Questions for PPS Local Option Levy Tax Hearing Discussion Meeting

(60 min hearing)

Tuesday, May 6 at 5:00 PM

501 N Dixon St, Portland, OR – Board Room

Commissioner Resources on the 2025 Bond: PPS Bond Updates and Bond Accountability Committee Information, PPS Board of Directors and Meeting Information

1.	We understand the proposed bond package was informed by feedback from families, students, and staff, among others. How did you gather this feedback? What gives you confidence that these projects and the total size of the bond are representative of what the majority of stakeholders want? Since the first bond measure in 2012, there has been significant community involvement, attention, and interest in PPS bond measures. A community commitment was made back in 2012 to modernize all of our nine high schools. Since then, voters have repeatedly voted to support PPS bond measures and as a result, six of our nine high schools have been modernized. The PPS Board of Directors began conversations about this specific bond in January 2024. Since that time the Board has met (almost) monthly in work sessions, committees or full Board sessions. Community members have continued to convey their commitment to PPS's approach with participation in a variety of GO bond project forums, including community-focused Design Advisory Groups, open houses, design workshops, and opinion surveys. Two public opinion polls have been completed over the last year indicating strong support for the bond.
2.	We've heard discussions in the community around the price of proposed bond projects, in particular the high school modernizations. Even after attempts to reduce costs, costs for the high schools are likely to be the majority of bond spending. Why are these projects so expensive relative to analogous projects in the region and across the country? Portland Public Schools' high school modernization efforts are, without question, large-scale capital projects that make up the majority of the proposed bond package. While it's natural to compare such projects with others across the country and region, it's important to approach these comparisons with caution. Capital project costs are complex and nuanced and project costs are often calculated, grouped and/or reported inconsistently, which can make direct comparisons misleading. A key challenge in comparing capital projects is the lack of standardized cost reporting. Project costs are often published or cited without clear definitions or consistent scope. Some sources report total project budgets, while others include only construction (hard) costs and omit critical elements such as soft costs, contingencies, escalation, permitting, or management fees. This inconsistency is usually not due to a lack of transparency, but rather reflects the varied ways that agencies define and manage projects. Without a uniform reporting framework, projects that are similar in scope can appear to have vastly different public price tags, making meaningful comparisons difficult. Several regional and local factors also significantly influence construction costs in Portland compared to other parts of the country. Some examples include: ● **Labor Costs & Prevailing Wage**: Labor is a major driver of construction budgets. Oregon requires public projects to comply with prevailing wage laws, meaning workers must be paid at least the rates set by BOLI (Bureau of Labor and Industries). Oregon is among roughly half of U.S. states that enforce such laws, and BOLI's prevailing wage rates are among the highest.

- **Cost of Living**: Portland's cost of living is considerably higher than the national average—and even more so compared to many growing suburban or rural areas where high school construction projects are more common. This affects wages across all sectors, including construction, and contributes to higher overall project costs.

- **Tax Environment**: Portland businesses face comparatively higher taxes, which can impact project pricing. These include Oregon's Corporate Activity Tax, a 2% Portland business income tax, a 1% supportive housing services tax on larger Metro-area businesses, and a 2.6% business license tax—resulting in an effective corporate tax rate of approximately 20%, the highest in the nation. Similar to cost of living impacts, these higher than national average costs become effectively "baked in" to construction project costs.

- **Sustainability Requirements**: Oregon has many sustainability initiatives that are uncommon elsewhere in the country. For example, the State of Oregon mandates that public construction and major renovation projects of $5 million or more allocate at least 1.5% of the total contract value to green energy technologies. While this policy reflects Oregon's commitment to sustainability and long-term energy savings, it does increase upfront project costs, especially when compared to states without similar mandates. This is a commonly cited trade-off between environmental values and budget constraints.

- **Market Competition & Geography**: Portland's relative geographic isolation limits competition in the construction industry. The limited contractor base in Portland has been cited by local developers and economic studies as a factor in higher construction costs. In highly networked metro areas (e.g., cities on the East Coast), there is greater regional contractor mobility and often more competition, which can exert downward pressure on prices.

In summary, PPS's modernization projects are shaped by a range of local conditions that impact both the scope and cost. While these projects may seem more expensive than others on the surface, it's essential to consider the broader economic, regulatory, and social context that drives these costs.

Additional Cost Drivers in Portland vs. Other Oregon Locations

When comparing construction projects in Portland to those in other areas of Oregon, several additional factors contribute to higher project costs:

- **Entitlement and Permitting Costs:** Permitting fees and jurisdictional approval requirements are generally higher in Portland than in most other Oregon jurisdictions. Entitlement costs in Portland are significant; a single project can incur $4 million to $5 million in fees alone. In addition, projects in Portland are often required to complete non-conforming upgrades and public right-of-way improvements, which can add millions of dollars to the overall budget.

