



PORTLAND PUBLIC SCHOOLS

OFFICE OF OPERATIONS

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MEMO

Date: December 13, 2024
To: Bond Accountability Committee
From: Dan Jung, Chief Operating Officer
Subject: General Obligation Bond Planning

Overview

The Bond Accountability Committee Charters states that the Committee will review future bond planning processes and materials and provide advice to the Board, prior to bond referral, on:

- Cost estimating processes related to proposed modernization efforts, new construction projects and other potential scopes of work.
- Bond development risk management strategies including project cost escalation assumptions, contingency assumptions, bond management cost estimates, etc.

This memo provides information on up to date general obligation bond (GO bond) planning and cost estimating.

Background

Portland Public Schools (PPS) began holding public meetings to plan for the next GO bond in early 2025. Over the following months, both the scope and estimated budget for the GO bond evolved significantly. On May 29, 2024, PPS staff met with members of the Budget Advisory Committee (BAC) to review the proposed scopes of work and cost estimation methodologies. By June 2025, as the total budget for the GO bond approached \$3 billion, the Board directed staff to shift the target date for the GO bond ballot to May 2025, and paused planning discussions. Recognizing that the scope of work might continue to change, further BAC discussions on the GO bond were also put on hold.

Planning restarted when PPS's Board of Education subcommittee, the School Facilities Improvement Oversight Committee (SFIOC), began meeting in October 2024. The SFIOC established key planning parameters, including:

- A total bond target between \$1.5 and \$1.8 billion
- A plan for an 8-year bond cycle
- Retaining the existing tax rate
- Aiming for a May 2025 ballot measure

The SFIOC has held three meetings to date. Following its most recent meeting on December 2, the committee appears prepared to recommend a GO bond with an estimated scope of work totaling around \$1.8 billion for referral to the Board of Education.

PPS now seeks the BAC's review of the details outlined below. We ask for your input on the reasonableness of the cost estimation methods used to develop the proposed scopes of work, as well as the risk management strategies in place.

Specifically, we request your assessment of whether you find that it is reasonable to conclude the proposed \$1.8 billion budget is sufficient to complete the scope of work outlined in the GO bond option.

Scope of Work

A. Physical Facility Improvements - \$290M

Deferred Maintenance & Priority Scopes of Work - \$190M

As detailed in the Board meeting materials, PPS is confronting substantial facility needs, with an overall cost that exceeds several billion dollars. Although there is some flexibility in how these needs are categorized, we generally classify physical facility improvements into three primary categories:

1. **Deferred Maintenance** (addressing failed assets)
2. **Capital Renewal** (planning for assets beyond their expected useful life)
3. **Priority Scopes of Work** (new improvements or upgrades)

Deferred Maintenance: The District's deferred maintenance backlog is substantial, with thousands of assets in need of replacement, totaling more than \$1 billion. PPS's overall facility condition index is rated as "poor," and staff have estimated that it would require approximately \$700 million over the next 10 years to improve the District-wide rating to a "fair" level.

Capital Renewal: According to the APPA benchmark, annual investment in capital renewal should be 3% of the Current Replacement Value (CRV), equating to roughly \$171 million per year. While this is a broad estimate not specific to PPS, it is reasonable to assume over \$100 million per year would be needed to maintain the existing conditions of PPS facilities.

Priority Scopes of Work: Priority projects that fall outside of deferred maintenance include seismic retrofits, athletic facility upgrades, the addition of air conditioning, security improvements, and other critical needs. PPS's Long Range Facilities Plan (and other capital planning documents) identify substantive upgrade needs in these areas.

Given the scope of PPS's facility needs, an allocation of \$190 million, over 8 to 10 years, represents a significant but relatively modest investment, considering the size of the District's portfolio and its current condition. The 2025 GO bond is planned to provide flexibility in use of these funds, allowing the district to address its highest facility priorities over the next decade.

