

BOND CONTINGENCY

In developing the 2017 Bond Program, District staff worked with industry professionals to determine the structural, engineering, other system upgrades needed in our existing schools and the three new elementary schools included in the Bond Program. As part of this process the District developed estimated costs for these construction projects using the latest information available at the time. The result of this work was the \$408 million bond package presented to and approved by voters in November, 2017.

Even with the best information available at the time, developing budgets for each of the 180+ projects (Project Budgets) involved many uncertainties, including cost escalation, unforeseen conditions, scope added as part of the permitting process, etc. For this reason each project includes contingency funds to address these unforeseen costs. Each project budget includes two forms of contingency, a Construction Contingency and an Owner Contingency. In addition, the entire \$408 million bond program (Program Budget) has two Program Contingencies, one for Added Scope and Unforeseen Conditions and one for Escalation. Below is a chart describing these types of Contingency and how they will be used:

Construction Contingency within a Project Budget

Use:	To move funds within a project budget, total Project Budget is not changed.
Examples:	Change orders necessitated by design clarifications, code interpretations or unforeseen conditions (i.e. unsuitable soil conditions, actual conditions differing from as-built drawings revealed upon demolition).
Amount included in Budget:	5%-6% in construction Project Budgets (not included in technology or flexible classroom furniture budgets)
How Contingency is Authorized:	Capital Projects Officer can authorize transfer of Construction Contingency within Project Budget.

Owner Contingency within a Project Budget

Use:	To move funds within a project budget, total Project Budget is not changed.
Examples:	Change orders necessitated by project scope added at District's discretion (i.e. adding upgraded finishes to project, adding square footage, etc.)
Amount included in Budget:	4% in construction Project Budgets (not included in technology or flexible classroom furniture budgets)
How Contingency is Authorized:	Capital Projects Officer can authorize transfer of Owner Contingency within Project Budget.

Budget Transfers between Project Budgets

Use:	To move funds between project budgets, total \$408 million Program Budget is not changed.
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Examples: If the actual cost of the playground at W.L. Henry comes in below our Project Budget, but the actual cost of the Parent/Bus Drop-Off project at McKinney is above our Project Budget.

How Budget Transfers between Project Budgets are Authorized: Capital Project Officer - \$0-\$250,000 Budget Transfer Authority
Superintendent - \$250,000-\$1.5 million Budget Transfer Authority and inform School Board.

Program Contingency A – Complete Bond Projects, Expand Scope of Bond Projects or Add Bond Projects

Funding Source: OSCIM Grant, 50% of Bond Premium and 50% of projected Bond Interest

Use: To purchase items not accounted for in original \$408 million bond program or to fund projects that have exhausted all funds within a project budget.

Examples: Purchase of land, complete other projects identified by Bond Advisory Committee in excess of \$408 million bond ask

Amount included in Budget:

Estimated: OSCIM Grant -	\$ 6.0 million
Bond Premium -	\$25.8 million
Bond Interest -	~\$5.0 million
Less: Transfer to Contingency C -	<u>\$4.0 million</u>
	\$32.8 million

How Contingency is Authorized: CPO - \$0-\$250,000 to complete individual Project
Superintendent – Over \$250,000-\$1.5 million and inform School Board
Over \$1.5 million – School Board

Program Contingency B – Escalation

Funding Source: 50% of Bond Premium and 50% of projected Bond Interest

Use: To fund variable construction market condition impacts on material and labor prices.

Examples: Increases in construction costs in excess of the 6% per year escalation factor included in project budgets.

Amount included in Budget:

Estimated: Bond Premium -	\$25.8 million
Bond Interest -	~\$5.0 million
Less: Transfer to Contingency C -	<u>\$4.0 million</u>
	\$26.8 million

How Contingency is Authorized: CPO - \$0-\$250,000 to complete individual Project
Superintendent – Over \$250,000-\$1.5 million and inform School Board
Over \$1.5 million – School Board

Program Contingency C – District Maintenance & Facilities Projects that meet Bond Ballot Language not included in Bond Promise

Funding Source:	\$4 million transferred from Bond Contingency A \$4 million transferred from Bond Contingency B
Use:	To fund District Maintenance & Facilities projects that come up during the 4 ½ year Bond term that meet the language included in the bond ballot language but were not specifically included in the Bond Promise.
Examples:	Glencoe High School stage curtain has been declared unsafe by the Fire Marshal due to lack of flame retardant.
Amount included in Budget:	\$2 million per year for 4 years – Total \$8 million
How Contingency is Authorized:	CPO - \$0-\$250,000 to complete individual Project Superintendent – Over \$250,000-\$1.5 million and inform School Board Over \$1.5 million – School Board

Note – We will revisit this Program Contingency budget regularly after receiving bids for the new elementary schools and major addition/renovation projects. Any unused dollars will be moved to the Program Contingency as projects are completed.