



Superintendent's Office
 Educational Support Center
 1500 E. 128th Avenue
 Thornton, CO 80241

June 24, 2016

TO: Board Members

FROM: Chris Gdowski, Superintendent

RE: Background Information and Recommended Elements for 2016 Bond Package

This memorandum provides background information and explanation for recommended components of a \$350 million bond proposal for the November 2016 general election. As you'll see, there have been significant revisions made to the recommended components of the package since the June 1, 2016 board meeting in order to account for probable cost increases in construction expense and to provide a contingency for unexpected items discovered during the design and construction processes.

Important Background Items

1. Debt Capacity Without a Tax Rate Increase. An analysis conducted in early 2016 indicated that the District could incur bonded debt in the amount of \$409 million without an increase in the bond redemption levy.

Staff have been interviewing prospective bond underwriters during the past two weeks so that we can identify the underwriter or underwriters who can best meet the District's needs in issuing bonds following a successful November election. The underwriters indicate that the historically low interest rates currently in place are driving many investors away from purchasing bonds with low rates of return, which currently are in the 2 -2.5 percent range for municipal/school bonds. Instead, the preferred trend in the market is for investors to pay more for a bond than its face value -- with the supplemental payment called "premium" -- in exchange for a higher interest rate on the bond coupon, typically in the 5 percent range for bonds of longer duration (e.g., 20 years).

The "premium" currently being paid on bonds with a 5 percent coupon is in the 20 percent range. So . . . if the District were to issue \$100 million in bonds with these higher yields, we would receive \$120 million in bond proceeds which could be used for completing projects. The downside to the higher yields, however, is that they increase the repayment costs for the bonds over the 20-25 year repayment term. Accordingly, I asked PFM, our financial advisor, to conduct an analysis to determine, if the District subsequently issued \$350 million in bonds at these higher yields in the 5 percent range, if this could be accomplished without a rate increase in the bond redemption levy in future years.

We will receive PFM's final analysis on Monday. The preliminary analysis shared yesterday afternoon indicated that we could issue the \$350 million without a tax rate increase and included the following assumptions: a) we will refund our outstanding 2006 general obligation bonds (approximately \$40

million outstanding) and realize approximately \$800,000 in annual repayment savings; b) that assessed valuation for real property within the District will grow by approximately 2.5 percent per year in future years, which aligns with historical data for the District; and c) the balance in the bond redemption account in excess of the amount needed to make required bond payments -- approximately \$20 million -- will not be used for making future bond payments. (Instead, the excess balance in the bond redemption account would be used as a contingency fund to make bond payments without increasing the bond redemption levy if assessed valuation growth does not meet/exceed the 2.5% assumption.)

The final PFM analysis will determine the "break point" in which assessed valuation increases are less than the 2.5 percent projection; the excess balance in the bond redemption account has been exhausted; and increases in the bond redemption levy are needed in order to make principal and interest payments. We will update you regarding this analysis at the meeting on Wednesday night. At this juncture, given the preliminary analysis, as well as our ability to control a) when bonds are issued and b) in what amount they are issued, I believe a \$350 million debt package can be issued without a material risk of a future increase in the bond redemption levy and am presenting a package in that amount for your consideration.

2. **"Soft Costs."** Staff has determined, based upon cost trends in the construction industry, that additional funds need to be set aside for labor/materials price increases as well as for contingencies for unplanned conditions discovered during the design and construction process. These soft costs reduce the scope of recommended improvements that can be completed as described in more detail in item 3 below.

Document 1 in the BOE packet includes, near the bottom in red print, an inflation assumption of 7 percent per year. The \$37.3 million set aside for the inflation contingency was calculated using the 7 percent assumption against a month by month schedule of projected expenditures.

The program contingency in this same section is 5 percent of the total bond expenditures, or \$17.5 million. It supplements contingencies that are build into line items in the package outlined in Document 1; those amounts are 5 percent for new construction; 7.5 percent for rebuild projects (e.g., Arapahoe Ridge and Cotton Creek mobile replacement); and 10 percent for deferred maintenance/renovation projects. Our Business Services team has reached consensus on these contingency amounts.

In addition to these costs, the bond package also includes an allocation of almost 4 percent for the "G&A" category noted in red. This item stands for General Administration and would include staff that would be hired by the District to help oversee, account for, and communicate to the public regarding our delivery of the bond commitments. This sum totals \$13 million.

The "soft costs" for inflation, general administration, and project contingency total \$67.8 million. They were not included in the cost projections shared at the June 1 BOE meeting, and so some reductions/changes have been made to the recommended bond package components to fit within cost restraints.

