

Annual Report

A look at 2015 and the year ahead

January 19, 2016

Last year marked a new beginning of sorts for both the Cleveland Metropolitan School District's construction program and the Bond Accountability Commission.

The District issued \$200 million in bonds to finance the remainder of the program and put the finishing touches on a revised construction Master Plan, and the BAC received a new three-year funding commitment from the District as well as an infusion of eight new commissioners.

The District completed the construction program's Segment 5 with the opening of three high schools -- Max Hayes, Cleveland School of the Arts, and John Marshall -- and selected architects and construction managers for a new Campus International K-8 in Segment 6 and for seven elementary schools and two high schools in Segment 7. The preliminary budget for Campus International is \$21.4 million, and for the new schools in Segment 7, about \$156 million.

Plans to repair and improve schools that are not part of the construction Master Plan got off to a slow start in 2015 because the financing was not available until the end of June. However, the District is planning significant work this year on Joseph Gallagher (\$8 million), Wilbur Wright (2.5 million), William Cullen Bryant (\$2.5 million), and Benjamin Franklin (\$2.5 million).

Plans for these and other so-called "refresh" projects are subject to change because the District reports that its enrollment has stabilized and possibly grown after years of decline. The construction Master Plan was based on an enrollment forecast that envisioned further decline. A change in the trend could mean that the District will qualify for more matching funds from the state for new construction. If that occurs, some schools that had been planned merely for improvements could instead be replaced with new ones.

The results of a District-requested early revision of the state's enrollment forecast should be known soon. The BAC will monitor any consequent changes to the Master Plan.

For its part, the Bond Accountability Commission continued to fulfill its mission of monitoring the financing, planning and execution of the construction and repair program financed by Issue 14, the \$335 million bond authorization approved by voters in May 2001, and now Issue 4 as well.

- The BAC reported on the Master Plan revision of 2015, identifying areas in which the Plan might be improved to better reflect neighborhood enrollment-based needs.
- It also reported on the mechanics of the \$200 million bond sale and authorized a study of the District's performance of various CMSD sales since 2010, contingent on the BAC's ability to obtain grant funding for an outside consultant.
- Last March, a BAC report disclosed the District's failure to gain \$8.5 million in federal technology reimbursements for which it was eligible in construction Segments 2 through 4. The report on so-called E-rate technology reimbursements prompted the District and the Ohio Auditor's office to initiate investigations that so far have not resulted in any publicized findings.

Management and cost reporting

The BAC made a concerted effort to pursue issues outlined in the last Annual report regarding cost efficiency, transparency and accountability. Progress was made on monthly reporting of spending in Construction Manager at Risk (CMR) high school projects in Segment 5, the first segment in which that construction-delivery method was used by the District. CMSD intends to use the CMR method on all projects in Segments 6 and 7. Once final cost tallies are available for Segment 5 high schools, the BAC will investigate whether further improvements are possible to allow us to keep the public better informed.

The BAC had sought a District commitment to supervise the "refresh" program through a professional construction manager and to award program contracts based on OSFC competitive-bidding protocols, and to report monthly on each project's cost. The District is planning to use outside CMRs, who will hire trades subcontractors under OSFC rules, for its major 2016 refresh projects, although it appears that millions of dollars in other repairs and improvements will continue to be managed internally.

BAC meeting schedule

(Dates tentative; times and locations to be announced; public invited)

Tuesday March 15

Tuesday May 17

Tuesday July 26

Tuesday September 20

Tuesday November 22

Tuesday, January 17, 2017

For meeting updates, check www.bondaccountability.org

The BAC hopes to use this information to identify areas for improvement in procurement and accountability and to establish a system for contemporaneous reporting on projects.

A comprehensive, itemized budget for refresh projects remains a BAC goal, as does disclosure of a systematic process for determining refresh-program priorities and scope.

Financing

The BAC had sought a District commitment strongly to consider the competitive method of underwriter selection for each bond sale and, when the negotiated method of sale is chosen instead, to employ underwriter-selection criteria focused on getting the best interest rates for taxpayers and to commission a post-sale comparison of the bond interest rates with the prevailing contemporary market rates for securities of similar maturities and credit level.

For the \$200 million sale, the District opted for a negotiated sale, but questions about the underwriter-selection criteria as well as the post-sale analysis contributed to the BAC's decision to seek grant funding for an outside study of past CMSD issues.

The BAC previously had also sought a commitment that future federal rebates of interest paid on QSCBs (Qualified School Construction Bonds) sold by the District, either the \$55 million sold in 2010 under Issue 14 or the \$49.2 million eventually sold under Issue 4 as part of the 2015 issue, would be devoted to bond retirement or to construction/repairs. In the past, the District has used the rebates as general operating money, and it has been non-committal about how it will spend future rebates. In any case, in 2015 BAC commissioners expressed a lack of unanimity on the subject.

