Annual Report

A look at 2011 and the year ahead

March 6, 2012

Last year's highlights for the Cleveland Metropolitan School District's construction program were the completion of the final two schools of Segment 4, including the District's first school built to "green" building standards, and completion of plans for five elementary schools in Segment 5. However, declining enrollment and a looming financial operating deficit resulted in the closing of several more schools, including two that had been part of future construction segments.

This year will be a busy one for the District with further refinements of the construction Master Plan, the sale or demolition of a number of closed schools, completion of plans for three new Segment 5 high schools, and in all likelihood a District request to voters for more operating and construction money. These things will keep the BAC busy too as it seeks to fulfill its mission of monitoring construction and the expenditure of Issue 14 tax money and informing the community about them.

In addition, the BAC is extremely hopeful that its consultants soon will complete an assessment of Segment 3-4 contracting and costs.

Finally, new state rules broadening the District's choices of design and construction methods may result in school projects that are less expensive and/or completed more quickly and that give the District more leverage in persuading contractors to employ District graduates. The BAC will try to help District residents understand these opportunities as they develop.

The BAC will continue production of its Program Progress Updates, which remain the only comprehensive source of public information on Issue 14 construction and spending. Also on the BAC's menu:

Cost assessment – Final reports from consultants on contractor selection and expenditures for the 18 schools in Segments 3 and 5 as well as related matters, and follow-up on issues raised in the reports. This project is being made possible by a special appropriation to the BAC from the CMSD Board of Education.

Master Plan revision – Fine-tuning of the construction, renovation and demolition plan for Segments 6 through 10, based on enrollment and geographic needs and implementation of academic plans.

Issue 14 budgeting – Analysis of how much of the Master Plan can be executed with the funds remaining from Issue 14 bonds approved by voters in May 2001 and other capital resources, and how much more money will be needed to implement Segments 7-10 of the Master Plan and to maintain the District's schools in the future.

Community inclusion -- Resolution of issues regarding the District's reports on workforce participation by minorities, women and District residents and on contract participation by minority- and female-owned businesses and regarding employment opportunities for District graduates in the construction program.

Outreach – Improvement in the BAC's ability to communicate with the public especially through establishment of an independent Web site.

Bond financing – Follow-up on recommendations for improvements and other opportunities in the District's marketing of bonds.

Green schools – Reporting on Segment 5 implementation of the Ohio School Facilities Commission's requirement that all schools be designed and built to the LEED energy-conservation and environmental-responsibility standards established by the non-profit U.S. Green Building Council. Also, follow up on cost performance of geothermal heat systems installed at five Segment 4 schools.

The public had an opportunity to interact with the BAC at six open meetings held in 2011 at Cleveland schools and on the Tri-C campus.

Each meeting has included presentation of a report on the construction program's progress, including activities at each school in the active segments, a budget report, and the District's reported performance regarding its goals for minority and female participation in the construction workforce and for participation by minority- and female-owned contractors.

In all, the BAC issued 11 written reports and a number of oral reports in 2011. The written reports are summarized below and posted on the School District's Web site at

http://www.cmsdnet.net/en/Resources/Community/BAC.aspx

BAC meeting schedule

(dates and topics tentative; time 6:30 p.m.; locations to be announced)

May 15: Cost Assessment Report, Program Progress Update, Issue 14 Bond Refunding/Defeasance Analysis, Community Inclusion Update.

July 17: Master Plan Update, Issue 14 Sufficiency Analysis, Construction Method Opportunities, Program Progress Update, Cost-Assessment Follow-up.

September 18: Green Schools Update, Program Progress Update, Cost Assessment Follow-up.

November 20: Master Plan Update, Program Progress Update, Financing Update.

The BAC's mission

The Bond Accountability Commission is an independent, non-profit, all-volunteer organization appointed by Cleveland Mayor Frank Jackson.

In authorizing the current BAC, the Cleveland Metropolitan School District Board of Education resolved that the Commission's responsibilities include monitoring implementation of and revisions to the Facilities Master Plan; working to review the design, engineering, contract bidding and awards, procurement, and construction of projects funded by the voter-approved Issue 14 (May 2001); communicating its findings to the community; regularly reporting to the Board; holding at least quarterly public meetings; and issuing an annual report.

A Memorandum of Understanding signed in February 2007 by leaders of the Bond Accountability Commission 2, Inc., and the School District states that the mission of the BAC is "to monitor and inform the public concerning the expenditure of funds by the School District for the School Facilities Projects." The memorandum says that to accomplish its mission, the BAC has the "authority to monitor and review the development, content and implementation of the Facilities Master Plan; the construction of the School Facilities Projects; and the expenditure of Issue 14 Funds."

The memorandum commits the District to support the oversight process by providing access to records, documents and other information in order to "enable full and fair participation by the public in the evaluation of the School District's plans to acquire, build, repair, replace, and modernize the School Facilities."

BAC financial report

Revenue, expenditures and outlook

	2007	2008	2009	2010	2011	2012	2013
Salary, taxes	$58,759	$70,611	$70,729	$70,485	$70,430	$70,500	$70,500
health benefits	$0	$0	$6,679	$9,727	$11,052	$17,849	$12,000
payroll service	$700	$1,108	$1,183	$1,316	$1,328	$1,600	$1,600
office supplies, printing	$4,709	$999	$1,720	$1,362	$1,466	$1,700	$1,700
govt fees	$199	$750	-$61	-$10	-$11	$25	$25
equipment, rent	$0	$0	$0	$0	$347	$4,000	$4,000
outreach / Website	$0	$0	$0	$0	$0	$4,000	$4,000
bank fees	$0	$0	$63	$31	$27	$30	$30
consultants, projects	$644	$0	$1,689	$65,611	$88,934	$103,498	$12,000
liability insurance	$0	$0	$0	$0	$2,504	$2,359	$2,500
Total expenditures	**$65,011**	**$73,468**	**$82,003**	**$148,523**	**$176,077**	**$205,561**	**$108,355**
Balance Forward		$89,049	$55,802	$175,750	$289,284	$195,460	$70,900
Grant income	$0	$40,000	$40,000	$0	$0	$0	$0
Interest	$4,060	$221	$1,951	$2,056	$2,253	$1,000	$600
Other income (CMSD)	$150,000	$0	$160,000	$260,000	$80,000	$80,000	$80,000
Total income	**$154,060**	**$129,270**	**$257,753**	**$437,807**	**$371,537**	**$276,460**	**$151,500**
Year-end assets	$89,049	$55,802	$175,750	$289,284	$195,460	$70,900	$43,145

This report shows income and expenditures from the start of funded operations on March 1, 2007, through Dec. 31, 2011, and estimates for 2012 and 2013..