- **Urban Site Constraints:** Constructing projects in dense urban environments introduces substantial logistical challenges that often result in cost increases. Limited space often necessitates just-in-time material delivery, increased crane use, and complex site access coordination. Labor hours rise due to traffic management, restricted access, and staging limitations. Providing adequate facilities for large crews in tight spaces adds additional expense. Vertical construction further complicates logistics, limiting crew size and efficiency, increasing task durations, and requiring greater use of lifts, cranes, and staggered trade schedules. For example, when staff compared the Beaverton School District's current high school construction project — sited across approximately 40 acres — to PPS's Cleveland High School project — encompassing four acres — we estimated that constrained-site related costs would add approximately $30 million to the Cleveland project.

- **Routine Operating Budgets:** Another notable distinction between PPS and some other school districts lies in the annual budgeting approach for routine maintenance and repair. PPS has limited capacity to fund ongoing maintenance and capital renewal efforts through its general fund. As a result, the district places a strong emphasis on selecting building systems and materials with greater durability and longer life spans. While this strategy may increase upfront construction costs, it is a deliberate effort to reduce long-term maintenance burdens and extend the life of key infrastructure.

PPS Program Values and Requirements

PPS has distinct program values that influence both scope and cost:

- **Climate Crisis Response Policy:** PPS's Climate Policy prioritizes the use of low-carbon building materials and mandates that all new facilities be constructed with fully electric building systems. While these standards reflect the district's commitment to sustainability and climate action, they also introduce a significant cost premium compared to conventional construction approaches.

- **Equity in Contracting:** PPS maintains robust equity contracting goals that exceed those of many other school districts. These enhanced requirements, aimed at increasing participation from historically underrepresented businesses, can impact project budgets by influencing procurement strategies, subcontractor selection, and timelines.

Cornerstone Report: Comparative Analysis of High School Construction Costs

Earlier this year, Cornerstone Management Group completed a high-level cost comparison of five school construction projects. These included three PPS high schools currently in design—Jefferson, Ida B. Wells, and Cleveland—along with Lincoln High School, which was recently completed, and Beaverton High School, a non-PPS project currently under construction.

It's important to emphasize that no single factor accounts for the differences in project costs. As outlined in the report, multiple variables influence total expenses, including building size, the inclusion of specialized spaces, sustainability standards, market escalation, demolition needs, and site-specific constraints. Among the most significant cost drivers identified were:

- **Escalation**: The report cites an average annual cost escalation of 8%. At this rate, construction costs double roughly every nine years. Over a five-year span, this results in a cost increase of approximately 47%.

- **Specialized Spaces**: Certain schools include unique or premium programmatic spaces—such as commercial kitchens, health centers, teen parent support areas, athletic facilities, and basements—which carry a higher per-square-foot cost.

- **Sustainability Standards**: Compliance with high-performance building requirements—including all-electric systems, solar readiness, and low-carbon materials—can significantly increase overall project costs.

Given the complexity of comparing five projects with many differing variables, it's helpful to present the analysis in two groups to simplify comparison:

Group 1: Lincoln High School vs. Beaverton High School

The report's second table adjusts both projects for cost escalation to provide a more equitable, "apples-to-apples" comparison. After accounting for inflation, the Lincoln project was found to be

approximately 15% more expensive than Beaverton. The report attributes Lincoln's higher costs to several key factors, including:

- Inclusion of premium program spaces, such as a full kitchen and servery (the Beaverton project is not replacing the existing kitchen and servery, which totals about 30,000 square feet)
- PPS's equity-in-contracting goals
- Complex site logistics, including a constrained urban location

When these elements are considered, the cost difference between the two projects narrows, and the overall project costs are deemed broadly comparable.

Group 2: Lincoln High School vs. Jefferson, Ida B. Wells, and Cleveland High Schools

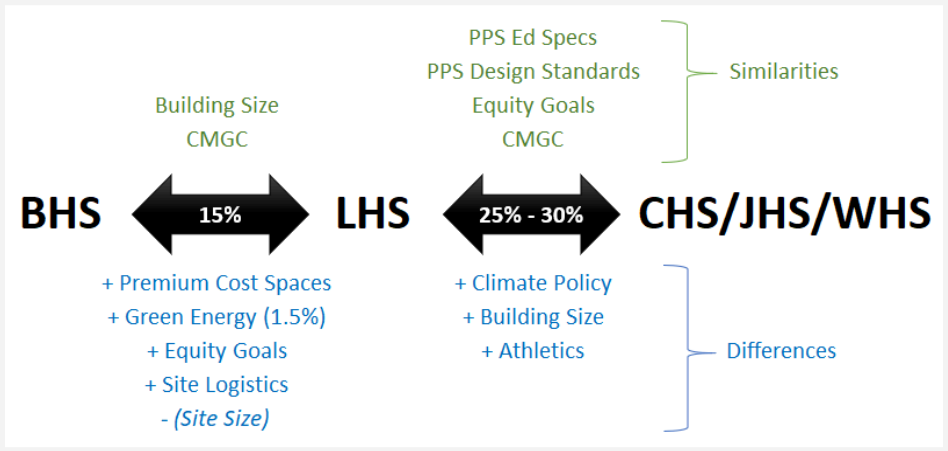
When comparing Lincoln to the three high schools currently in design, and again adjusting for cost escalation, the newer projects are estimated to be 25% to 30% more expensive.