At this stage, specific scopes of work and detailed cost estimates have not yet been defined. However, it is anticipated that the funding will support the completion of over 100 capital projects.

Below is a sample overview of how these funds could be distributed over the term of the bond.

SAMPLE

Deferred Maintenance	Est Project Cost Range		Est # of Projects		Total
<i>Emergency & Unplanned Projects (annual)</i>	\$5,000,000	- \$10,000,000	*		\$60,000,000
Roof Replacement	\$5,000,000	- \$7,000,000	9	- 12	\$60,000,000
Exterior Enclosure Improvements	\$2,000,000	- \$4,000,000	3	- 5	\$10,000,000
HVAC System Major Repairs	\$250,000	- \$1,000,000	5	- 20	\$5,000,000
Plumbing System Major Repairs	\$250,000	- \$1,000,000	5	- 20	\$5,000,000
Electrical System Updates	\$1,500,000	- \$2,500,000	6	- 10	\$15,000,000
Fire Alarm Upgrades	\$250,000	- \$500,000	5	- 10	\$2,500,000
Playground Equipment Replacement	\$100,000	- \$250,000	10	- 25	\$2,500,000
New Elevators	\$1,000,000	- \$2,000,000	1	- 2	\$2,000,000
Site Improvements	\$50,000	- \$250,000	4	- 20	\$1,000,000
Priority Scope Improvements					
New HVAC Systems	\$8,000,000	- \$12,000,000	1	- 2	\$15,000,000
Security Improvements	\$500,000	- \$2,000,000	1	- 4	\$2,000,000
Seismic Improvements	\$5,000,000	- \$10,000,000	1	- 2	\$10,000,000
<i>* Estimated annual allocation</i>					\$190,000,000

Athletic Improvements - \$79M

The 2025 GO bond proposal includes specific projects and budgets for the planned athletic improvements. The estimating model for these athletic projects follows a similar approach to the modernization projects:

Hard Costs + Soft Costs + Contingencies = Total Project Cost

Attached are detailed budget breakdowns for each identified project. A few important notes:

Hard Costs: The scope of each project varies, but many are based on work PPS has completed in recent years, such as new turf fields, lighting, hitting facilities, etc. As a result, much of the hard cost data is derived from these recent, similar projects. All assumptions regarding hard costs are clearly noted in the attached documents.

Soft Costs: Similarly soft cost estimates are based on recent projects. We have applied an 18% design contingency to most projects; exceptions are noted.

Furniture, Fixtures, and Equipment (FF&E): Some projects will require new athletic equipment to become complete and usable. A FF&E markup has been applied to those projects.

Contingencies: Given that many of these projects are still in the early planning stages and based on zero percent design, various contingencies have been included to address potential future cost risks. These contingencies encompass:

- **Scope/Design Contingency:** Given that the estimated costs are based on historical data from similar projects, we apply a 10% scope/design contingency. This helps account for potential site-specific considerations that may require additional work, such as extra walking paths, stairs, or lighting due to unique site grading or other factors.
- **Jurisdictional Requirements:** The base hard cost data is often drawn from larger projects, and does not account for jurisdictional requirements such as land use conditions of approval or

unexpected permit requirements. A contingency is applied to address any unanticipated compliance requirements or required improvements.

- **Project Contingency:** A standard practice at PPS is to apply a 10% contingency for new construction projects and a 15% contingency for renovations. Although many of the athletic improvements are new construction, a significant portion of the work involves civil engineering and is therefore subject to higher risk due to unknown underground conditions. As a result, we have applied a 15% project contingency to all projects to account for unforeseen circumstances.
- **Cost Escalation:** As detailed project schedules and sequencing are still being developed, and given that the athletic improvements must be coordinated with other capital projects, we estimate that all work will be completed over 8 to 10 years. To account for inflation and potential price increases, we have factored in 5 years of cost escalation (from the base year 2025) at a rate of 4% per year for all projects. We acknowledge that this method overestimates some projects (those being completed sooner) and underestimates the later projects, but we believe this is a reasonable approach to the athletic improvements scope as a whole.