Salary, taxes: The BAC Administrator’s annual salary of $65,000, plus fees for unemployment insurance, workers’ compensation, Medicare, and Social Security.

Health benefits: The BAC Administrator’s medical insurer demanded a 57% rate increase for 2010. Instead, the Administrator accepted a policy with less of a premium increase but higher deductibles and co-pays, and the BAC put $7,350 into escrow to cover the higher co-pays and deductibles. The remaining escrow amount, $6,648.564, is shown as a 2012 cost in addition to policy premiums, which have increased every year.

Payroll service: An outside contractor handles paychecks, withholding, fees for workers’ compensation and unemployment insurance. Amounts for 2012 and 2013 are estimates.

Government fees: Amounts for 2012 and 2013 are contingencies.

Equipment, rent: Cuyahoga Community College has donated an office and computer/printer, but we are budgeting modest amounts for 2012 and 2013 in case that arrangement ends, as well as for capital items.

Outreach / Website: Funds for expansion of the BAC’s newsletter operation and for creation and operation of a Web site.

Consultants, projects: The 2011 amount includes partial payment of fees charged by cost-assessment consultants and about $450 for an office-organization project. The 2012 amount covers the expected remainder of cost-assessment fees plus $12,000 as a contingency for new projects. The amount for 2013 is also a contingency.

Grants: Money received from the George Gund Foundation.

Other income: Money received from the School District. The 2010 amount includes an $80,000 operational subsidy, plus a special appropriation for the 2011-12 cost assessment. The District Board of Education has authorized subsidies for 2012 and 2013.

Commissioner Profiles

Alfonso Sanchez, chairman: Retired Executive Vice President of Turner Construction, where he presided over major construction projects, including the Key Tower, the Galleria, Cleveland Public Library, and Cleveland Clinic buildings. He continues to help owners manage complex projects from site acquisition to final occupancy. Mr. Sanchez earned a Bachelor of Science degree in Mechanical Engineering from the University of Illinois and a Juris Doctor degree from Cleveland State University.

Eric Paszt, treasurer: Retired Purchasing Director at Turner Construction Co., where he was instrumental in purchasing for numerous major construction projects, including the Cleveland Clinic Cancer Center and Cole Eye Clinic, the Bank One Building, Cleveland Public Library, and Rainbow Babies and Children's Hospital.

Nancy C. Schuster, Secretary: Principal of the Cleveland law firm Schuster & Simmons Co. L.P.A., and former chief federal prosecutor for the Northern District of Ohio. Ms. Schuster has been Vice President of the Ohio City community development corporation, President of the Parma City School Board, Commissioner on the Rules of Practice and Procedure for Ohio Courts and Chairman of the Judicial Administration and Legal Reform Committee of the Ohio State Bar Association. She represents clients in a variety of transactions and in State and Federal courts throughout Ohio.

Diane Downing: Senior Vice President and Regional Manager of Corporate Affairs for Huntington National Bank. Board member, Cleveland-Cuyahoga County Port Authority. Former regional representative of U.S. Senator George Voinovich; former Vice President of Administration for the Cleveland Browns. She was project manager for construction of Cleveland Browns Stadium and served in the cabinets of Cleveland Mayors Voinovich and Michael White and as Deputy Director of the Ohio Lottery.

Robert H. Jackson: Senior Partner in the Cleveland law firm of Kohrman, Jackson & Krantz PLL. He is a corporate lawyer, book collector and supporter of public libraries. Mr. Jackson is chair of the Advisory Committee of the Baker-Nord Center for the Humanities at Case Western Reserve University, and a director at the Western Reserve Historical Society.

Peter van Dijk: Architect and design consultant with Westlake Reed Leskosky. Mr. van Dijk was responsible for the designs of Blossom Music Center, the IMG Building, University School, Cleveland State University Music Building, Playhouse Square theater restoration, and Federal Reserve Bank restoration.

BAC meetings and report summaries

January 22, 2011: Carnegie West Branch, Cleveland Public Library.

Annual Report:

