

# Construction Subcommittee Meeting with MCPS

## MINUTES

JANUARY 6, 2009

9:30-10:45 AM

TPES MEDIA CENTER

MEETING CALLED BY	PTA Grosvenor Relocation Committee
TYPE OF MEETING	Discussion of financial & construction issues with county officials
FACILITATOR	Nina Garfield
NOTE TAKER	Bob [RE], Jay [JA], Marc [MG]
ATTENDEES	Robert Ellis (PTA Committee), Jay Anderson (PTA Committee), Marc Greenfield (PTA Committee) Joseph Lavorgne, Facilities Management MCPS James Song, Director of Construction MCPS Laura Steinburg, Staff MCPS Chris Barclay, Board of Education MC

## Agenda topics

### THE CONTRACT/CONTRACTOR

JOSEPH LAVORGNE/JAMES  
SONG/CHRISTOPHER BARCLAY

DISCUSSION	Details of the construction contract	
	<p>The contract for the school project was awarded on November 11th to Keller Brothers, a privately held, Maryland based contractor. The total value <b>of the project</b> (including an amount for the actual construction that they said they do not know) is approximately \$15 million, which includes the 2 1/2 years of work leading up to this point. (This probably leaves around \$10-12 million for construction, which was our original estimate.)</p> <p>It is a fixed price contract with no escalating clauses. The contractor is bonded against performance failure by any of the subcontractors. The contract includes significant time and cost penalties. There is a mutual cancellation penalty.</p> <p>They are very confident in the company's capabilities, and assert that the contractor has an almost 100% on time, on budget completion rate to date.</p> <p>JS, in response to a direct question, confirmed that they do have experience with contractors going bust in the middle of a project. In this case, he said, the county project management team has "enough experience" to step in and complete the project. In the event that Keller Brothers were to experience financial difficulties and not be able to finish the project the County would take over. The County retains the management expertise to oversee all subcontractors who would be working on the site.</p>	
CONCLUSIONS		
	<p>Keller Brothers (<a href="http://www.kellerbrothers.com">www.kellerbrothers.com</a>) is a family-owned company and it is difficult to acquire reliable financial information, which could be significant under today's difficult financial conditions. The company, established in 1960, has a reasonable number of successful projects, including school renovations and additions.</p> <p>JL said that contractors are desperately in need of this sort of public works project and that this both reduced the performance risk aspect and increased the chances that prices would decline (as the work passes down through the chain of subcontractors). Although their need for work is true, the rest of this is an erroneous conclusion, one that hopefully is not shared by the county budgeting office. Contractors (in particular, privately held ones) are at much greater risk of financial failure under these circumstances (combined with the weak demand and difficult credit) than those flush with orders.</p>	
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE
Laura Steinburg has sent me some Internet hyperlinks that provide more financial information	MG	

### FUNDING

JOSEPH LAVORGNE/JAMES  
SONG/CHRISTOPHER BARCLAY

DISCUSSION	The source of project funding and the level of financial risk
	<p>The project is funded from the Capital Investment Program with money raised by general-purpose bonds. Like all government bonds of this type, they are repaid out of general revenues that depend upon taxes. All revenue generated by these bonds must be spent on capital projects; none can be spent on operating expenses.</p> <p>If there is a significant shortfall in tax revenues, it would be difficult for the county to use money in the designated capital</p>

budget to cover operating deficits. However <u>there are no absolute guarantees</u> that money in the capital budget will be fully protected		
They are virtually unconcerned about this project experiencing any financial problems, but admit that they are very concerned about a number of other, currently unfunded capital projects (that is, projects that have yet to be fully approved and funded).		
They assured us that the best guarantee that there will be enough money in the budget to complete the project is: <ul style="list-style-type: none"> <li>• the timely completion of the project;</li> <li>• the county's strong commitment to the project, and</li> <li>• the county's interest in avoid defaulting on any of its bonds (which would endanger the county's AAA bond rating).</li> </ul>		
<b>CONCLUSIONS</b>		
There is no guarantee that the project will be fully funded through completion. [mg]		
The project management group is not an effective mechanism for following financial issues. [mg]		
This project has started and it is to far down the tracks to stop. Demolition of adjacent structures will begin April 1 <sup>st</sup> and site preparation work has been initiated. [ja]		
CB was extremely defensive about how "they" were on our side and how the county would never risk defaulting on its bonds. This was a true red herring, because the <b>non-completion of the project</b> (or underfunding or seriously delaying it) has nothing <u>whatsoever to do with the county defaulting on its bonds</u> . His statement either indicates he knows very little about finance or that he was intentionally trying to distract our attention from real issues. [mg]		
<b>ACTION ITEMS</b>	<b>PERSON RESPONSIBLE</b>	<b>DEADLINE</b>
Review previously published documents to understand mechanics of the projects financing plan and then if necessary meet with someone in the comptroller's office.		

