracting work, including the quantities of materials to be used and

labor involved in the construction are based upon estimation. Estimators look at the plans, and although they are typically looking at a set of plans the first time, they can apply their own experience with general construction principles to arrive at an anticipated cost. This estimated cost, along with the necessary safety factor and profit margin result in a contractor's final bid. After the contractor has finished building a particular design, however, this situation is considerably different. Having completed construction of a given design, the builder and their team will know it much better than they ever could simply by looking at the plans. This allows contractors and subs that have built a given design to be much more aggressive in future bidding for the same plans, further helping to reduce the price.

Moving away from "Percentage of Cost" and towards Re-Used or Pre-Checked plan sets are thus complementary, but not the only ways which the current delivery model can be modified. As mentioned above, currently Architects and the design team as a whole have a *disincentive* to reduce costs and economic *incentive* to increase costs. There are places in public works contracting however where this situation is reversed. CalTrans has had a program for a number of years whereby if a contractor or design team member can come up with a cost saving method, they get a portion of the savings. This program, called the Cost Reduction Incentive Program, or CRIP, has been wildly successful. Not only does it save money, but it encourages contractors to be constantly aware of new techniques and materials that can reduce costs: savings that then are incorporated into all future CalTrans projects. The Federal EPA has also had similar Construction Incentive (CI) program since 1978.

The CI clause offers a mechanism by which construction contractors can be motivated to apply their construction expertise to reduce contract costs. This positive motivation is achieved through substantial monetary incentives for submitting a CICP that reduces a facility's construction costs, without compromising its reliability or performance characteristics.

Overall, Re-Used or Pre-Checked plans offer tremendous benefits to a District in terms of speed, quality, and cost, particularly when paired with available but under-utilized compensation models for design costs. Most importantly though, both the Re-use and Pre-Checked approaches as well as the Hourly and Lump Sum compensation models offer reasonable and preferable ways to deal with the current conflict of interest inherent in "Percentage of Contract Cost" fee arrangements. Examples of public works contract language that contains language for Lump Sum architectural fees are available [here](#) and [here](#).

One interesting application of the concept of re-used plans involves the intersection of this approach with that of Design-Build, Lease-Leaseback, and Guaranteed Maximum Price. Under a Lease-Leaseback structure a District is allowed to utilize a design-build approach, which can in turn be competitively bid. The concept is that a competitive solicitation is sent to General Contractors and Architects inviting combined, GMP bids to deliver a school, but restricting the bidding to designs that had already been constructed in California within the last 5 years. Better yet, multiple Districts could join in the solicitation in order to make the appeal and participation level even higher. Because the Lease-Leaseback approach does not mandate that a District take the lowest bid, there is some flexibility in which a contractor is chosen, but it is flexibility that comes at the expense of cost effectiveness. One way to balance these concerns is a process where one or more Districts would invite multiple proposals, and then be able to

select any design that came in within 10% of the low bid. A combined Lease/Lease-back Design-Build thus allows for qualitative considerations to be included, but restricts it to a subset of plans that prequalify on a competitive/quantitative basis.

This approach fundamentally reverses the dynamic that has been prevalent in school construction to date. The plans are not custom, so both the effort to generate them and the time to review at DSA should be shorter, both of which allow the price to go down. One District with experience in this area, Natomas Unified, claims that this method alone reduces design costs by roughly 25%. Simultaneously, the quality should go up, as the mistakes made the first time the plans are built should have been captured in the as-built drawings. Contractors have a much better idea of the cost to build, allowing more aggressive pricing. More fundamentally, the incentives in this model are reversed: where previously fees went up as costs went up, under this model a reduction in costs means either more profit, a more competitive proposal, or both.

**Cooperative/Leveraged Purchasing Arrangements.** This is again an idea that is well understood in our regular lives, but rarely seen in school construction: Wal-Mart gets better prices on rubber ducks than the small shop around the corner because of the volume at which they buy. Multiple programs around California allow Districts to receive substantial discounts on the equipment and materials that go into schools by employing group purchasing power, and can result in substantial reductions in cost.