Last year's highlights for the Cleveland Metropolitan School District's construction program were the completion of eight elementary schools and the long-awaited start of design for most Segment 5 schools. Less visible were the issuance of the last of $335 million in bonds authorized by voters in May 2001 under Issue 14, as well as changes to the construction program prompted by finalization of the District's Academic Transformation Plan and by a consultant's forecast for further decline in enrollment. Now we enter 2011 with the resolve to delve deeper into the financial side of the construction program. The past year's most significant achievement for the BAC was release of a 126-page report on the District's municipal securities operations by a team of nationally recognized consultants led by American Governmental Financial Services of Sacramento, Calif. The Commission undertook the study because implementation of best practices in debt issuance is the best way to ensure that taxpayers don't pay too much in interest on the money that finances the construction program. The report's overall conclusion was that Cleveland taxpayers couldn't ask for better financing results than the District had achieved so far. However, the consultants said the District Administration could fine tune its strategy to ensure the most efficient use of local tax dollars. Among a number of suggestions, the AGFS team recommended that the District sell bonds through competitive bidding by underwriters, rather than the negotiated method used in the past, and strongly consider issuing federally subsidized, taxable Qualified School Construction Bonds (QSCBs) authorized under federal stimulus legislation to greatly reduce the interest-payment burden on Cleveland taxpayers. The District did choose to issue $55 million in QSCBs through competitively chosen underwriters in September, and the result was that local taxpayers saved about $18 million in future interest payments, compared with what would have been paid if conventional tax-exempt municipal bonds had been sold. Our consultants also were complimentary of the District's practice of occasionally using cash on hand from current tax collections essentially to pay off portions of previous bond issues early. This saves money long term for the taxpayers. Subsequently, the District set aside money for early payment of part of its 2002 bond issue in December, calculating the future interest savings to taxpayers at $10.5 million. The $55 million bond issue, combined with other funds expected to be available, will provide enough money to complete Segments 5 and 6 of the currently envisioned construction program. Whether there is enough money for all or part of Segment 7 will depend largely on how much Issue 14 money the District spends fixing up schools that are not part of the Master Plan. The BAC will closely examine the use of Issue 14 funds this year. The major project envisioned by the BAC for 2011 is a cost assessment of Segment 3 and 4 contracts. It is planned that BAC consultants will examine contractor selection and expenditures for the eighteen schools in the segments as well as related matters. One other aspect of Issue 14 received its first scrutiny from the BAC last year: the continuing half-mill levy that voters approved along with the $335 million in bonds. The BAC reported that most of the half-mill collections go to a state-required fund for future maintenance of schools built new or renovated in the state-subsidized construction program. However, collections in the early years of the tax exceeded the required deposits by a total of about $8 million. The District spent that surplus, but some of the expenditures did not appear to meet the law's requirement that the money be spent only for goods or improvements with a life expectancy of at least five years. And many of the expenses as reported by the District lacked purchase orders, invoices or other documentation of the purpose of the spending. Some of the charges to this fund have been reversed. The BAC continued in 2010 to follow developments affecting the Master Plan that maps the future of the construction program. In 2008 and 2009, the BAC had called on the District to adjust the Master Plan of 2008 to make its allocation of school space more closely match probable enrollment in each academic neighborhood. Last January, we reported that the Academic Transformation Plan took a step in that direction by closing some schools. In July, the BAC reported on an overhaul of the 2008 plan in response to a new forecast by a state consultant of further declines in District enrollment. The proposal, done by the Ohio School Facilities Commission (OSFC) staff in consultation with the District Administration, would eliminate 11 elementary schools and one high school from the Master Plan approved by the Board of Education in July 2008. The proposal would also change the size of various schools. The BAC report remains the only public discussion of this proposal, which does much to address the school capacity issues raised previously by the BAC. We will continue to monitor Master Plan developments this year, including the impact of any further school closings or transfers of schools to charter operations. Meanwhile, contract bidding for five Segment 5 elementary schools is scheduled to begin this fall and for three high schools early next year. The District also still needs to find a site for the promised new West Side High. We will report on all these things, as well as whether city residents have had a proper opportunity to advise architects in the design of the schools, as required by District policy. The public had an opportunity to interact with the BAC at six open meetings held in 2010 at Cleveland schools and other public locations. Each meeting has included presentation of a report on the construction program's progress, including activities at each school in the active segments, a budget report, and the District's reported performance regarding its goals for minority and female participation in the construction workforce and for participation by minority- and female-owned contractors. In all, the BAC issued nine written reports and two oral reports in 2010.

Program Progress Update 18:

Segment 1: All schools complete. Projected cost: $206.2 million. Segment 2: All schools complete. Projected cost: $103.3 million. Segment 3: All schools complete Projected cost: $138.4 million. Segment 4: Jamison, George Washington Carver, Charles Dickens, Adlai Stevenson, Nathan Hale and Euclid Park elementary schools are completed, as is the Thomas Jefferson K-12. Anton Grdina and Mound elementary schools are to open in August 2011. The old Stevenson, Mound, Dickens and Grdina buildings are to be demolished in 2011. Projected cost: $145.5 million. Segment 5: The Segment as approved in 2008 includes three high schools: Max Hayes Vocational, targeted for completion in May 2014; John Marshall, August 2014; and West Side High (site and completion date to be determined), and a K-12 Cleveland School of the Arts, June 2014, although the latter has now been reduced to grades 6-12. The segment as approved includes seven PreK-8s: Almira, due March 2013; Miles, March 2013; Orchard, March 2013; Paul L. Dunbar, April 2013; Louisa May Alcott, March 2013; Forest Hill Parkway, which was eliminated by the Academic Transformation Plan; and Charles Mooney, which was removed from Segment 5 last summer. The previously planned demolitions of Mooney and Forest Hill Parkway are on hold. Projected cost: $201.3 million. Segment 5 Core Teams: We noted last October that the District Web site lists the schools in each construction, along with details about each school, including the members of its Core Team, but that the lists appeared to be badly outdated. This remains the case. Mooney, for example, is still listed as a Segment 5 school, although it was dropped months ago. The principal listed as head of the Marshall Core Team hasn't been with the school since last school year. As we said in October, the listed Core Team rosters need to be updated to reflect the current Core Team rosters, and a contact phone number would also be useful, so that neighborhood residents can have a way of providing input to and possibly joining a Core Team. The BAC would like to be able to report how far last year's final bond sale ($55 million) of the $335 million authorized by Issue 14 will take the construction program. Knowing that would allow the BAC to estimate how much more the District will need to ask of voters so the 10-segment construction and demolition program can be completed. But the BAC cannot do either of those things without more information from the District. The BAC has construction cost reports for Segments 1 through 4, and it has Ohio School Facilities Commission (OSFC) cost estimates for Segments 5 through 10. What the BAC doesn't have is an estimate from the District on how much it envisions spending for Locally Funded Initiative (LFI) projects, that is, how much might be spent on repairing or improving schools that are not part of the Master Plan co-funded by the OSFC. What we can report at this time is that LFI spending by the District has risen sharply in the last two years, especially in 2010. It appears that implementation of the Academic Transformation Plan is behind much of it. The BAC understood this asked the School District a year ago for estimates of the Transformation Plan's impact on Issue 14 spending. The BAC never received a response. Now the Administration reports that it is working on a comprehensive report covering LFI expenditures and promises to share it with the BAC soon. Such an accounting – with an itemized estimate of future LFI expenses -- will be crucial in attempts to provide an independent calculation of the necessary size of a future request to voters for more construction money. The District's goal for construction contracts is 30 percent participation by minority- or female-owned firms. As of December 31, 2010, the participation level reported by the School District was 35.7 percent. However, these percentages represent non-binding pledges by prime contractors before work has begun. Final contract closeout of Segments 1 and 2 is expected early in 2011, according to the Construction Manager's report, so we hope to receive final, actual DBE participation numbers soon thereafter. The School District has set non-binding goals for workforce participation in the construction program as 20 percent for minorities, 5 percent for women, and 20 percent for District residents. As of Dec. 20, 2010, the District reported overall participation of 19.6 percent for minorities, 3.6 percent for women, and 18.4 percent for District residents.