Based on the estimating approach and risk management strategies, we are confident that the full scope of the athletic improvement projects can be completed within the allocated budget.

B. Educational & Technology Improvements - \$242M

Technology Improvements - \$176M

This budget has been created from an eight-year bond timeline and includes 2 four-year cycles.

Project	Years 1-4 Amount	Years 5-8 Amount	Total
Business Modernization/ERP	\$38 million	\$0	\$38 million
Staff & Student Device Refresh	\$35 million	\$35 million	\$70 million
Data Center/Classroom Tech/Infrastructure	\$25.5 million	\$25 million	\$50.5 million
Cybersecurity	\$3.5 million	\$4 million	\$7.5 million
HVAC and Energy Sustainability	\$10 million	\$0	\$10 million
Total	\$112 million	\$64 million	\$176 million

Project Notes:

- The Business Modernization/ERP system serves as the fundamental backbone supporting the HR and all financial systems within the district. During Bond 2020, the ERP was designated for planning stages; however, the 2020 bond funds were not designated to cover the complete implementation costs. This request encompasses the necessary funding for the acquisition, implementation, and staffing of the system project, as well as the transition of the district from the previous ERP (PeopleSoft) system.
- Staff and student device refresh: Presently, General Funds are inadequate to address district-wide device replacement for students and staff since their initial deployment in 2020-2021. It is imperative that staff and students have access to reliable and secure technology

for classroom usage and homework assignments. While we strive to extend the lifecycle of devices to 5 years, this is becoming increasingly more difficult to accomplish due the rate of change of technology and the additional usage placed on devices by staff and students.

- K-12 cyber attacks persist as a significant concern for school districts nationwide. The need remains to continuously update existing systems and adopt innovative practices to prevent cyber security attacks from disrupting our educational processes, data, and systems.
- The PPS Data Center, being the focal point of all technical operations across the district, is projected to reach its end of life in 2025. It necessitates the replacement of the chiller, UPS, and other essential infrastructure components to ensure the continuity of technical operations.
- Bond 2020 did not include provisions for the replacement of classroom technology or infrastructure in any of the schools improved with funds from Bonds 2012 or 2017. The technology in Bond 2012 schools is now outdated and requires replacement to comply with the District's technology standards. While Bond 2017 schools have relatively newer technology compared to Bond 2012, the Wifi system will approach its end of life between 2025-2027, necessitating additional funds for its replacement. Additionally, large space areas (gymnasiums, theaters, etc.) were not within the scope of the 2020 Classroom Modernization project. This bond will provide specific projection and sound capabilities tailored to these larger spaces.
- HVAC and Energy Sustainability: Across the district, the majority of our network distribution closets lack adequate cooling to maintain efficient and sustainable operations. Most dedicated network rooms do not have any form of access control. This bond will enable us to implement both temperature control and the necessary access control measures to secure these critical and sensitive locations.

Physical Education - \$10M

In accordance with the Division 22 Physical Education (PE) requirements from the Oregon Department of Education, PPS must fully comply with the mandated PE minutes. To meet this requirement, PPS has undertaken modifications at schools over the last 2 years to expand PE spaces and offerings. To achieve full compliance, additional PE spaces need to be identified at six remaining six: Cesar Chavez, da Vinci, George, Ockley Green, Metropolitan Learning Center, and Winterhaven. Each of these schools has unique space needs, necessitating resources to both initiate and complete the projects.

The GO bond budget allocates \$10 million to cover the cost of this work, approximately \$1.6 million per school. While the specific solutions for each site have not yet been determined, we anticipate that the allocated amount will be sufficient to complete the required improvements, based on previous projects. Any savings from this work will be redirected to the Program Contingency fund. Should additional funding be required, it will be drawn from the available Program Contingency.