These mechanisms still include competitive bidding, but it happens at a higher level. Organizations such as the California Department of General Services (through the CMAS Program) or the Foundation for California Community Colleges (through the CollegeBuys and SchoolBuys programs) conduct highly competitive bidding processes, the result of which are Master Purchase Agreements. Once an MPA is in place, local governments agencies, such as a School District, can purchase the materials or equipment through the MPA, often for savings of 50% or more. As an example, purchasing through an MPA program such as CollegeBuys, the cost of furniture may be reduced by 40-65% off list price, while warranty is potentially improved. Incidentally, any California K-12 District is eligible to purchase from the CollegeBuys MPA.

Beyond pure first cost, many MPAs include substantial additional elements in their terms that further increase value while still keeping cost low. For example, instead of being held to the warranty terms that a given manufacturer wishes to offer, MPAs will typically have warranty terms that are not only much more favorable to Districts in the long term than those typical for “off the shelf” projects, but are also vested at the manufacturer level instead of at a local contractor level. Because the MPAs are for multiple Districts over multiple years, the originators of these MPAs can devote the staff time needed to thoroughly research the terms unique to each class of equipment or material.

Use of Cooperative/Leveraged Purchasing offers Districts the ability to leverage the economies of scale inherent in combining the buying power of a group, and can lead to substantial reductions in both construction and operating costs

**Contractor or District purchasing.** The traditional method of construction delivery is called “Contractor Furnished/Contractor Installed” (CFCI). In this process, the subcontractor typically buys the materials or equipment, and they sell that to the general contractor along with a mark-up on both labor and materials. The general contractor in turn marks up the costs from the sub-contractors and passes that on to the District, with the cost being even further inflated by the fees typically applied by Architects and Construction Managers. The alternative method is Owner Furnished/Contractor Installed (OFCI), where the District purchases the items directly and the contractors simply provide installation services. OFCI is not uncommon, even in the Sacramento area. For example, Sacramento Regional Transit (RT) is currently using this method in conjunction with the line extension to Consumnes River College where they are purchasing the track directly.

Both methods can be used with cooperative purchasing mechanisms, and each has advantages. Under traditional CFCI, there is no question as to responsibility for when the equipment or materials arrive on the job site, a critical issue given the tight construction timelines typical in school construction. Additionally, CFCI provides a clear tie to longstanding state requirements surrounding warranty. On the other hand, OFCI provides substantial cost reductions.

One thing to keep in mind is that other changes in the contracting process can make this less disruptive than it would have been in previous times. For example, it is not uncommon in California public works contract documents to specify delivery dates and who is responsible for coordination. Additionally, through the use of Cooperative/Leveraged purchasing mechanisms, not only can warranty issues be resolved, but more favorable terms can be obtained.

**Life Cycle Cost Analysis.** The nature of the split between bond fund expenditures and operating funds gives rise to a well understood tension. Bond funds are only to be used for capital improvements, while operating funds are only to be used for operations. The problem is that the amount of Bond funds spent can impact future operating funds. Due to political and other pressures, in many cases Operating funds are given a higher priority than Bond funds. At the extreme end, this can result in perverse outcomes.

For example, imagine a Direct Digital Control system for an elementary school. Compared to a more basic alternative, this system has an incremental cost of \$350,000. The system can save an average of \$10,000 per year over its life, with an expected useful life of 15 years. Does this marginal expenditure make sense?

To an ordinary business, the answer would clearly be no. Even without taking into account the bond interest that would accrue on the \$350k, the DDC system would only give \$150K in return. More importantly, the total cost of the system to taxpayers of a system could be over \$800,000 including interest while the net present value of the stream of savings could be under \$95,000. However, to a District with severe operating budget pressures, the thought of a revenue stream that rises from \$8,100 per annum to over \$12,000 per annum could be very appealing when considering that the first cost to the operating budget is zero.