March 15, 2011: Campus Center Lounge, Metro Campus, Cuyahoga Community College.

Program Progress Update 19:

Segment 1 is complete for $206.03 million. Segment 2 is complete for $102.95. Segment 3 is complete for $138.39 million. In Segment 4, projected cost $143.38 million, Jamison, George Washington Carver, Charles Dickens, Adlai Stevenson, Nathan Hale and Euclid Park elementary schools are completed, as is the Thomas Jefferson K-12. Anton Grdina and Mound elementary schools are to open in August 2011. The old Stevenson, Mound, Dickens and Grdina buildings are to be demolished in 2011. Segment 5 as approved in 2008, projected cost $201.3 million, includes three high schools: Max Hayes Vocational, targeted for completion in May 2014; John Marshall, August 2014; and West Side High (site and completion date to be determined), and a K-12 Cleveland School of the Arts, June 2014, although the latter has now been reduced to grades 6-12. The segment as approved included seven PreK-8s: Almira, 450 students, due March 2013; Miles, 450 students, March 2013; Orchard, 450 students, March 2013; Paul L. Dunbar, 450 students, April 2013; Louisa May Alcott, 192 students but changed to 226, March 2013; Forest Hill Parkway, 350 students, which was eliminated by the Academic Transformation Plan; and Charles Mooney, 650 students, which was removed from Segment 5 last summer. The previously planned demolitions of Mooney and Forest Hill Parkway are on hold. On March 22, the Board of Education will consider resolutions authorizing the first steps needed to launch Segment 6, which consists of construction of Glenville, Case and Buckeye-Woodland K-8s and some demolitions. The segment had included 18 demolitions, but a pending Board resolution would designate 10 of those schools for “storage” or other uses. The resolutions would authorize hiring of architects, commissioning agents, and environmental, construction-testing and maintenance plan-advisory services. The School District has set non-binding goals for workforce participation in the construction program as 20 percent for minorities, 5 percent for women, and 20 percent for District residents. As of Feb. 28, 2010, the District reported participation of 19.6 percent for minorities, 3.6 percent for women, and 18.3 percent for District residents.

Issue 14 / Locally Funded Initiative:

The BAC’s Program Progress Update 18 in January 2011 noted a sharp increase in the rate of the Cleveland Metropolitan School District’s spending of Issue 14 money that is not matched by the state. Such expenditures may be necessary, but the BAC noted the trend change because such spending quickly diminishes the limited pool of money available for fully renovating or building schools. If a school district wishes to spend capital dollars on items not co-funded by the Ohio School Facilities Commission, these expenses are attributed to what is known as the Locally Funded Initiative (LFI). The District says the available Issue 14 money and related funds, such as accrued interest, will be sufficient to complete Segments 5 and 6 of a planned 10-segment construction-renovation-demolition program, but without an LFI budget that assertion cannot be independently confirmed. At one time, it appeared that the Issue 14 money might be sufficient to build some Segment 7 schools as well, but this is now in doubt due to the sharply higher pace of LFI spending. As noted in January, the BAC would like to have an idea of the District's plan for LFI spending over the next two or three years, especially as such spending relates to implementation of the District's Academic Transformation Plan, because without such a budget it will be impossible to independently assess the District's need for additional bond authorization to complete the construction program. Unfortunately, 14 months after the BAC first asked for such an LFI budget, the District has not provided one. The District Finance Department did provide a list of what it considers major LFI expenditures over the last few fiscal years From this list and other sources of information, we can begin to piece together some of the major reasons for the high LFI spending in (calendar) 2009 and 2010 and some possible future major expenses: iproving, furnishing and equipping certain schools designated by the Academic Transformation Plan that are not part of the Master Plan co-funded by the OSFC; purchase of modular classrooms to expand capacity of schools, including gender academies, designated by the Transformation Plan; sharply higher spending in construction Segments 3 and 4 for building features not co-funded by the OSFC; significant LFI spending for modular classrooms is also expected in 2011 to provide swing space ($6.8 million) for John Marshall High students at Shuler and Brooklawn schools; one potentially major LFI expense would be purchase of land for the new West Side High that was authorized under the Master Plan approved by the Board of Education in 2008 and that was supposed to be part of the current Segment 5. Without an LFI budget, we must take it on faith that the District has reserved sufficient LFI money to pay for the property once a proper site has been identified.

May 17, 2011: Metro Campus Lounge, Cuyahoga Community College.