We are confident that the allocated budget is sufficient to address the PE needs at the six schools.

Curriculum - \$56M

The proposed project scope is \$7M each year through 2030-31, totalling \$56M. This [Bond Curriculum Update at \\$7M Annually](#), outlines revised curriculum schedule, further considerations and next steps. It's important to note, bond funds are not intended to be the sole source supporting curriculum adoptions moving forward, and this approach provides foundation support.

Because the curriculum budget is a fixed annual allocation designated to support new curriculum adoptions, which are supplemented by additional non-bond funding, we are confident that the \$56 million will be effectively used to address the curricular needs as outlined.

C. Modernizations - \$1.150B

The May 29 BAC meeting focused on the modernization projects. The meeting materials are attached for reference. During the session, staff reviewed the cost estimating methodology and underlying assumptions that led to the project cost estimates outlined below:

	Cleveland HS	Ida B Wells HS	Jefferson HS
	<i>Schematic Design</i> 1	<i>Schematic Design</i> 1	<i>Schematic Design</i> 1
Hard Cost	384,968,991 2	365,300,518 2	409,297,113 2
Soft Cost	33,155,000 3	36,300,000 3	42,007,914 3
FF&E	8,700,000 4	10,000,000 4	9,988,000 4
Swing	500,000 5	2,200,000 5	345,000 5
Project Contingency	41,320,859 6	41,200,000 6	29,459,770 6, 7
Administration	Incl. in Program	Incl. in Program	Incl. in Program
Land	0	0	0
SUBTOTAL	468,644,850	455,000,518	491,097,797
Escalation	Incl. in HC 7	Incl. in HC 7	Incl. in HC 8
TOTAL	468,644,850	455,000,518	491,097,797

Acknowledging the high total project costs for the three schools, the District has recently decided to reassess the project designs and budgets. To achieve this, the project teams have been tasked with developing updated, high-level designs that aim to reduce overall costs while maintaining the core scope and academic programs. The revised funding and budget targets for each project are as follows:

Project Budgets			
	Current Project Budget	Target Project Budget	Delta
Cleveland HS	\$469,000,000	\$360,000,000	-\$109,000,000
Ida B Wells HS	\$455,000,000	\$360,000,000	-\$95,000,000
Jefferson HS	\$491,000,000	\$366,000,000	-\$125,000,000
	\$1,415,000,000	\$1,086,000,000	-\$329,000,000

Project Funding			
	2020 Bond Funding	2025 Bond Funding	Total
Cleveland HS	\$20,000,000	\$340,000,000	\$360,000,000
Ida B Wells HS	\$20,000,000	\$340,000,000	\$360,000,000
Jefferson HS	\$366,000,000	\$0	\$366,000,000
Other	\$0	\$470,000,000	\$470,000,000
	\$406,000,000	\$1,150,000,000	\$1,556,000,000

By reimagining the high school modernization projects with an emphasis on preserving essential academic programs, Portland Public Schools (PPS) stands to realize up to \$470 million in savings. These savings will be reinvested into the modernization of elementary and middle schools, ensuring that improvements are made district-wide.

To restate and clarify, PPS plans to allocate \$1.15 billion in the upcoming General Obligation (GO) bond for the modernization of Jefferson, Ida B. Wells, and Cleveland High Schools. When combined with the allocation from the 2020 GO bond, the total funding for these projects will be \$1.556 billion. The revised

target budget for these three projects is \$1.086 billion, resulting in a \$470 million difference between the total funding and the target budgets.

If one or more of the high school projects encounter budget challenges, this \$470 million will serve as a flexible buffer to cover any potential shortfalls. However, the primary goal is to use the savings from the budget difference to support the modernization of future elementary and/or middle schools. The specific schools, scope of work, and number of schools to be modernized will be determined at a later stage.

This approach not only provides a significant cost buffer to ensure that the high school projects remain within budget, but also enables continued investment in the modernization of schools across the district.

