Capital Needs -- Impact on Operating Budget

- LASD has spent $1.28 million, on average for the past six years, on facilities upkeep and capital costs out of our <u>operating budget</u>.These costs have ranged from $350K to $3.1 million in individual years.

- LASD has no cushion.
  - Current balance of the deferred maintenance fund is $0 (zero).
  - Total operating reserves are low. General fund and special reserves are projected at $4 million through June 2021 or 6%, below our target of 8% to 10%.

- This assessment does not account for the possibility of a recession, which could reduce or eliminate budget growth. In such a scenario, the negative impact of building repair and replacement will be even more significant.

Recommendations

- Set aside immediately a sinking fund of $10 million (lump sum) from Measure N to defray anticipated building repair and replacement costs over the next 10 years.

- Account separately for and report annually as to utilization and the remaining balance of sinking fund.

- $10 million will reduce risk of serious further invasion of the operating budget for the 10 years 2020-2030, then …

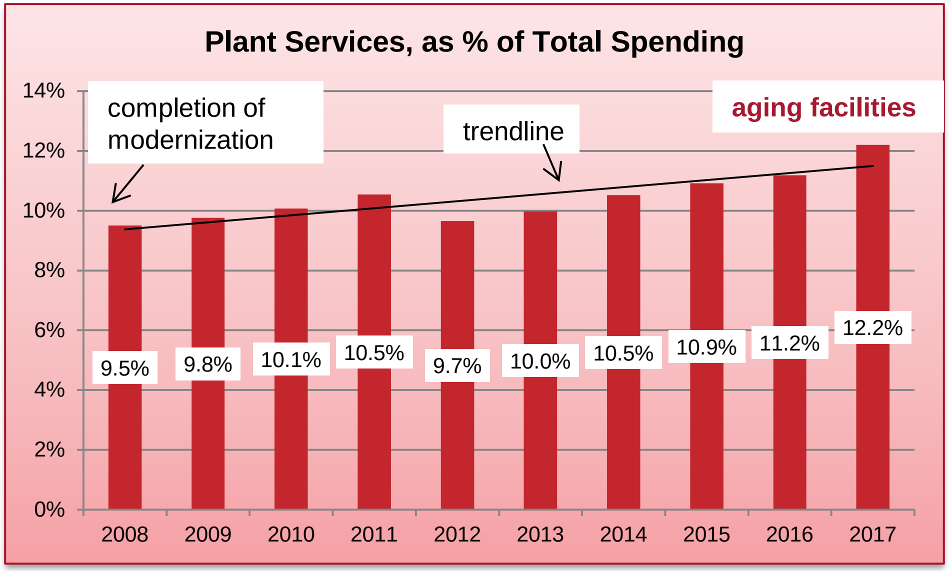
- Update the LASD facilities and maintenance plan to understand the capital needs for the 10-year time frame commencing in 2030.

Appendix

Capital Needs

Building Maintenance Expense

- 375,000 square feet at 9 locations, constructed between 1949 and 1961, modernized 20 to 25 years ago
- Due to age, more repair and replacement is necessary – and an increasing burden on the LASD operating budget



- Repair/replacement costs comprise on average nearly half of “plant services” expenditures and are a main driver of increases in this category

Projected 10 Year Needs

- Based on 2013 Asset Reserve Analysis and 2014 Facilities Master Plan: approximately $45.3 to $90 million (an average of $4.5 to 9 million per year) from 2019 to 2028.

- Compared to the generally accepted national standard for upkeep of public buildings (2 - 4% annually of replacement cost): this $4.5 to $9 million estimate is reasonable, and probably conservative in light of high construction costs in Silicon Valley.

- While LASD attempts to schedule repair/replacement to minimize breakdowns, it is impossible to avoid surprises – when the roof starts to leak or the plumbing stops working, something must be done even if money has not been set aside for the exingency.

Sinking Fund Pros and Cons

- A sinking fund established with Measure N funds would afford reasonable opportunity for the LASD to maintain plant services expenses close to the 10% level.
- Such a fund would allow the District to “even out” repair and replacement costs. When an emergency arises, the fund can be tapped to cover what needs to be done without serious unanticipated impact on operating resources.
- Existence and use of such a fund would afford “breathing room” to assess building infrastructure needs beyond the 10-year horizon, as well as approaches to meeting those needs.
- Potential negative impacts could arise in the event amounts set aside for the sinking fund are needed for construction of the 10th site, and come to be diverted for that purpose.
- While very unlikely, in the event all amounts placed in the sinking fund are not used for purposes authorized by Measure N, those monies could lie fallow while other needs are not met.

Prior CACF Recommendations

- June 2017: Take action when plant services expenditures exceed 10% of operating budget
    - Consider sinking fund and use of Measure N monies

- June 2018: Address maintenance expense encroachment on budget (which had exceeded 10%)

Recommendations– Detailed

- Identify and set aside immediately a sinking fund of no less than $10 million ($1m per year) from Measure N to defray anticipated building repair and replacement costs over the next 10 years.
- Augment the sinking fund with additional sources of “extra” revenue as appropriate.
- Account separately for and report annually as to utilization and the remaining balance of sinking fund.
- Update LASD asset analysis and facilities master plan within the next 5 to 7 years to provide basis (which should include buildings at the new site) for re-evaluating capital needs for the next 10-year time frame commencing in 2030.
- In connection with an updated asset analysis and facilities master plan, study the feasibility of a bond measure to finance more extensive building replacement demands which LASD will face in the 2030s and beyond.