Program Progress Update 20:

Construction Segments 1 and 2 are completed. Segment 3 is completed except for site improvements at Willson. The last two schools of Segment 4, Mound and Anton Grdina, are to open in August 2011. Planning is under way for Segment 5, which is supposed to be four high schools and 5 preK-8 schools, although no site has been selected for the West Side High School and there are indications that the District does not intend to build the school. A problem has arisen over where John Marshall High School's students will attend classes while a new high school is built. Plans to divide them among the Carl Shuler and Brooklawn schools have run into community opposition, so the high school's demolition has been postponed by a year. However, the neighborhood does not have any readily apparent facilities able to handle the 1,100 currently in the Marshall building. The previously planned demolition of Mooney is on hold, and the Board of Education is to vote in a week on a resolution to offer Forest Hill Parkway for sale to charter operators at the price of $200,000 and, if the building does not sell, to offer it to the City of Cleveland or auction it. The Cleveland School of the Arts is to be demolished over the next year. The elementary-school construction contracts are to be bid in September and October. On March 22, 2011, the Board of Education was to have considered Administration-proposed resolutions authorizing the first steps needed to launch Segment 6, which consists of construction of Glenville, Case and Buckeye-Woodland K-8s and some demolitions. However, the resolution was pulled from the agenda without explanation. The BAC in recent months has reported on a surge in spending of Issue 14 tax proceeds on projects not co-funded by the Ohio School Facilities. Such spending is referred to as Locally Funded Initiative (LFI) spending. LFI spending amounted to $8.2 million in 2008, $13.1 million in 2009, and $16.6 million in 2010 (with year-end encumbrances of an additional $7.1 million). LFI payments in the first quarter of 2011 totaled about $4.3 million. Some $4.7 million in encumbrances remain. Among the leaders in payments and encumbrances in the first quarter were Whitney Young, $95,282; Valley View, $107,772; MacArthur, $111,750; Kentucky, $82,314; Glenville, $120,301; and East Tech, $1.48 million. The District is planning another LFI work program for this summer.

Master Plan Update 14 / Matching construction with enrollment: Assessment of the adequacy and distributional equity of the Master Plan for high school space is extremely difficult because of the variety and volatility of the factors involved. Still, an attempt must be made to assure access for Cleveland's students as well as to provide for the best use of scarce tax dollars. Enrollment-based calculations suggest capacity needs by which the present plans can be judged. The **Northeast Region** is planned for new or fully renovated high school space that would not accommodate all of its probable students in the target year, 2017-18. The planned Glenville could be made larger, but it appears that the currently planned Glenville for 912 would accommodate the students who will want to attend there in 2017, because the school has only 939 students now and lost 17 percent of its enrollment in the last two years. The better alternative might be to revive the once-planned partial renovation of East Tech for 431 students, but most of those slots would have to be taken from some other planned school. In any case, the non-Master Plan schools in the region provide plenty of capacity for the future as long as they remain in operation. The Master Plan provides for only one high school in the **Southeast Region**, the already built John Adams for 1,335 students, but that is probably adequate considering the region's history of steep enrollment decline. A safety valve will be provided by continued operation of John F. Kennedy, which has a capacity of 1,568 students and has 1,013 enrolled. In the **West Region,** James Rhodes, renovated in Segment 2, is hosting 184 more students than its capacity. Lincoln-West is no longer overcrowded, thanks mostly to creation of the 9th-grade Academy at Thomas Jefferson. John Marshall is no longer overcrowded, owing to formal establishment of a 9th-grade Academy at Carl Shuler and a recent sharp drop in overall grade 9-12 enrollment. The plan to build Marshall for 1,400 students is questionable because the school has only 1,162, unless the District has reason to believe that the recent enrollment plunge is temporary or plans eventually to close Shuler. Based only on enrollment, a strong case can no longer be made for a new West Side High if the District is committed to operating the 9th-grade academies and Marshall is kept at the current size. If West Side is built, a strong case cannot be made for building Marshall for more students than it has now. Community input on these related issues is needed before construction of Marshall begins. If it is decided to build West Side, the question of a site should quickly be resolved. These Segment 5 decisions are related to future decisions on whether to boost Glenville's planned size or to revive the idea of a partial renovation at East Tech. Again, all of these issues deserve abundant public input. Waiting for the state's new enrollment forecast, which should be available in fall 2012, is in an option, but not a particularly good one for the schools in Segment 5 in view of the risk of even higher energy prices, a major component of construction costs.

For elementary schools, the Master Plan for the **Collinwood neighborhood** appears to be on target for the enrollment needs of the future. The plan for building Case and Buckeye-Woodland in Segment 6 would give the **East neighborhood** 10 percent more new classroom space than it needs now and probably much more in the target school year of 2017-18. Those schools may be needed to ensure geographic accessibility, but it seems clear that size reductions should strongly be considered. The **East Tech neighborhood** appears to be on target for the future, though it may have been trimmed too much by the District's recent decision to close Giddings, which had been planned for replacement in Segment 8. Bolton and Stokes Academy provide safety valves should more space be needed. With the planned closing of Capt. Arthur Roth, the **Glenville neighborhood** will have three elementary schools left, and one of those, Michael White, would eventually be demolished under the Master Plan. But another school, dubbed "Glenville," would be added in Segment 6. The remaining schools -- Glenville, Patrick Henry and Franklin D. Roosevelt -- would have 17 percent more total capacity in 2017 than the neighborhood needs now. Consideration should be given to whether a new Glenville is needed and, if it is for geographic reasons, whether its size can be pared. The **James Rhodes neighborhood** would have three elementary schools under the Master Plan, enough to accommodate about 75 percent of the current enrollment. That appears to be prudent. Benjamin Franklin provides a very large safety valve should enrollment stabilize. The **John Adams neighborhood** is being planned for 92 percent of its current enrollment. That sounds like a recipe for unused space in the future, but for geographical reasons there may be no remedy. The recent decision to close Emile deSauze, which had been slated for replacement in Segment 7, leaves the **John F. Kennedy neighborhood** on course to have Master Plan space for only 53 per cent of its current students. That seems draconian, but the neighborhood lost 18 percent of its students in the last two years and 59 percent since 1998. Eliot and Cranwood remain as safety valves. The **Marshall neighborhood** is planned for enough new or fully renovated schools to accommodate 89 percent of its current enrollment. The stability of the neighborhood enrollment suggests that this percentage is not too high. The current plan to accommodate 72 percent of the **Lincoln-West** neighborhood's current enrollment in new schools in the year 2017 appears reasonable for now. However, the stability of the enrollments at Marin and Tremont, and the 2010 Master Plan decision to scrap plans for a new Scranton, raise the question of where the students from Tremont would go to school if the District indeed demolished the school in Segment 10 as planned. If enrollment in the east end of this academic neighborhood holds steady, then consideration ought to be given to a new, smaller Tremont. The plan to build a new Willow for 100 students more than it has now would give the **South neighborhood** the capacity for one percent more students in 2017 than exist now. Eliminating Willow would yield a more reasonable 83 percent.