Community inclusion

Continuing to pursue issues raised a year ago, the BAC has sought to improve District reporting in the areas of community inclusion in workforce participation and contracting, both of which are priorities established by the Board of Education when the construction program began. These priorities have taken the form of percentage goals for participation by minorities, women and District residents or by companies owned by minorities or women.

The BAC sought and received a District commitment to use of a biometric (such as a thumbprint scan) ID system to document labor hours for the project workforce. In the past, the District has tried to document hours worked by compiling data submitted by contractors in certified payroll reports, but this system has proved to be erratic, resulting in obvious discrepancies that the BAC has asked the District to correct. The District has also agreed to break down minority participation by race or ethnicity.

In the area of contracting with minority- or female-owned businesses, the BAC used to regularly receive District reports, which the

BAC used to identify various purported minority-owned businesses that were not certified as such by the City of Cleveland or by the state, a problem that the District fixed.

But the reports stopped coming. The last one received by the BAC was dated at the end of 2014.

Further, the BAC noted that the format of the reports appeared to be incompatible with the new CMR delivery method, the result being that participation of what are sub-subcontractors under the CMR method were not being captured by the District's report. CMRs for Segment 5 high schools were claiming participation by minority- and female-owned companies approaching the District's percentage goals, but the CMSD reports did not reflect that.

The District has now agreed to revamp its reporting format for CMR projects, and the BAC will assist with that effort.

Some outstanding issues remain, including a BAC desire for more repair/improvement projects to be included in the District's workforce reports. In the past, projects internally managed by CMSD have not been included. Also outstanding is a question about whether some purported minority subcontractors are in fact too closely related to the prime contractor or CMR to be legitimately counted toward the District's participation goals, that is, whether they are performing a “commercially useful function” as defined by the District's Community Inclusion Plan Program Statement. Finally, the BAC would still like to pursue a clear explanation of and regular reports on implementation of CMR supplementary or general conditions pertaining to construction-site student visits, internships and hiring of CMSD students and/or recent graduates for each project.

To reach the BAC: bondaccountability@hotmail.com / (440) 781-8654 / www.bondaccountability.org

BAC financial report

Bond Accountability Commission 2 Inc. Revenue, expenditures and outlook for 2015-17

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Salary, taxes	\$58,759	\$70,611	\$70,729	\$70,475	\$70,430	\$70,315	\$70,281	\$70,226	\$70,017	\$70,500	\$70,500
health insurance	\$0	\$0	\$6,679	\$9,526	\$11,452	\$10,230	\$11,113	\$12,179	\$14,158	\$10,360	\$11,344
health care reimburse	\$0	\$0	\$0	\$201	\$500	\$792	\$289	\$622	\$593	\$4,352	\$0
payroll service	\$700	\$1,108	\$1,183	\$1,316	\$1,328	\$1,398	\$1,407	\$1,493	\$1,606	\$1,700	\$1,800
supplies, printing, misc.	\$4,709	\$999	\$1,720	\$1,362	\$1,466	\$694	\$612	\$1,141	\$283	\$1,500	\$1,500
govt fees	\$199	\$750	-\$61	-\$10	-\$11	\$0	\$0	\$125	\$0	\$100	\$100
equipment	\$0	\$0	\$0	\$0	\$347	\$0	\$0	\$0	\$930	\$800	\$800
website	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$96	\$96	\$125	\$130
bank fees	\$0	\$0	\$63	\$31	\$27	\$36	\$36	\$36	\$64	\$50	\$50
consultants *	\$644	\$0	\$1,689	\$65,611	\$89,294	\$51,273	\$14,640	\$0	\$0	\$75,000	\$0
insurance (D&O, crime)	\$0	\$0	\$0	\$0	\$2,504	\$2,359	\$2,290	\$2,404	\$2,272	\$2,600	\$2,600
training	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$595	\$0	\$0
rent, utilities *	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$7,200	\$7,200
Total expenditures	\$65,011	\$73,468	\$82,003	\$148,513	\$177,337	\$137,097	\$100,669	\$88,322	\$90,614	\$174,287	\$96,024
Balance Forward		\$89,049	\$55,802	\$175,750	\$289,294	\$194,210	\$137,986	\$117,941	\$30,043	\$26,318	\$14,492
Grant income *	\$0	\$40,000	\$40,000	\$0	\$0	\$0	\$0	\$0	\$0	\$70,000	\$0
Interest	\$4,060	\$221	\$1,951	\$2,056	\$2,253	\$874	\$624	\$425	\$222	\$200	\$200
Other income (CMSD)											
**	\$150,000	\$0	\$160,000	\$260,000	\$80,000	\$80,000	\$80,000	\$0	\$86,667	\$92,262	\$86,667
Total income	\$154,060	\$129,270	\$257,753	\$437,807	\$371,547	\$275,083	\$218,610	\$118,365	\$116,932	\$188,780	\$101,359
Year-end assets (deficit)	\$89,049	\$55,802	\$175,750	\$289,294	\$194,210	\$137,986	\$117,941	\$30,043	\$26,318	\$14,492	\$5,335

Outlook based on calendar year

* contingent amount for 2016, 2017

Health care reimbursement for 2016 pro-forma presumes expenditure of balance of encumbered reimbursement fund

The BAC's mission

The Bond Accountability Commission is an independent, non-profit, all-volunteer organization appointed by the chair of the Board of Education in consultation with Cleveland Mayor Frank Jackson.