What this fails to recognize though is that actions like this, when discovered, have a profoundly negative and corrosive effect on the faith that voters have in the fiscal rectitude of the District. When instances like this are brought to the attention of the media, particularly during future campaigns, the impacts can easily sway the vote against future Bond measures for years to come. Ultimately, not only is this wasteful of limited capital project funds, any short term benefit to the operating budget is more than offset by long-term harm to future generations of students.

The way to deal with this is straightforward: incremental life cycle cost analysis for discretionary projects or the discretionary portions of mandatory contracts. From the standpoint of the Taxpayer's Association, this does not need to show a significantly positive return on investment, nor does it need to discount future avoided cost cash flows. Instead, a simple analysis which shows that incremental expenditures, including the time cost of those dollars will be less than the total avoided operational costs over the federally recognized Expected Useful Life of the equipment is sufficient. This study should be completed by a competent professional; all calculations and assumptions should be shown, and the results attested to by a licensed Engineer or Architect in a signed and stamped document. This analysis, in this format, ensures that they are placing their Professional Certification behind the calculations on this form.

Again, local Districts are showing the way on this issue. Folsom Cordova Unified School District recently adopted a District Policy that states the following:

“... that when renovations include upgrades or non-essential modifications, the District shall perform a cost-benefit analysis that shows that the true marginal cost of the upgrade or improvement over its life, including marginal costs *and marginal interest cost*, will be at least equal to its savings over its expected life.”

The example used is for a football field, where the cost of a grass turf field is \$100,000, and the cost for an artificial turf field is \$600,000. Under this policy, the incremental \$500,000 and the associated marginal interest costs would need to be offset by savings in water and maintenance costs over the expected useful life of the field. Further, the analysis that shows that this incremental expenditure is at least break even must be attested to and available for public review.

Ultimately, what the first cost control measures recommended by *A Better Way for Schools In Yolo County* are about is cost effective school design, not the denial of projects. Our best practices are about subjecting the proposed delivery method to rigorous analysis and the power of competition in the marketplace. We are all taxpayers, either directly as property owners or indirectly as renters, and the decisions that we make today will affect taxes for decades to come. Lowering the cost of construction while maintaining high quality not only helps the taxpayers of today, it also helps those who will pay those taxes in the future. If the kids who are in the classroom today should have a great learning experience, they should equally experience an environment free from unnecessarily high debt burdens when they enter our community as adults, and begin the process of paying it forward for the next generation.

# A BETTER WAY FOR SCHOOLS IN YOLO COUNTY

4

**FINANCIAL EXCELLENCE  
BEST PRACTICES**

## **Cost Effective Borrowing, Enhanced Transparency, and Management Best Practices A Better Way For Schools in Yolo County**

### **Use of Short Term Current Interest Bonds.**

The traditional way that school debt is financed involves very long term debt at moderately high interest rates. The result is that the cost of the debt in terms of the final amount collected from taxpayers is considerably higher than the amount of cash received. As an example, District A is set to issue \$40 Million in bonds.

1. Option 1. Bonds are issued as standard long term debt, 30 years at 5.25% interest. In this case In addition to paying back the \$40 M in borrowed capital, the District also pays back around \$40M in interest
2. Option 2. Due to the high existing debt load of the District, the new Bonds are issued as Capital Appreciation Bonds over 30 years. Neither principal nor interest payments the first few years. In this case, in addition to paying back the \$40M in borrowed capital, the District also pays back around \$120M in interest
3. Option 3. The new Bonds are issued as short term Current Interest Bonds over 3 years. After 3 years the Bonds are completely paid off. In this case, while the tax rates are at the maximum \$60/\$100,000 in Assessed Valuation allowable by law, the District pays only approximately \$500,000 in interest.

