February 22, 2019

TO: Board Members

FROM: Frank Girardi, Task Assigned,
Executive Director, Capital Programs

VIA: Robert W. Runcie
Superintendent of Schools

SUBJECT: QUARTERLY RISK ASSESSMENT UPDATE

Attached please find the Quarterly SMART “Market Conditions and Risk Assessment” and the “Running Construction Budgets” prepared by Atkins. As we continue the evolution of the SMART program, which is our first major capital bond program in over 30 years, we are refining our estimates and projections as we collect more information through competitive bids and changing market conditions.

We have reviewed and found that both documents, although developed with differing approaches, arrive at similar conclusions. The higher end of the originally published risk assessments is now being realized as the likeliest assessment. This determination is based on: (1) increases in actual competitive bids and negotiations, particularly with the roofing (impact to program of up to $280M as was reported by our team in the December 2018 Board Workshop); inflation that now includes consideration of the new milestone baseline program schedule (impact to program of approximately $120M), and Board approved changes in scope (impact to program of approximately $25M).

There have been recent discussions on the total program risk amount reaching the high-end value from the original assessment. This was communicated to the Board as a “potential” trajectory at the December 11, 2018 School Board Workshop and it was again referred to as a “likelihood” by the Bond Oversight Committee (BOC) at the December 17, 2018 BOC meeting. Since then, we have performed the roofing analysis, updated the risk value on the roofing work, completed our re-baselining of the schedule and further analyzed the costs of the major upcoming projects. Atkins has more data and greater confidence that the higher end of the risk range is now the likeliest scenario. It is my intent with issuing this and future risk assessments, that the 70%
risk level might be the more accurate projection, given conditions at this moment in time, which now shows approximately $433M to complete this program.

To help align our analysis with the 70% risk factor amount, we are using the "Running Construction Budgets" spreadsheet which shows the actual construction costs for those projects already awarded (12%) to contractors and new project budget estimates on the remaining projects. These new estimates include added budget pressures – inflation and roofing - on all projects including major additions. The risk shown here is slightly higher since it does not factor in project contingency savings being returned after the project completion as is included in the risk report.

It is important to note that projects are being performed within the approved budgets and that expenditures on projects have remained within the approved budgets.

Although we will continue to strive to mitigate as much of this risk as possible, the realities of this large volume of work we are executing in a tight construction labor market make it difficult to avoid these budgetary pressures. This report is only based on 12% of the actual construction data of SMART bond projects, and as more and more projects move to the Construction phase, the risk range will continue to narrow.

Please contact me should you have any questions.

FG:ma