

# Private firms wield large influence over West Contra Costa school district bond program as costs soar

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With cash running out to complete the rebuilding of schools, West Contra Costa school district officials continue to grant significant control over their \$1.6 billion bond construction program to private firms that have taken in tens of millions of dollars as project costs soar.

While some large school districts that run multibillion dollar bond programs closely manage spending with in-house staff, two large outside firms have long wielded enormous influence over how much West Contra spends to design and build its schools. Critics say that management approach has left the public in the dark about how taxpayer money is being spent, the justification for cost increases, and which projects will be completed before about \$600 million in remaining bond money is depleted.

The percentage of bond money that has been steered toward management and design fees in West Contra Costa has pushed the price tag for overall construction projects beyond the norm for some comparable districts.

Of the approximately \$1.1 billion in bond money spent through June, nearly \$320.3 million -- or about 29 percent -- went toward non-construction costs, including program management and architects' fees. About \$138 million -- 12 percent -- was split through Aug. 31 between SGI Construction, which manages the district's overall bond program and provides design management and construction management on individual projects, and WLC Architects, district records show.

West Contra Costa spends millions of dollars each year on custom designs for every school and reimburses SGI for expenses that include 10 percent markups on everything from labor costs for its own employees and subcontractors to office supplies such as paper clips and tea bags. In May alone, the company was paid \$1.2 million for 52 invoices.

The spending has infuriated district resident Linda Ruiz-Lozito, who questions why -- as the bond money dwindles -- she and other taxpayers are buying tea for high-priced construction managers, while the district is telling parents it will need another bond measure to complete the list of schools in line for remodeling or replacement.

"As a parent of two district students and a taxpayer, SGI needs to buy its own tea bags and not take money that should go toward schools," she said. "If this is any indication of how the bond manager is doing business, then it shows there may be many other things that we are paying extra for."

In an email response to questions from this newspaper about its bond program oversight, district officials said the board has supported outside management in part because consultants have a level of expertise that staff does not, including design teams and experts in "constructability, project bidding and construction management."

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district spokesman Marcus Walton stated. "As private employers, these companies can move their employees to accommodate the work flow."

SGI, a Pasadena-based construction-management firm also known as The Seville Group, has overseen the district's bond-funded school building program since 2001. It has pumped about \$250,000 into a campaign committee that supported

bond and parcel tax election campaigns, according to election finance records. WLC Architects, based in Rancho Cucamonga, has contributed more than \$361,000 to the committee. WLC has also worked extensively on the district's bond-financed projects since the program began.

Both SGI and WLC have also made political contributions to election campaigns of board member Madeline Kronenberg and to former board President Charles Ramsey's unsuccessful runs for city and state offices. Ramsey and Kronenberg ran the district's facilities construction subcommittee, which has recommended numerous construction cost increases to the full board.

Growing criticism about the district's management of the program -- which has saddled taxpayers with some of the highest property tax rates in the Bay Area -- led voters in June to reject the district's effort to pass its seventh bond measure since 1998.

Despite a voter revolt that also impacted November's school board election, publicly elected trustees continue to approve hundreds of thousands of dollars each month in change orders and budget increases, such as \$635,925 for SGI on Jan. 21 for managing the Gompers and Leadership campus replacement projects through October, along with overall design management services from January through March.

A June 2013 audit of the bond program concluded that the percentage of bond money being spent on actual construction was "considerably lower than has been experienced by other districts." About 59 percent of the \$945.3 million spent at that time was construction-related, with the rest devoted to architects, program and construction management, engineers, consultants and other costs, district records show.

The audit also concluded that the number of amendments to architectural agreements related to "unforeseen conditions or changes in scope warranting additional services" seemed "excessive." Yet, the district does not appear to have taken the warnings to heart.

WLC recently requested and was granted a \$7.5 million increase in design fees for the company's work on Pinole Valley High -- its sixth contract amendment for the school -- without any independent written staff report or analysis. The bump pushed the design contract for the school to \$16.1 million, nearly double the amount originally budgeted. The increase came about because the overall construction costs rose to \$134 million and the project timeline was extended, prompting WLC to ask for 12 percent of the total.

Others contacted for this story said it is not in the best interest of districts to pay architects based on a percentage of construction costs, because it leaves no incentive for the contractors to keep down costs.

"Architects are never paid as percentage of project or construction cost," San Diego school district spokeswoman Cynthia Reed-Porter wrote in an email, adding that her district negotiates a maximum fixed fee and pays monthly invoices based on hours worked.

West Contra Costa officials said in an email that the district pays its architects according to a rate schedule based on negotiated agreements, but it does "analyze the percentage of fee to construction costs as a guideline for comparison purposes."