Option 3 in this case study actually describes the basic financial structure of the first “Pay-as-you-Go” (or Pay-Go) Bond Issued by San Juan Unified School District as part of the issuances under Measure N. By issuing short term debt, the interest rate dropped dramatically, in the case of San Juan to under 0.5% The underwriter’s spread was also dramatically reduced, increasing the amount of money raised that actually went to the District. The short term of the Bond meant that the principal was taken down extremely quickly, dramatically reducing the figure that the interest rate was multiplied against. After the Bond funds are spent, another short term bond can be sold, replenishing the building fund. Since the Bonds are paid off shortly after they are issued, there is no accumulation of new debt over time.

This strategy works particularly well for medium to large Districts with a large number of projects to accomplish over an extended period of time. In effect, the construction program becomes “evergreened”, with construction occurring at a somewhat slower but much more sustainable pace. This helps with both cost and quality in that it converts from the Boom/Bust concept common to many School Construction programs to one of sustained delivery. Yet again, the impact of Pre-Checked plans help make this technique more attractive, as the first cost reduction inherent in the approach lets a reduced number of dollars go farther.

Since the maximum amount that a District can tax in a year is limited for any single bond, the amount of money that can be obtained up front via this strategy is lower than traditional “all funds up front” Bonding plans. In the cases of a District that has a low Assessed Value and a single school, the ability to

do a large project all at once is not possible, but there are other ways to accommodate the need. One way would be to perform the project in phases. Secondly, an additional Bond could be sold to add to the cash available at the beginning of the process.

The opposite of this approach is the use of Capital Appreciation Bonds (CABs). In the example that brought attention to the problem, a District in Poway sold bonds where taxpayers will pay over \$980M in debt service to pay back the \$105M in principal that the District received, a ratio of over 9.3-to-1. Other Districts have sold CABs with even higher debt ratios. In 2009 Folsom-Cordova USD sold a CAB that gained them just over \$500,000, but with a 17.7-to-1 ratio taxpayers will charged a cool \$9.1M. Rim of the World School District outdid Folsom Cordova, selling a CAB with an astounding 23.4-to-1 ratio. By comparison, the San Juan Pay-Go bond mentioned above had a repayment ratio of just 1.01-to-1, a repayment ratio just 4% of that of the Rim of the World CAB.

**Local Economic Impacts.** In addition to looking at the total cost to taxpayers, another way to look at this is in terms of the economic impacts. In the case of the Folsom-Cordova CAB, roughly 95 cents of every dollar collected from taxpayers went to institutional bond investors via Wall Street as interest, leaving the community. Under the San Juan Pay-Go plan just over 1 cent went to interest, with the remainder being spent on actual construction costs. Over the life of a \$120M bond for example, this effect can be significant when compared to a Traditional long term Bond. For example, a series of three \$40M “PayGo” bonds would pay between \$1-\$2M in interest, while a 5.25%/30 year bond would cost \$120M in interest. In effect, it is the opposite of stimulus, resulting in large cash flows out of a community every year for decades that would not otherwise need to occur.

The positive effects of using San Juan style bonds can be amplified by the implementation of first cost reduction strategies. In constructing a school the number of labor hours is relatively constant whether the plans are Pre-Checked or custom, whether the materials and equipment are purchased using cooperative purchasing or not, and whether the professional services are competitively bid or not<sup>1</sup>. If the first costs are reduced by 40% via those first cost reduction mechanisms, then the share of tax dollars collected going to worker wage packets increases by roughly 2/3<sup>rd</sup>s. If the cost of borrowing money is cut by 50% by way of going from long term bonds to San Juan style “Pay-Go” bonds and combined with a 40% first cost reduction, then roughly three times the share of tax dollars being raised are going to construction worker paychecks.