July 19, 2011: Harvey Rice school cafeteria.

Program Progress Update 21:
Segments 1, 2, and 3 are completed, less Willson site improvements. All Segment 4 schools are completed except Anton Grdina and Mound, which are to open for classes in August. In Segment 5, design work is underway for Max Hayes Vo-Ed High Sschool, John Marshall High School, and grade 6-12 Cleveland School of the Arts., as well as

Almira, Orchard, Miles, Paul Dunbar and Louisa May Alcott elementary schools. Problems have arisen over where Marshall students will attend classes while a new Marshall is being built, and various options are being considered. Also, a group of neighborhood residents, preservation advocates and John Marshall alumni is campaigning to change the planned Marshall replacement, approved by the Board of Education in July 2008, to a renovation in the interest of historic preservation. Cost estimates have been released for total replacement, full renovation, and partial renovation with partial demolition and replacement, but the BAC has not yet confirmed those estimates. A new Marshall is being planned for 1,400 students, but a full renovation would create greater capacity. A BAC enrollment-based analysis, meanwhile, found that Marshall might not need space for more than 1,100 students if Carl Shuler is kept as the neighborhood's 9th-grade academy. The District probably will not pursue the 2008 plan to build a 600-student West Side High somewhere between West 665th St. and West 117th St. The creation of a Lincoln-West 9th grade academy at the new Thomas Jefferson school, as well as a recent sharp drop in Marshall enrollment, have largely reduced high school overcrowding on the city's West Side, making a new West Side High expendable. Segment 6 – three new elementary schools and numerous demolitions – is approved, but no implementation of the building plans has gone forward. Most of the demolitions are on hold until the District complies with a state law requiring that the schools be first offered for sale to charter school operators. The BAC also relayed the District's reported achievements regarding construction contracting with minority- and/or female-owned companies and regarding minority and female participation in the construction workforce.

Issue 14 / *Locally Funded Initiative Update 2:*

The BAC's Program Progress Update 18 in January 2011 and Issue 14 / *Locally Funded Initiative* in March 2011 noted a sharp increase in the rate of the District's spending of Issue 14 money on repairs and improvements that are not part of the Master Plan construction program co-funded by the state. The BAC has noted a trend of increasing expenditures for such "Locally Funded Initiative (LFI)" purposes because such spending quickly diminishes the limited pool of money available for the state-funded (at 68 percent) program of building or fully renovating schools. One dollar of LFI spending produces one dollar's worth of work; one dollar spent in the co-funded construction program produces slightly more than three dollars'worth of work. Most taxpayers would presumably prefer to see their Issue 14 contribution leveraged at three dollars for one -- unless their child happens to be attending one of the non-Master Plan schools where the roof is leaking or the toilets don't work. As the pool of $335 million approved by voters in May 2001 is drained (the last $55 million of the authorized bonds were issued in September 2010 and will cover only Segments 5 and 6 of nine construction phases), and with no guarantee that voters will authorize more bond issues, those responsible for making sure that the schools are in acceptable condition are left with little choice but to make sure that those schools not in the funded replacement pipeline will be in decent shape for at least the near future. This past summer alone, the District planned to spend about $10 million on LFI repairs and improvements. That would be enough money to build two more schools like Segment 4's Harvey Rice. The routine nature of much of the LFI expenses points to the problem: The District lacks a comprehensive operations maintenance plan and budget designed to keep its buildings in optimal working order -- and thus to prevent the very expensive catastrophic problems. A strategy of using capital bond issue money to address such problems is very expensive for taxpayers. Capital bond money is borrowed money on which taxpayers must pay interst. It makes little sense to continue the practice of having taxpayers pay interest for 25 years to, for example, pay for a new roof that carries a 10-year guarantee. A continuing levy earmarked solely for system-wide building maintenance and set at a rate sufficient to pay for routine work would reduce the likelihood of catastrophic repair bills later -- and of the need for expensive bond issues to pay for them.

October 17, 2011: Metro Campus Lounge, Cuyahoga Community College.