PROJECT TIMING AND RELOCATION

JOSEPH LAVORGNE/JAMES SONG

<b>DISCUSSION</b>	Choice of Grosvenor and relocation of kids	
They say that they never seriously considered undertaking a project of this magnitude with the children in the school.		
The county only has four temporary relocation sites and Grosvenor is the closest, according to JL.		
The timing of the project was made to fit into the availability of the temporary school.		
JS asserted that they do all of their projects based on the assumption that no matter what the kids have to be back in their school by the end of the designated time period.		
<b>CONCLUSIONS</b>		
This is the first time that anyone has openly admitted that they never seriously considered keeping the children on site during the construction.		
Since they are not actually responsible for this aspect of the project, more information should be acquired from those who are.		
<b>ACTION ITEMS</b>	<b>PERSON RESPONSIBLE</b>	<b>DEADLINE</b>
Schedule meeting		

CONSTRUCTION SCHEDULE

JAMES SONG

<b>DISCUSSION</b>	Construction Schedule	
E-W Highway site work will soon begin		
<ul style="list-style-type: none"> <li>• Mid-February—the pre-school will be vacated</li> </ul>		
<ul style="list-style-type: none"> <li>• Asbestos &amp; lead abatement; utilities cut off (1 month)</li> </ul>		
<ul style="list-style-type: none"> <li>• April 1-June—demolition; construction access behind school simultaneously built</li> </ul>		
<ul style="list-style-type: none"> <li>• June 20—school ends</li> </ul>		

- Teachers pack (1-2 days)
- June-July move to Grosvenor w/1 day to unpack
- Early July—site preparation (6000 ft<sup>2</sup> of existing building must be “prepared” for joining to new structure)
- April-October site work
- End 2009 structural work completed
- July-August 2010 relocation to new building

The timeline has contingencies for some delays

The budget contains some small contingencies for unexpected costs; it was “backed into”—from the start of the following school year they begin with the premise that the entire project must be completed two months earlier.

His most important request (in order to stay on schedule) is for people to stay off of the construction site, even when they think that the work is done.

**CONCLUSIONS**

As a group, the capital projects managers seem competent, but a little defensive. They appear to believe that our concerns cast doubt upon their qualifications—which they do not.

The monthly and bi-weekly reporting need to be systematically monitored.

Timely reporting and feedback will be essential to keeping the project on time and on budget.

ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE

**BUSSING**

JOSEPH LAVORGNE/CHRISTOPHER BARCLAY

DISCUSSION	Dedicated funding for the long-haul bussing	
The money to pay for dedicated busses is not included in the project costs, it will come from the general budget as an operating expense.		
CB asserted very energetically that he would never allow the money for the bussing fleet to be cut in such a way as to harm the children.		
CONCLUSIONS		
This meeting was not with officials who are responsible for bussing.		
Payments for the busses will come from the operating expenses section of the budget and can and may be cut.		
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE
Schedule a meeting	Transportation Subcommittee	

**COMMUNICATIONS**

JOSEPH LAVORGNE/JAMES SONG/CHRISTOPHER BARCLAY

DISCUSSION	Establishing a good line of communications	
They have asked that all communications be channeled through Principal Gadston. She is responsible for maintaining communications to and from the community (and the Project Manager).		
She has been receiving monthly updates that they expect were sent to the school community.		

CONCLUSIONS		
These monthly reports need to be passed on (and not as part of larger messages, publications or blogs).		
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE

OBSERVERS	
RESOURCE PERSONS	
SPECIAL NOTES MG	<ul style="list-style-type: none"> <li>• Full funding for the project is not and cannot be guaranteed, despite the high confidence that these officials expressed in the reliability of funding. They were quite open about the fate of any pending, unfunded projects, and it does not take a great leap of imagination to see a lot of wishful thinking in their confidence regarding funded projects-</li> <li>• In order to get some adequate warning of financial changes (or problems) we need to determine how much money is left in the budget for the construction project and to meet with someone in the budget planning office (or comptroller's office) We should expect there will be cuts in the Board of Education's <i>operating budget</i> in the coming year, and that these may affect any several important aspects of the project not covered under the CIP (like relocation).</li> <li>• <del>We can anticipate an across-the-boards reduction in BoE capital spending, regardless of any assertions to the contrary at this very early stage of the financial crisis. The BoE capital spending budget has already been cut by millions of dollars in anticipation of immediate difficulties. These cuts have, so far, only affected planned but unfunded building projects. The full impact of the financial crises is likely to start impacting the county only later this year, after income from real estate and sales taxes has been drastically reduced.</del></li> <li>• The most hostile person in the group we met with was CB, and this struck us as very peculiar. He also was, in my opinion, the most misinformed person in their group, making several incorrect or misleading assertions. It is understandable that the project managers would be "defensive" of their work and jobs. It makes you wonder who may have a personal interest in this project getting started.</li> <li>• The project managers really are "on our side" in this, because their work depends upon the timely and quality completion of this project. However, they should not be relied upon to warn us about any impending changes in the finances or financial health of the contractor.</li> <li>• There really should not be any concern that this will be another botched project like the community center in Takoma Park. There will be adequate supervision by experienced construction professionals for the school renovation—unlike the previous case.</li> </ul>
SPECIAL NOTES JA	<ul style="list-style-type: none"> <li>• Because Contract has been signed would be difficult if not impossible to stop the work at this point</li> </ul>
SPECIAL NOTES	