Cumulatively these impacts on local economic conditions are significant. Lower total cost means almost all of the dollars being raised through taxes are now being spent on the projects instead of interest, so everyone in the community has a bit more money in their pocket every month, boosting disposable income. Additionally, far more of the dollars raised could be going to local workers. Much of this money will still leave the community as payments to equipment vendors, suppliers and the like, but the money that does remain could be recirculated, and payments to workers are likely to circulate more. While it

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<sup>1</sup> If the same plans are used repeatedly there should be some level of efficiency gain, resulting in a relatively small drop in the number of labor hours per school.

may be bad for Wall Street, a plan like this is much better for Main Street, both the businesses located there and the workers who shop in the stores

Incidentally, the incorporation of First Cost Reduction Strategies makes this system even more cost effective: as fewer dollars are needed to complete a given site, use of short term bonding makes more sense.

### **Enhanced Oversight.**

While the Bond Oversight Committees Prop 39 introduced were not unheard of prior to its passage, Prop 39 made them mandatory. From the experience of the last 14 years the factor that is most apparent is that for oversight to be effective, it must be truly independent. This independence comes in two ways: independence on the Bond Oversight Committee (BOC), and independence of the auditors.

**Independence of Nomination.** Too often, Bond Oversight Committee (BOC) members are selected from amongst the friends and acquaintances of the members of the School Board. Selection of BOC members from this limited pool results in a BOC that tends to owe its allegiance to the School Board instead of the public at large, and is often associated with a significant reduction in the rigor of the oversight process.

A different method that is used in a minority of Districts, however, produces a significantly elevated level of oversight. The members of some BOCs are nominated by independent civic groups, including Chambers of Commerce, Building/Construction Trades Councils, Seniors groups, Taxpayer organizations, and even interfaith religious coalitions. The difference is critical; when BOC members are nominated by these outside groups, their allegiance is to their organization and the public, not to the School itself. While less rigorous oversight may be attractive to a District in the short term, in the long term Districts are far better served by BOCs that have the ability to uncover problems at their inception, and the ability to bring cost control and oversight expertise to the program as early as possible are truly helpful to the District in the long run.

**Independence in auditing.** As mentioned above, it is a recognized best practice to have the financial and performance audits of the Bond performed by a different firm than that which performs the audit of the District as a whole, even if this compels a slightly higher price. The reason for this is the appearance of impropriety, and the corrosive effect that this can have on public confidence.

The engagement to perform the Bond Audits may be in the tens of thousands of dollars, while the engagement to perform auditing of the District's own books may be in the hundreds of thousands of dollars or more. It is not uncommon at all for the audit of a school district to be the single largest engagement for a given Certified Public Accountant (CPA), one that has an outsized effect on the financial fortunes of their team and firm. As such, it is difficult to avoid a conflict of interest when reporting on any potential improprieties found in completion of the Bond Audit. This places the much more lucrative District engagement in jeopardy. Further, in cases where problems have been found to occur in Bond spending and the same firm is used for all of the audits, the prevalence of "swallowing the whistle" and failing to include concerns in their conclusions is nearly universal.

## Management Best Practices

**Life Cycle Cost Analysis.** The nature of the split between bond fund expenditures and operating funds gives rise to a well understood tension. Bond funds are only to be used for capital improvements, while operating funds are only to be used for operations. The problem is that the amount of Bond funds spent can impact future operating funds. Due to political and other pressures, in many cases Operating funds are given a higher priority than Bond funds. At the extreme end, this can result in perverse outcomes.

For example, imagine a Direct Digital Control (DDC) system for an elementary school. Compared to a more basic alternative, this system has an incremental cost of \$350,000. The system can save an average of \$10,000 per year over its life, with an expected useful life of 15 years. Does this marginal expenditure make sense?

To an ordinary business, the answer would clearly be no. Even without taking into account the bond interest that would accrue on the \$350k, the DDC system would only give \$150K in return. More importantly, the total cost of the system to taxpayers of a system could be over \$800,000 including interest while the net present value of the stream of savings could be under \$95,000. However, to a District with severe operating budget pressures, the thought of a revenue stream that rises from \$8,100 per annum to over \$12,000 per annum could be very appealing when considering that the first cost to the operating budget (which differs from the Taxpayers capital budget) is zero.