3. Cost for LRPAC Recommendations 1-12; Soft Costs; and Staff Recommended Items at June 1 Meeting. Staff has recommended at past board meetings that the package including funding to a) complete priorities 1-12 as identified by the Long Range Planning Advisory Committee; b) additional expenditures for some aesthetic improvements (carpet, paint); parking lot repairs; art/music/athletic facility improvements; and c) possible investment in improvements designed to reduce future utility costs. Board members have also commented about the potential benefits of including d) a Lewis Pointe K-8 school and e) a partial tear down and rebuild of STEM Lab.

The cost for items (a) and (b), including soft costs, is projected at \$452 million. (See first column in Document 1).

Item (c) has not been considered further following the June 1 meeting given the long return on investment period and the scope of other pressing needs.

The cost for item (d)(Lewis Pointe) is projected at \$53.8 million, including expanded preschool space and soft costs.

The cost for item (e)(partial Lab rebuild), after factoring in \$9.4 million in reserved 2015 COP proceeds, is \$14,950,000 including soft costs.

The total cost, if all of these items were included, is **\$520.75 million**.

Accordingly, we have had to make cuts and adjustments to these recommendations to build the \$350 million package.

4. Reductions/Adjustments/Explanation re Included Items.

I've included some expanded discussion below for those items which in my judgment most need explanation. It does not include all items that have been adjusted.

a. Lewis Pointe. The Lewis Pointe K-8 is not included because i) current crowding in nearby elementary schools is not as significant as in the Broomfield area to be served by the Anthem K-8 school; ii) the Lewis Pointe school is projected to provide less enrollment relief at Rocky Top than the Anthem K-8; and iii) land will need to be obtained from the City of Thornton adjacent to our current parcel in order to make this site compatible for K-8 use.

b. Anthem K-8. We have increased the amount of preschool classrooms at Anthem from 2 to 4 classrooms as part of our comprehensive early childhood education (ECE) expansion plan described below. We have also tentatively allocated \$2 million in Service Expansion Fee revenues (SEF funds) from the City and County of Broomfield to help pay for the overall project.

c. COP Retirement. We believe that paying off "old debt" (2015 COPs) with "new debt" (2017 GO bonds) may cause confusion/distrust by some community members. Assuming that our 2017 GO bonds are issued in the amount of \$225 million and generate "premium" at the rate of 15 percent, the total premium amount would be \$33.75 million and would allow us to pay off the 2015 COPs. (The remaining premium would be applied to STEM Lab as described below.)

This change eliminates a \$28 million cost item from the LRPAC priority list. Those funds have been allocated to deferred maintenance/renovation items.

d. CTE Facility. We have increased the proposed expenditure by \$1.6 million so that we could i) add four preschool classrooms and allow interested high school students to work in the preschool classrooms in a CTE/associates degree program, and ii) purchase the expensive equipment often required to provide CTE training.

e. Early Childhood Expansion. The 2015 COP plan included a \$4.5 million allocation for early childhood expansion on the east side of STEM Lab. Those funds have not been used to date.

Construction of a new preschool classroom, including soft costs, is approximately \$400,000. In contrast, restroom modifications/improvements to currently unused classrooms in some of our elementary schools is approximately \$40,000 per classroom.

This plan proposes to i) forego the more costly option of center-based ECE expansion; ii) use the \$4.5 million in unspent COP proceeds for the purpose of adding 20 ECE classrooms; iii) adds 4 preschool classrooms at Anthem, 4 at the new CTE facility, and 2 at Arapahoe Ridge during the mobiles to bricks conversion; and iv) adds 10 total ECE classrooms, in groups of 2 per building, in 5 existing elementary schools projected to have adequate space to serve preschoolers for at least the next 10 years. (We will work with elementary principals to identify the 5 schools for preschool expansion this summer and include them in August materials.)

(Adding preschool space was considered at Cotton Creek but rejected because of inadequate land for such an expansion.)

The result of this change is to eliminate the \$7.5 million cost item in the LRPAC priority list.

f. Cotton Creek/Arapahoe Ridge Mobiles. Both schools will receive brick/mortar replacements for existing mobiles and will also have two additional classrooms built at each site. Arapahoe Ridge will also receive two additional preschool classrooms as part of the ECE expansion plan.

g. Buses. The proposed \$2.5 million expenditure has been eliminated. Existing annual capital allocations provide for ongoing lease-purchase of new buses that can be supplemented from time to time by one time funding from the General Fund and/or Capital Reserve. Purchasing such items from one time funds is preferable given the repayment term of bonds and the probable use duration for buses.

h. Panic Buttons. The proposed \$4.5 million expenditure for panic buttons has been eliminated. The allocation for the phone system replacement is now described as "comprehensive communication system and emergency alert system" and has been increased by \$1.5 million to include functionality similar to that proposed with the panic buttons.

