

NOTES & OBSERVATIONS

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Proposition S Available Cash Balance

Available Cash Balance – The fund balance shown in the latest PropS Monthly Controls Status Report is \$157 million; the same report shows that there are only \$50 million in un-obligated moneys.

The District financial system (Oracle's PeopleSoft, owned by Oracle) does not actually track total contract obligations. Like most public agency annualized financial systems the District financial system encumbers money only on a fiscal year basis.

If contracts span across fiscal years this may be contrary to staff discussions in prior ICOC subcommittee meetings – it was stated the PeopleSoft encumbers full contract values.

Full contract obligations are tracked in separate program management data systems (Oracle's Primavera CM13 and P6) – this data is used to calculate the un-obligated available funds shown in the Monthly Controls Status Report.

The current burn-rate is about \$120 million a year and is expected to increase to \$172 million a year over the next year.

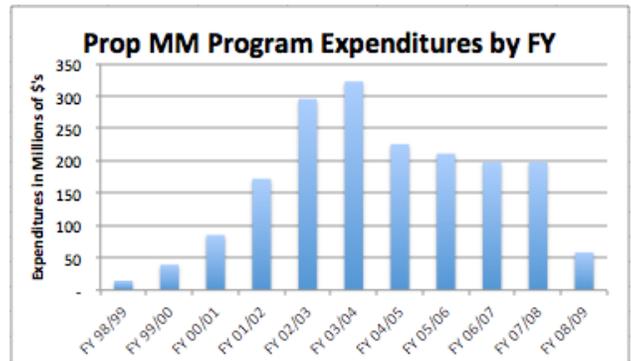
- Projected cash balance at the next bond issue in January 2012 is expected to be \$147 million.
 - January 2012 bond issued is expected to be \$140 million.
- Projected cash balance at a projected January 2013 bond issue is expected to be \$129 million.
 - January 2013 bond issued is expected to be \$145 million.

Capacity to Manage Bond Work – Planned staffing levels appear to be adequate to manage planned schedule.

Actual and projected Program Management Office costs are shown on the cash flow display in the Monthly Controls Status Report presented to the ICOC.

- Actual PM office costs from program start through FY 09/10 were 9.5%
- Actual PM office costs for FY 10/11 were 14.8% (do in part to unexpected low construction costs).
- Projected PM office costs are FY 11/12 8.7%, FY 12/13 7.3%, FY 13/14 6.2%, and FY 14/15 9.9%

I was able to retrieve PropMM historical costs for FY 04/05, FY 05/06, and FY 06/07. During these years, PM office costs for PropMM ranged from a low of 4.75% to a high of 8.05% during a time when the burn-rate was about \$200 million per year. The low of 4.75% in FY 04/05 followed the highest burn-rate year during a time when there were a fewer number of projects but the size of the projects were larger (a small number of large WMS projects and new schools were underway at this point in the program). The following years had PM office costs of 8.05% and 7.50%.



Added staffing requirements for PropS versus PropMM include staff to manage the Project Stabilization Agreement (PropMM did not have a PSA to administer). The cost of this additional staffing represents only about 1% of total PM office budgeted FY 10/11 costs of \$16.580 million

- PSA budgeted cost of \$186k/yr is about 1.1% of PM office budget
- Reported FY 10/11 actual PM office cost was \$17.628 million (6% over budget)

While PropS has an in-house Business Outreach staff, PropMM incurred costs for business outreach through consulting contracts.

- Business Outreach staff cost of \$175/yr is about 1% of total PM office costs.
 - During PropMM it was expected that in-house costs would be lower than contracted cost of same function

Project Scheduling Pipeline – Projects must progress through a number of phases before construction can begin. The time it takes to progress a project from planning to design to construction varies with the complexity and size of a project, but averages around 18 months.

The below display provides a count of the number of projects within any particular phase by year construction is scheduled to start. It was assembled from the Program Management Report presented at the 8/4/2011 Construction subcommittee meeting and reflects the current 5-year plan for program schedule.

This display illustrates that efforts to accelerate a construction program take quite a while to ramp-up.

	2011	2012	2013	2014	2015	2016	Grand Total
Plan	4	8	11	11	18	12	64
Scheduled Only	3	4					7
Project Assessment	1	2	4	5	8	11	31
Pre-Schematic Design		2	7	6	10	1	26
Design	12	22	12	2	1		49
Schematic Design	1	4	8	1	1		15
Design Development			1	1			2
Construction Documents	0	12	3				15
DSA Review	3	6					9
DSA Approved	8						8
Construction	9						9
Construction Underway	9						9
Grand Total	25	30	23	13	19	12	122

Acceleration of Work – When construction work can be completed is the single most significant factor in TIC risk adjusted cost projections. It follows that an important cost control factor is to accelerate construction and complete it as soon as possible.

The ICOC has consistently reported that there will not be sufficient funds to complete all work listed in the Proposition S ballot, (refer to 2009 and 2010 ICOC annual reports). This is based on risk adjusted cost projections prepared by staff. The most significant factor in these risk adjusted cost projections is how soon construction can be completed. Based on analysis presented to the ICOC by the district's financial advisors (Mark Young and Keygent) current risk adjusted cost projections may be overly optimistic.

- As reported in the ICOC October-December 2010 Quarterly Status report:
 - The best-case cost projection scenario (which shows a \$10 million funding shortfall) is based on completing the Proposition S program by 2019.
 - The worst-case cost projection scenario (which shows a \$140 million funding shortfall) is based on completing the program by 2024.
 - Mark Young's October 2010 presentation to the ICOC showed the expected last issue of the Proposition S bonds would be between 2021 and 2028. Final funding may not be available until 2-4 years beyond current best-case and worst-case cost projections.
- Advanced copies of Keygent's September 2011 presentation to the Finance Planning & Controls subcommittee concludes that the earliest bonds could be sold is between 2028 and 2032. This is 8-9 years beyond current best-case and worst-case cost projections.

Total Cost to Taxpayers – There are numerous factors that come into play when trying to predict what the total Proposition S bond authorization of \$2.1 billion will cost taxpayers. Typically the full-authorized bond amount is issued and must be paid off. In general the quicker the bond can be paid off the less money it will cost taxpayers.

Decisions on when to issue bonds, and/or when to refinance bonds, are based on multiple factors. In addition to considering cash balance, program burn rates, changing interest rates, and number of payments; an important consideration is the repayment capacity of the community – this is based on assessed value. With the primary goal of repaying the debt as quickly as possible, the total bond payment should be held as close to, but without exceeding the promised rate, or Prop36 legally allowed tax rate.