SGI's contract has no cap and allows fees based on hourly expenses. As of Nov. 17, the firm had received \$87.4 million total for its program, construction and design management services, along with reimbursable expenses -- nearly 8 percent of the total bond money spent.

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"This type of agreement lacks the controls necessary to ensure that the time spent ... and charged to the district is appropriate," the 2013 performance audit by Total School Solutions reported. Districts are legally required to hire independent auditors to review their bond construction programs each year.

SGI program manager Juan Garrahan said that billing fees on an hourly basis allows for greater scrutiny and accountability throughout construction. Of the tea bags, office supplies and storage units rented or purchased by his company and charged to the district with a 10 percent markup, he said they support both district and SGI staff who work on the bond program.

When asked to explain the increase in design fees for the Pinole Valley school, WLC architect Kevin MacQuarrie referred to his board presentation, which outlined increases in construction costs, design additions and delays to the schedule.

Ruiz-Lozito and other district residents also question high construction costs in West Contra Costa, which appear to exceed those in other districts and routinely go over budget. Although construction costs for Pinole Valley High were originally budgeted at \$85 million, by 2013 the estimate had grown to \$134 million, or \$184.2 million with management, design and overhead costs factored in. Last year, the district's previous associate superintendent for operations said the final tally for the school could reach \$250 million.

SGI's contract requires it to "build a more efficient and economical project" without reducing quality. It also requires the company to pay for the cost of construction change orders caused by errors or omissions. But the district has routinely paid the full cost of such change orders, a practice the bond oversight committee has begun to question.

Other districts keep costs lower. For example, Pittsburg's namesake high school was completed in 2011 for about \$103 million, a cost per square foot of \$438, according to the Pittsburg school district. Contrast that to three major West County high school projects: Pinole Valley High is projected to cost about \$953 per square foot, while El Cerrito High and De Anza High, both built in recent years, came in at \$610 and \$517 per square foot, respectively, although additional facilities are still under construction at both schools.

Tom Rubin, an Oakland-based certified public accountant hired by the Los Angeles district as a consultant to its bond oversight committee, expressed surprise at the way in which West Contra Costa officials have managed many aspects of their program, and said such a passive approach would never happen in Los Angeles, which operates the largest bond program in the state.

He said the West Contra school board's eagerness to make quick and costly decisions on individual projects without a clear understanding of their impact on the big picture is a red flag, and delaying a project because of cash-flow constraints, such as happened with Pinole Valley High, was a cause for concern.

"This is an absolute: 'How the hell did you ever get yourself into that situation?'" Rubin said. "The rule is very simple: 'Don't start till you're ready. Don't stop till you're done. And in between, go like hell. You want to get things done as quickly as you can, consistent with quality and safety.'"

Unlike the Los Angeles district, which provides its bond oversight committee with a detailed list of projects to be completed with bond funding, West Contra Costa has rebuffed repeated requests from its oversight committee for information showing how remaining funds will be spent, saying the board has decided to approve one project at a time, as funding allows.

If the Los Angeles district told its bond oversight committee that it didn't have a plan for how its remaining funds would be spent, Rubin said, "The response would be: 'OK, when you have that, come back and see us, because we are not going to even listen until we've got that and until we can believe it.' This is horse pucky."

And, Rubin said, when a budget increase is requested in Los Angeles, district staff there prepare a report for the board that includes a reason for the request and a recommendation from the bond committee. Such written staff reports are infrequent in West Contra Costa and are seldom, if ever, shared with the oversight committee before the school board votes.

But with the election of two new West Contra Costa board members in November, the tide is beginning to turn, albeit slowly. Trustee Val Cuevas was the lone vote against the \$635,925 SGI expenditures last month, saying she needed more information, including how many SGI employees would be paid with the funds.

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"Here's where the responsibility of leadership and good stewardship comes in," Cuevas said in a later phone interview. "We've got to make sure that we're informing the public about what's informing the decisions that lead to millions of dollars in the use of public funds."

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costs above the norm for West Contra Costa

- On Nov. 12, the school board approved nearly \$1.5 million in engineering contracts for a variety of vendors, including more than \$1 million for SGI's management of the Coronado and Nystrom elementary school replacement projects. This is on top of fees paid to SGI for managing the district's overall bond construction program. The board also approved more than \$1.1 million in construction change orders overseen by SGI, which included \$715,600 for Pinole Valley High and \$222,295 for Ohlone Elementary. The elementary school project has so far racked up 122 change orders worth more than \$2.1 million, driving up the cost to rebuild the campus from \$16.9 million to more than \$19.1 million.
- On Jan. 21, the board approved more than \$800,000 in engineering services contract extensions, including \$635,925 for SGI in a 4-1 vote, with new Trustee Val Cuevas voting no because there was no backup documentation detailing the costs.

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