i. Deferred Maintenance. This plan calls for current priority 1,2 and 3 deferred maintenance items to be funded in their entirety; priority 1 and 2 deferred maintenance items that will accrue from 2016-2010 are funded at 33 percent; and funds half of the current priority 4 deferred maintenance needs. It recognizes that some deferred maintenance items that will accrue in the 2016-20 timeframe are for items less critical to replace (e.g., shelving/casework within schools; doors and door jambs which may remain functional) or ones which may be "nursed" for some additional years (e.g., roofs that can be patched or replaced in smaller segments).

j. Five Star Stadium Renovation. This is our older stadium located across from Thornton High School. The renovations are designed to improve the stadium condition to a level more in line with the North Stadium adjacent to Mountain Range.

h. Turf Fields/School Athletics Renovations. The plan includes replacement of grass fields with artificial turf fields at each of the 5 comprehensive high schools, as well as the turf at the North Stadium. These investments will reduce maintenance expense, watering costs, and allow field access/use to increase compared to muddy/damaged natural grass fields.

The plan does not fund the "school athletics renovations" item for all schools item. I believe these needs are better addressed after operating funds for additional athletic programming are secured.

i. Tech Refresh. This item, which is dedicated to replacement of obsolete computers, has been reduced by \$5 million in order to reduce interest expense for items with shorter duration useful lives. It is also premised upon dedicating the revenue stream currently used to make the five year ITX loan payments (about \$3 million/year) to the purpose of tech refresh following full repayment of the ITX obligation in xxxx.

j. District Operations Software. This item, which was proposed at \$12 million, has been deleted given i) the uncertainty about whether replacement of our current systems, such as PeopleSoft, will be necessary in the next 5 years; ii) the possibility that replacement could be achieved at a lower cost point (e.g., \$5 million) if replacement is necessary; iii) the shorter term useful life of this asset improvement; and iv) the ability to address such a need through a shorter term loan (similar to the ITX purchase) and repayment through annual General Fund allocations.

k. Land Purchase. Land for the Anthem K-8 has already been secured. Additional land for ECE expansion is not needed in this revised plan. Land will be needed for the CTE expansion. This allocation assumes that the expanded CTE site would require 10 acres at a per acre cost of \$225,000 for a total of \$2,225,000. The remaining \$1.25 million can be coupled with proceeds anticipated from future sale or lease of the 13 acres south of the ESC in order to purchase desired land sites compatible with the District build out/master plan to be developed beginning in 2017.

l. STEM Lab. This plan supports the partial tear down and rebuild option for STEM Lab will be funded by i) allocation of \$9.4 million in the 2015 COP that have been reserved for STEM Lab; ii) allocation of bond premium, conservatively estimated at \$5,750,000 (net of 2015 COP repayment), from the first bond issuance; iii) allocation of excess bond premium beyond projections, if any, up to \$9.2 million; and iii) allocation of a portion of the 5 percent program contingency, not to exceed \$9.2 million, in order to pay the total estimated cost, including soft costs, of \$24 million.

m. North Park. Assuming the second bond issuance is approximately \$125 million and generates an 8 percent premium, the premium amount would be \$10 million. This \$10 million in premium is assigned in this plan for use in possible construction of an educational facility in the North Park development in Broomfield. It is anticipated that these funds, when coupled with Service Expansion Fee revenues collected by Broomfield, revenue allocated to the school project from the North Park Urban Renewal Authority, and contributions from the Morgridge Family Foundation and other partnering entities, could allow construction of a project in the \$60 to \$90 million range. It is anticipated that feasibility of such a project, and its scope/details, will be determined no later than December 2017.

n. Charter Schools. Given projected enrollment growth at our charter schools in Fall 2016, we have increased the tentative charter school allocation from \$13 million to \$16 million in this plan.

5. Next Steps.

Staff will conclude the following steps in July and early August:

1. Meet with elementary principals regarding proposed conversion of unused classroom space to preschool space so that the five schools for preschool expansion are specifically identified in the August recommendation to be acted upon by the BOE.
2. Meet with CTE, STEM, and high school leaders to determine, more specifically, the CTE programming to be offered at Bollman and at the new CTE facility.
3. Create school specific documents for every school which describes the improvements to be made at the school, including ECE space conversion, playground improvements, deferred maintenance items and renovations, and mobile removal.
4. Confirm with Broomfield officials the use of SEF funds for use at the Anthem K-8 project.
5. Continue discussion with North Park partners re project scope and financing options.

Chris Gdowski
Superintendent
Adams 12 Five Star Schools