These projects share many core attributes: they are all guided by PPS's Educational Specifications, use the Construction Manager General Contractor (CMGC) delivery model, and are currently in the design phase. However, the report highlights three key differences driving the increased costs:

- Implementation of PPS's recently adopted climate policy, which mandates all-electric infrastructure (a policy adopted after Lincoln High School's completion)
- Larger overall building footprints for the new schools
- Expanded athletic facility investments not included to the same degree in Lincoln's scope

When these factors are incorporated into the analysis, the apparent cost disparity shrinks considerably. While the newer projects are not identical in cost, the adjusted figures reflect a much closer alignment than the raw numbers suggest.

A visual table on the following page summarizes these comparisons, illustrating both similarities and differences in project cost profiles



Follow up: The cost comparison report commissioned last fall by the district included specific project cost projections for the 3 high schools and identified a number of areas where costs could potentially be reduced. Among those were costs related to pre-construction and the CM/GC model which are significantly higher than in recent comparator projects, accounting for about 12% of the bond total. Most notably, those costs have apparently ballooned - almost double or more - since the construction of Lincoln High School, completed less than 3 years ago. What explains these increases and how have you explored ways to reduce them?

Regarding pre-construction services, Cornerstone's Cost Comparison Report notes that cost differences in pre-construction services between PPS and neighboring Beaverton School District's projects are because PPS includes more scope in pre-construction than BSD. Project teams are currently evaluating pre-construction scope to determine if there are tasks that can be removed to reduce that scope without significantly reducing the value of pre-construction services.

CM/GC General Conditions costs are separate from pre-construction services costs. General conditions are the work that supports the construction: staging, hoisting, jobsite security, parking, logistics, and much more. These costs are affected by the same factors as the construction itself. The most effective method for reducing general conditions costs is by working closely with the CM/GC contractor in the pre-construction phase to identify strategies that reduce these requirements. Strategies can include things like innovative construction sequencing concepts to reduce the use of tower cranes or reduce construction schedules. The pre-construction phase work for the modernization projects is in its beginning stages, and these strategies will be explored as the CM/GC performs their pre-construction services. The district is also reviewing its contract terms to ensure efficient requirements for insurance.

3. The PPS Board is planning to build larger high schools in a time of declining enrollment that is projected to continue into the next decade. The Portland State enrollment forecast from last July projected high school enrollment in ten years of about 11,000 students, but these three projects will build out high school capacity to 15,000. The Board appears to be taking a "if you build it, they will come" approach. What if this turns out to be wrong - what's the plan if enrollment does not recover? And what are the potential fiscal and opportunity costs of over-building capacity at the high school level?

The PPS Board has directed the district to build high schools for the next 100 years, not just for population forecasts for the next five. We also believe that having state-of-the-art, modernized high schools will support Portland's efforts to recruit new businesses and new families to our city. In addition, district staff are preparing an enrollment campaign which will highlight the positive things occurring at our schools and provide principals with a tool kit that will help them encourage neighborhood families to choose to send their children to PPS schools. PPS Superintendent Dr. Kimberlee Armstrong addressed this question in the Willamette Week recently: She replied that a scenario where the District has extra capacity in modernized high schools, the district could use the buildings to serve students in Kindergarten through 12th grade. "I will tell you, there is no situation where a newly modernized, community-invested high school will go empty or even be half full."

Follow up: Has PPS done any analysis of what level of additional housing would be required to support increased enrollment sufficient to warrant this capacity?

We are well aware that the city of Portland faces a severe shortage of housing, for all levels of income.

Follow up: Are there any ways in which PPS collaborates with local governments on housing planning?