What this fails to recognize though is that actions like this, when discovered, have a profoundly negative and corrosive effect on the faith that voters have in the fiscal rectitude of the District. When instances like this are brought to the attention of the media, particularly during future campaigns, the impacts can easily sway the vote against future Bond measures for years to come. Ultimately, not only is this wasteful of limited capital project funds, any short term benefit to the operating budget is more than offset by long-term harm to future generations of students.

The way to deal with this is straightforward: incremental life cycle cost analysis for discretionary projects or the discretionary portions of mandatory contracts. From the standpoint of the Taxpayer's Association, this does not need to show a significantly positive return on investment, nor does it need to discount future avoided cost cash flows. Instead, a simple analysis that shows that incremental expenditures, including the time cost of those dollars will be less than the total avoided operational costs over the federally recognized Expected Useful Life of the equipment is sufficient. This study should be completed by a competent professional; all calculations and assumptions should be shown, and the results attested to by a licensed Engineer or Architect in a signed and stamped document. This analysis, in this format, ensures that they are placing their Professional Certification behind the calculations on this form.

Local Districts are showing the way on this issue. Folsom Cordova Unified School District recently adopted a District Policy that states the following:

“... that when renovations include upgrades or non-essential modifications, the District shall perform a cost-benefit analysis that shows that the true marginal cost of the upgrade or improvement over its life, including marginal costs *and marginal interest cost*<sup>2</sup>, will be at least equal to its savings over its expected life.

The example used is for a football field, where the cost of a grass turf field is \$100,000, and the cost for an artificial turf field is \$600,000. Under this policy, the incremental \$500,000 and the associated marginal interest costs would need to be offset by savings in water and maintenance costs over the expected useful life of the field. Further, the analysis that shows that this incremental expenditure is at least break even must be attested to and available for public review.

**Prohibiting use of “No-bid” contracting methods to Campaign contributors.** There are things that can be done that, while legal, are still corrosive to public trust. One of those things is the granting of contracts for professional services on a no-bid basis to past campaign contributors. While this recommendation may seem to be in the realm of being so common sense that it does not need to be mentioned, it occurs often enough to require its inclusion in this Best Practices section.

**Use of Competitive Selection for Financial Analysts.** The Government Financial Officers Association (GFOA) has extremely well written guidelines for many processes in the bond process, including the selection of Financial Advisors. These recommendations are covered very well in a Section of the "Debt Toolkit" document produced by Dr. Mary Barlow, Assistant Superintendent of Schools for Kern County. The Financial Advisor selection process is covered starting on PDF page 40. One section is quite important:

Fees paid to financial advisors should be on an hourly or retainer basis, reflecting the nature of the services to the issuer. Generally, financial advisory fees should not be paid on a contingent basis to remove the potential incentive for the financial advisor to provide advice that might unnecessarily lead to the issuance of bonds.

The goal in this section is to remove any potential conflict whereby the financial interests of the advisor and the District may become misaligned.

**Incorporation in Ballot Language.** The intentions of many Board members when going out for a bond may be good, but if those intentions are not included in the Ballot Language or in a document referenced in the Ballot Language, the intentions at the time of the election may not be realized in the way that the Bond funds are spent. By incorporating the intent in the Ballot Language, all parties know in advance that the commitments made during the campaign will be adhered to during the time when bonds are being spent, even if there are subsequent changes on the School Board or District leadership.

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<sup>2</sup> The italicized section on marginal interest cost were added at the meeting following a suggestion from the Sacramento Taxpayers Association. This is reflected on page 10 of the minutes of that meeting.

This commitment to follow through as stated is immensely helpful in securing and maintaining public confidence, as nothing will undermine that confidence in the process more than a perception of “*Bait and Switch*”. Having these procedures incorporated in the Ballot Language, either directly or by reference, also reduces the opportunities for misunderstandings later.