Based on this approach, we are confident that the three high school modernization projects will be completed within the available funding.

D. Administration and Contingency - \$166M

Administration - \$83M

Program administration includes the resources required to manage and support the bond work, covering staff, bond issuance costs, insurance, and other related expenses.

From 2021 to 2023, Portland Public Schools (PPS) spent approximately \$37 million for bond program administration, averaging approximately \$12 million annually. Annual expenses fluctuate depending on the number and complexity of active projects, as well as the timing of significant expenditures, such as bond insurance payments. It's important to note that these costs are not uniform throughout the program's lifecycle. Initial costs tend to be lower, accelerate as new projects kick off, and taper off as the program nears completion.

Given that PPS oversees multiple overlapping GO bond programs, this structure provides opportunities for cost efficiencies. However, it also requires careful oversight to track individual program expenses, as some costs are shared across different GO bond authorizations

For the 2020 GO bond program, the administration budget is set at \$62 million (6% of the project budget for the bond), of which \$20 million has been spent. With approximately 46% of the budget spent to date, we anticipate that total administration costs will remain close to, but below the allocated amount.

The upcoming 2025 GO bond presents a unique challenge compared to previous bonds, due to its size, scope, and other variables. The budget for administration of the 2025 GO bond is set at \$83 million, which is 5% of the bond project budget, an ambitious but achievable target. The 2025 GO bond has a significant amount of large modernization work, which is less burdensome for administrative budgeting than smaller projects. OSM will strategically design the mix of direct PPS employees and contracted administrative positions to provide the expertise necessary at an efficient cost. It will be important to keep a close eye on administration costs as the program evolves, the modernization budgets become solidified, and additional projects become clear to ensure that the program's administrative budget evolves with the program's project makeup.

We are confident that the full GO bond program can be successfully managed and delivered within the available funding.

Contingency - \$83M

Program contingency is a risk management tool used to buffer against unanticipated costs, such as:

- Higher than anticipated cost escalation

- Costs associated with longer than estimated project schedules
- Building code or zoning code changes
- Emergency facility needs
- Or any other unforeseen cost, either discretionary or nondiscretionary

The majority of the funding in the proposed plan is allocated to modernizations, totaling \$1.150 billion. As mentioned earlier, the goal is to complete the three high school modernization projects with just \$640 million of the proposed GO bond funding, significantly below the total amount allocated for modernizations. Any savings from the high school projects will be redirected to modernizing elementary and middle schools. This strategy creates a strong risk management framework for modernizations, eliminating the need for additional program contingencies.

Of the remaining budget, \$190 million is earmarked for deferred maintenance, functioning as a "spend-up" allotment, and the curriculum budget represents an annual allocation that supports ongoing work, supplemented by non-bond resources. Leaving a remaining scope of work - including athletics, technology, physical education and administration costs - totaling approximately \$350 million.

The proposed option includes an \$83 million program contingency (5% of the total bond amount), designed to address (i) unanticipated cost overruns, and (ii) any additional discretionary scope within the GO bond's language and parameters.

A few important notes:

- PPS traditionally supplements the program contingency with any bond sale premiums and interest earnings. While these additional revenue sources are not guaranteed, historical trends suggest they will likely add tens of millions to the total budget.
- PPS has submitted an application for the Oregon School Capital Improvement Matching (OSCIM) Program. If awarded this would increase the program contingency by as much as \$12 million.
- All program contingency funds are ultimately allocated to GO bond projects.

We are confident that the program contingency is sufficient to cover unforeseen expenses and that the \$1.8 billion budget will be adequate to complete the proposed GO bond scope of work.

Resources

- Exhibit A: Proposed General Obligation Bond Option (12.13.2024)
- Athletic Facility Improvements
- Bond Curriculum Update (11.25.2024)
- May 29, 2024 Material: Presentation
- May 29, 2024 Material: Cost Model Workbook