	Last week, Dr. Armstrong met with Portland Mayor Keith Wilson and the other school superintendents from Multnomah County to discuss a variety of issues, housing being one of them. The Mayor informed the group of his plan to incentivize housing production by temporarily waiving System Development Charges (SDCs) — fees the city collects from developers to cover the cost of increasing the capacity of municipal infrastructure (parks, roads, and water/sewer pipes) to accommodate growth.
4.	In the 24-25 budget you anticipated continuing to spend down bond proceeds on capital projects for the 2017 and 2020 bonds. How much in bond proceeds do you have left to spend for those issuances? What is the anticipated timeline for finishing projects related to those bond approvals? There is approximately $700 million remaining from previous bond approvals; we anticipate all work will be complete in 2029 or 2030. *Follow up:* The Jefferson High school rebuild costs have come in higher than anticipated. What's the distribution for the rebuild costs across the 2020 bond and the new 2025 bond funds? Jefferson High School's total project cost is estimated at up to $466 million. $366 million is funded from the 2020 authorization and up to $100 million would be allocated from the proposed 2025 bond.
5.	A visible example of unspent bond funds and unmet commitments is the Center for Black Student Excellence, which was included in the 2020 bond. We'd like to hear the latest on this project. What and where will the Center be, how will it function, and how will you know if it is making an impact on improved student outcomes? We've been actively re-evaluating the Center for Black Student Excellence (CBSE) project to ensure it fulfills its original intent, while adapting to current conditions. The initiative is still very much alive and moving forward. We are currently exploring options for the future home of the Center and expect to bring a clear recommendation to the Board in the near future. Our internal Steering Committee, composed of District leadership from Legal, Finance, Operations, and Community Engagement—has been meeting regularly to align on key milestones related to property acquisition, programming, and public accountability. In terms of function, the Center will serve as a districtwide hub dedicated to culturally affirming, identity-safe, and academically rigorous programming that uplifts Black students and families. We're anchoring its success in measurable outcomes tied to student belonging, access to culturally relevant resources, and increased engagement across our district. *Follow up:* How much has been spent for this project so far (either bond dollars or otherwise), and what's remaining in the budget? $60 million was allocated to this project in the 2020 bond, and none of these dollars have been spent to-date. *Follow up*: How have you paid for community engagement, staffing, and planning efforts so far, given that these are not costs that can be paid for with bond funds?

6.	We understand that actual tax rates are dependent on interest rates and changes in assessed value. The district has committed to keeping bond levy rates under $2.50 per $1,000 of assessed value. The tax rate has been below that in recent years - how confident are you in your estimates for the new tax rates? While we note that the District cannot 'commit' to keeping levy rates below any specific level, given that the rate is a function of unknowable levels of interest rates and assessed values, the District is comfortable with its estimate of bond levy rates of $2.50/$1,000. *Follow up:* Have you had conversations about how this new borrowing might impact your credit rating, and how that might impact future interest rates? S&P recently updated the District's rating, taking into account the potential for the new authorization. The rating was downgraded to a AA- from a AA; however, the rationale was largely focused on declining fund balances and declining enrollment rather than the amount of new debt. While we are disappointed they did not maintain our prior rating, we have been conservative in our estimates of interest rates and do not believe this change will be an issue.
7.	Although elementary and middle schools have received some improvements in envelope integrity, safety, and accessibility under the series of bonds since 2012, with a few notable examples they remain in urgent need of modernization. What is the district's plan to address the needs of elementary and middle schools when debt capacity will be limited for the next decade or more if this bond passes? The district will utilize all available funds to address essential physical facility improvements including GO bond funds, general fund allocations, grant funds and any other available source. *Follow up, if not addressed above:* Do you plan to go out for more debt for future projects, and if so, when? No plans have been developed to pursue additional debt beyond the 2025 Bond.
8.	ASK ONLY IF TIME What's the timeline for the new bond projects? What will be tackled first? When do you anticipate spending all bond proceeds with projects completed? A detailed timeline for the use of 2025 bond funds has not yet been finalized. However, during the bond development process, staff estimated that PPS's annual capital spending capacity currently ranges from $150 million to $250 million. This range depends on several variables, including the scale and complexity of the projects underway. When combining the remaining balance from the current general obligation (GO) bond—approximately $700 million—with the anticipated $1.8 billion from the 2025 bond, the total available capital reaches $2.5 billion. Based on the projected annual spending capacity, it is estimated that all projects could be completed within a 10-12 year timeframe. That said, because many of the projects funded by the 2025 GO bond are large in scope, we expect completion to trend toward the shorter end of that range. Dr. Armstrong has publicly stated that Jefferson High School will be the next completed modernized high school.

9.	A question the board members in attendance that we ask at all of our property tax hearings - what do you believe is the most compelling reason for this bond to be passed? The average age of a school building in Portland is 76 years old. Our children, our staff, and our community deserve better. If passed by voters, the proposed 2025 bond measure would continue the important work of rebuilding our aging schools, making them all safer, more sustainable and better equipped for 21st century learning.