Program Progress Update 22:
Segments 1-4 are completed, with the exception of the Woodhill-Quincy demolition, which was 97% complete. Segment 5 includes three high schools, Max Hayes Vocational for 800 students, expected to begin classes in August 2015; John Marshall, tentatively for 1,200 students, August 2015; West Side, 600 students, site and completion date to be determined, and project abandonment possible due to declining enrollment; and a grade 6-12 Cleveland School of the Arts for 775 students, August 2014. The segment also includes five PreK-8s: Almira for 450 students, expected to begin classes August 2013; Miles, 450 students, August 2013; Orchard School of Science, 450 students, August 2013; Paul L. Dunbar, 450 students, August 2013; and Louisa May Alcott, 226 students, January 2013. **Max Hayes Vo-Ed:** Work on Max Hayes has been complicated by several factors: 1) Discovery of a large storm sewer running through the site, which limits how the building and other features can be situated. Efforts are under way to determine engineering options that will allow the sewer to bear the weight of soil needed to create the desired slope on the property. 2) Soil contamination from previous industrial uses, which is still being evaluated. The Board of Education is considering a proposal to add $110,221 to its environmental-testing contract with Hull & Associates at Hayes. This includes monitoring wells, soil borings and vapor probes to determine the location and extent of organic chemical contamination and how to remediate problems. The job may grow further depending on what is found and what the Ohio EPA requires as a result. 3) Need for vacation of Walworth Avenue and various traffic-flow improvements in the neighborhood of the school, partly to accommodate the school's industrial and commercial neighbors. **Cleveland School of the Arts:** A Resolution authorizing a contract with Titan Wrecking & Environmental LLC of Tonawanda, N.Y., for up to $1,168,664 for demolition and abatement of the Cleveland School of the Arts is pending before the Board of Education. Meanwhile, the District has not yet completed its acquisition of a parking lot on the south side of the property from the Cleveland Clinic. The design-development process cannot be completed without the property. **John Marshall:** Several factors also complicate the Marshall project: 1) Demolition of Marshall was postponed a year, until summer 2012, to allow for revision of plans to house Marshall's students during construction at Carl Shuler and Brooklawn schools. 2) A group of neighborhood residents, preservation advocates and John Marshall alumni is campaigning to change the planned Marshall replacement, approved by the Board of

Education in July 2008, to a renovation in the interest of historic preservation. A comparison of the construction cost to local taxpayers of three options for Marshall was the focus of a recent community meeting with District officials and an OSFC representative. The BAC has received these cost estimates through the OSFC: total replacement for 1,200 students -- $20.71 million with no auditorium, $24.71 million with an auditorium**;** renovation of the front, 3-story portion and auditorium, demolition of the rest, and a new addition, for 1,200 students **--** $26.04 million; total renovation, including the auditorium, for 1,573 students **--** $32.78 million. The local cost of the total renovation – the District's 32 percent share plus LFI costs -- is so much higher mainly because the school would have space for 373 more students than proposed for the Project Agreement. The full-renovation option would provide space for hundreds of students that Marshall does not have. The District would need to pay for heating, cooling and maintaining this unneeded space for many years if full renovation is chosen. 3) Under the District's stated policy, a Core Team of parents, teachers, neighbors, local business representatives and local officials should have been convened by the school's principal to advise the architect on desired features of the school as soon as the architect was hired last year. In fact, a Marshall Core Team that was recruited more than two years has never been convened to work with the architect. ... On Nov. 16, 2010, the Board of Education authorized a Segment 6 Project Agreement for construction of Glenville ($15.1 million), Case ($14.6 million) and Buckeye-Woodland ($15.9 million) K-8s and demolition of Mount Auburn, A.B. Hart Alexander Hamilton, Audubon, Empire, Gracemount, Henry Longfellow, Jesse Owens, John Raper, Joseph Landis, Louis Pasteur, Robert Fulton and Stephen Howe schools. However, Landis has been sold to a charter school operator, and Empire, Howe and Owens have now been designated to be kept for storage or possible use as swing sites or future new school sites. Pasteur is to be demolished this fall to create green space for nearby Franklin D. Roosevelt school. Bid award for demolition of Hamilton is to occur this year. Auburn, Hart, Audubon, Gracemount, Longfellow, Raper, and Fulton must be offered to charter operators for lease at fair market value before they can be demolished. No operator offered to buy the properties when the District offered them for sale.

Issue 14 Update 2 / ***Proposed Refunding and Defeasance:***
The Administration of the Cleveland Metropolitan School District is proposing to refinance part of the $40 million in Issue 14 bonds sold in 2002 and to defease, or retire early, part of the 2002 bonds using excess cash in the District's Bond Retirement Fund. The immediate goal of the refunding/defeasance proposal is to reduce future interest payments on the debt that the District incurred to fund its construction and renovation program. This strategy would allow the District later, pending voter approval, to issue enough bonds to complete the construction program without raising the annual tax burden on District taxpayers beyond the 6.1 mills currently levied to pay off Issue 14 bonds and previously issued Cleveland Public Library debt. However, the District's advisers have recommended a method of refunding bond sale and a method of underwriter selection that are contrary to the best practices recommended by BAC. These best practices are predicated on the idea that a bond issuer should pursue a course of action with the best chance of getting the lowest interest rates for those who must pay off the debt – the District's taxpayers. The window for a "no additional taxes" bond vote in the future has already been opened by the District's previous aggressive bond retirement strategy and

the expiration of Library bond payments, which will be complete in December. The proposed refunding and defeasance would simply open that window a little wider. What the District is trying to do is to use cash currently in its Bond Retirement Fund to reduce the amount of 2002 bond debt on its books (defeasance) and lower the interest rate on some of the remaining debt (refunding) by taking advantage of historically low current interest rates, similar to a home mortgage refinancing. The plan also would brace the District against further declines in on-time tax collections, which have now declined to about 81 percent of taxes due. The District's advisers foresee two options**:** 1) Do both a refunding and a defeasance to retire and refinance as much existing debt as possible, or 2) if bond-market interest rates rise too much to make a refunding financially worthwhile by the time the deal date arrives, then defease as much debt as possible and delay a refunding until a time when it would produce significant interest-cost savings. An authorizing resolution pending before the Board of Education specifies that a negotiated deal is permissible. The District's chief financial officer said either a competitive sale – recommended by the BAC's consultants – or a negotiated deal would be allowed by the Resolution. The District's advisers said negotiated deals allow flexibility to change the sale date and amount/identity of targeted bonds in response to changing market conditions, provide transparency in fees charged by underwriters, can be used to provide for inclusion of minority underwriting firms, and can provide District residents with first access to investment in the refunding bonds. The advisers noted that the vast majority of municipal bond sales are negotiated. These are the same reasons that the District's advisers have previously given for preferring negotiated deals over competitive deals. The BAC's consultants in their 2010 report essentially rejected such arguments as being irrelevant to achieving the ultimate goal: the lowest possible interest rate to be borne by Cleveland's taxpayers. The report noted that under the circumstances of CMSD's bond issues, a competitive deal would be most likely to yield the best results for local taxpayers. The BAC's consultants found that the District's underwriter selection criteria, employed for a possible 2007 Issue 14 refunding that was not executed and for a planned 2009 bond issue that was not executed, were weighted in such a way as to potentially exclude firms that could provide the lowest interest cost for the bonds. The District's financial advisers are anticipating use of the same or similar criteria for the refinancing.