In authorizing the current BAC, the 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 and Issue 4; communicating its findings to the community; regularly reporting to the Board; holding 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 "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."

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. As an independent consultant, he continues to help owners manage complex projects from site acquisition to final occupancy as well as to advise architects/contractors. 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.

Donald Brown, vice chairman: Multi-product Agent with Progressive Insurance. Currently he is a Resolution Specialist in the company's national call center. Mr. Brown and his wife are longtime residents of West Park. Their daughter is a student at CMSD's Douglas MacArthur Girl's Leadership Academy. Over the years he has stayed active in the Student Parent Organization and has served as its President. Mr. Brown is also on the board of the Isaiah Project in Cleveland's Clark-Fulton neighborhood.

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.

Tony Crump: U.S. Postal Service, retired.

Jamar Doyle: Assistant Director, St. Clair-Superior Development Corp.

Christopher Kuhar: Executive Director, Cleveland Metroparks Zoo

Christopher Smith: Mr. Christopher Smith is an Economic Development Specialist for Lorain County, a social entrepreneur, and a small business development consultant. His entrepreneurial experiences began in college competing in several business plan competitions across the nation. He earned a Masters of Public Administration and has worked in economic development for the last three years. With experience working in all sectors he's found that stewardship, entrepreneurship, and strengthening the human capital in our inner cities to be key components of creating sustainable communities.

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. He has been appointed Distinguished Visiting Scholar at the Kelvin Smith Library of Case Western Reserve University.

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.

Larry Goodman: Larry Goodman is Head of School at Andrews Osborne Academy. Dr. Goodman has been working with and for schools in northeast Ohio since 1999. He, his wife, and his two children live in Shaker Heights. He has been on the MetroHealth Foundation Board since 2009 and has served on the boards of the Cleveland BoyChoir, the Cleveland Chapter of Phi Beta Kappa, and the Online School for Girls. He was a member of the Leadership Cleveland Class of 2013.

Kara McCullough: Manager of Grants and Operations for Foundation Management Services, an advisory firm that services several long-standing private Cleveland-based foundations. Serves as Ohio Regional Chair for The Grants Managers Network, a national association for philanthropy professionals. West Park resident and parent to a member of CMSD - Campus International School's Class of 2027.

Jack Alan Bialosky, Jr.: AIA, LEED AP, Senior and Managing Principal, Bialosky + Partners, Architects. Jack Bialosky leads one of the Midwest's most successful and collaborative architecture firms, Bialosky + Partners, Architects. Educated at the University of Pennsylvania, the University of Durham, England, and Yale University, Jack lived in Boston for 7 years prior to moving back to Cleveland. There he worked for Kallmann, McKinnell and Wood and taught at the Boston Architectural Center and the Harvard Graduate School of Design. Jack returned to Cleveland and ultimately assumed leadership of a firm widely known for its modern residential and religious projects. This was the beginning of 20+ years of stewardship and transformation of the small local firm, Bialosky & Manders. Today the firm Bialosky + Partners, Architects is known for the quality of its designs, the diversity of its portfolio, and the longevity of its staff. Projects have included multiple major facilities for such clients as Progressive Insurance, GCRTA, Cuyahoga and Lorain Community Colleges, Ursuline College, Seton Hall and Muskingum Universities.

In addition to numerous Design awards, the firm has twice garnered the Northcoast 99 Award that recognizes the Best places to work in Northeast Ohio across all sectors. In 2009, the firm was recognized by the American Institute of Architects as an AIA Ohio Gold Medal Firm, the highest honor awarded by the institute in recognition of "great depth and breadth, a collaborative environment, and having had a cumulative effect on the profession over a substantial period of time".

Tom Cook: Tom is Owner of Harbor Insurance, a multi-line insurance agency located in South Florida. He has previously held senior management roles at National City, Progressive Insurance and Price Waterhouse. He and his wife reside in Cleveland's Tremont neighborhood. Locally, he has served on the boards of WVIZ/WCPN Ideastream and Tremont West Development Corp and he is an active board member of Citizens Academy and Citizens Academy East and the Friends of Tremont Montessori School.