Ultimately, what the measures recommended by *A Better Way For Schools In Yolo County* are about is cost effective school design, not the denial of projects. Our best practices are about subjecting the proposed delivery method to rigorous analysis and the power of competition in the marketplace, and ensuring that our community as a whole gets the most for the dollars that will leave as taxes. We are all taxpayers, either directly as property owners or indirectly as renters, and the decisions that we make today will affect taxes for decades to come. Ultimately, adopting more cost effective ways of delivering school projects not only helps the taxpayers of today, it also helps those who will pay those taxes in the future. If the kids who are in the classroom today should have a great learning experience, they should equally experience an environment free from unnecessarily high debt burdens when they enter our community as adults, and begin the process of paying it forward for the next generation.

# A BETTER WAY FOR SCHOOLS IN YOLO COUNTY

**5**

**DISTRICT EVALUATION  
FORMAT**

## DISTRICT EVALUATION TOOLS

Weighted Score	Weight	Eval		
			1.) First Step - Evaluating Need Has a clear and convincing need for facility expansion or modernization been explained in the District's Facilities Master Plan	
0	3	0	Have the specific issues been listed?	
0	2	0	Have the items been given estimated costs?	
0	1	0	Do the costs seem reasonable compared to area benchmarks?	
0	1	0	Are distinctions made between necessary and discretionary?	
0	2	0	For Modernization, what are the long term demographics of the modernizing school catchment areas, and are there opportunities to deliver operational savings via the inevitable consolidation that occurs in areas of declining enrollment?	
0	2	0	Has the District maximized opportunities to fund self supporting projects and maintenance through non-bond finance methods?	
0	2	0	For new schools in developing areas, how much is available in developer fees?	
			2.) Second Step - Looking at the current financial stewardship of the District.	
			<b>First Cost Reduction</b>	
0	3	0	Mandatory competitive bidding	
0	3	0	OFCI (Owner Furnished Contractor Installed)	
0	4	0	Competitive DB / Re-Use	
0	3	0	Bulk purchases	
0	1	0	Cost Reduction Bounties	
0	1	0	No escalation in fee with price inflation clause	
0	4	0	Marginal Life Cycle cost analysis	

			<b>Municipal Finance</b>	
0	4	0	Pay - Go	
0	1	0	Competitive Sale	
0	2	0	Did ALL of premium go to interest and sinking fund?	
0	1	0	Competitive RFP for professional services	
0	1	0	Non - contingent Advisor	
0	1	0	Early Public Workshops on debt structures	
			<b>Oversight and Transparency</b>	
0	1	0	Independent BOC nomination	
0	3	0	Independent BOC Training	
0	1	0	Separate auditors for bonds	
0	1	0	BOC input on Performance Audit Scope	
0	2	0	Anti Pay to Play	
			<b>3.) Third Step - What has the performance of the District been in terms of administering past capital projects?</b>	
0	2	0	Have their BOC's been active, well trained, and truly independent, or has their work been perfunctory?	
0	2	0	Is there documentary evidence that all incentives paid on past Bond Projects have gone to either the building fund or the interest and sinking fund?	
0	2	0	How has the construction of the District compared to other local Districts on a per school, student, & square foot basis?	
0	1	0	How has the District faired compared to contiguous Districts in terms of change order \$ per square foot for similar projects?	
0	3	0	What is the current debt level, and is the District operating on SBE waivers?	
0				

## OVERSIGHT OBJECTIVES

There are a total of 600 points available in this analysis. Weighting is as developed in negotiations with School Districts from the Sacramento Area & other Counties utilizing Better Way Concepts. A score of 80% (480 points) with no negative or high concern areas is considered a high quality benchmark of District support. A score of 25% (150 points) or less is considered adverse for the District. Negative numbers are considered to be areas of high concern. Districts which exhibit extraordinary effort in some categories can receive double or "trailblazer" points.

The evaluation section of the effort is intended to be "objective" & fair for the community taxpayers as well as District achievements. The overall goal being a responsible quality effort at lower cost.