Nov. 29, 2011: Metro Campus Lounge, Cuyahoga Community College, 6:30 p.m.

Issue 14 / *Locally Funded Initiative Update 3:*

The Maintenance Business Plan required by the Ohio School Facilities Commission (OSFC) for all schools completed under the Cleveland Metropolitan School District's construction/renovation program provides an independent assessment of funding needs for optimum maintenance of schools. This report uses data from the Plan to highlight the need for additional revenue to properly maintain the District's schools and – in the long run – to save money for local taxpayers. The District has long engaged in a pattern of deferred maintenance leading to the need for major repairs for which operating-budget funding was not available. Twice since the late 1980s, the District therefore had to turn to voters for approval of long-term capital-improvements borrowing to make these repairs. These loans typically carry interest – at taxpayer expense -- for as long as 20 to 25 years. The interest bill for $50 million in repairs might be an additional

$20 million. Previous BAC reports noted a rising trend of District spending of Issue 14 bond proceeds for repairs and improvements of schools that, due to enrollment declines, have been removed from the Master Plan for the construction/renovation program co-funded by the OSFC. Such spending for non-Master Plan schools is known as Locally Funded Initiative (LFI) spending. The District's annual operating budget for maintenance, currently $5.2 million, has clearly been inadequate to meet the needs of what was once in excess of 100 schools, many of them quite old. In recent years, as more and more schools have been eliminated from the Master Plan due to declining enrollment, the District has been faced with the choice of closing them or keeping them in working. A number of schools have indeed been closed, and an increasing number of the rest have been targeted for LFI repairs funded by Issue 14 securities, on which taxpayers pay interest from one to 23 years. On June 29, 2011, the OSFC approved the Maintenance Business Plan (MBP) for schools in Segments 1-3 of the construction program. The Plan was compiled by Resource International, Inc., a firm pre-approved by the OSFC. Execution of the Plan is funded by a half-mill continuing levy that also was part of Issue 14, as well as by a state "equalization" subsidy for economically distressed districts and District operating money. The pro-rated share of the District's maintenance operating budget, money produced by the half-mill levy, and the state subsidy fall far short of what is needed for optimum maintenance of the District's new schools, not to mention its old ones. Resource International has this to say about the risks presented by such a situation: "The equipment's performance and efficiencies will be undermined and lack of preventive maintenance will shorten the life expectancy of the equipment while increasing its operational cost. ... The lack of proper maintenance of life/safety systems has major moral and financial implications to the district if such equipment/systems were to fail in an emergency situation and someone were to get hurt." Resource International quantified the financial resources needed for optimum maintenance by establishing what it calls a Zero-Based Budget based on an inventory of each school's systems and assets. Although the Plan's authors describe some capital renewal costs as typically being financed through capital improvement bonds, they annualize these replacement costs in determining the Zero-Based Budget for each school. Therefore, if fully funded the Plan would theoretically eliminate the need for issuance of capital improvement bonds and save taxpayers the substantial expense of borrowing at interest. Resource International calculated the Zero-Based Budget for all the Segment 1-3 schools except Willson, which was not included in Plan documents supplied to the BAC by the District, at $3.46 million for maintenance and $3.55 million for capital replacement, a grand total of <u>$7.01 million a year for 20 schools</u>, including two high schools. The District's continuing annual resources for maintenance are $2.47 million from the half-mill levy, $1.93 million in state "equalization" payments, and $5.2 million allocated to its operating maintenance fund, a grand total of <u>$9.6 million a year for 94 schools</u>, including at least 17 high schools. This a gross availability of funds, ignoring the fact that the required half-mill levy contribution and state subsidy cannot be spent on non-Master Plan schools. It is no wonder that the District for many years has found itself in a pattern of deferred maintenance that inevitably results in shabby schools and the need either to abandon those that are no longer fit for education or to tap proceeds of expensive capital improvement bonds to fix them. With the possible exception of proceeds from the sale of some properties, the District is socking away nothing for eventual capital replacement costs. Resource

International recommends otherwise: "It is very crucial for the success of any maintenance plan that funds are set aside for major systems and equipment replacements, even when some of these components have life spans exceeding 10 years. ... Major capital expenditures have a significant financial impact on the district's budget." If Resource International's calculations are accurate, the School District could save between $215 million and $256 million over 25 years by fully funding execution of the Maintenance Business Plan for just 20 schools. The predicted savings are actually an understatement because they do not include avoidance of the considerable interest cost that would be incurred if the markedly higher asset and equipment replacement costs foreseen under the District's current course are financed with tax-exempt municipal securities, as is currently the case with repairs being done with Issue 14 LFI money. The perceived savings from scrimping on maintenance every year really are not savings at all; in fact, the practice amounts to pushing onto a future generation the costs – and then some -- that the current generation chooses not to pay. After years of neglected maintenance, taxpayers typically have been asked to foot the bill for borrowing to repair the wreckage. Full implementation of a preventive maintenance plan is really about breaking this cycle by taking responsibility now so that the students of the future do not have to attend shoddy and even unsafe schools – and so that taxpayers in the future do not face catastrophic repair or replacement bills. The Maintenance Business Plan clearly supports the idea that it would be much less expensive for taxpayers in the long run if the District requested and received approval of a continuing levy that is reserved only for system-wide building maintenance and that is set at a rate sufficient to pay for the routine work that will reduce the likelihood of catastrophic repair bills later.

Contact the BAC: (440) 781-8654 bondaccountability@hotmail.com