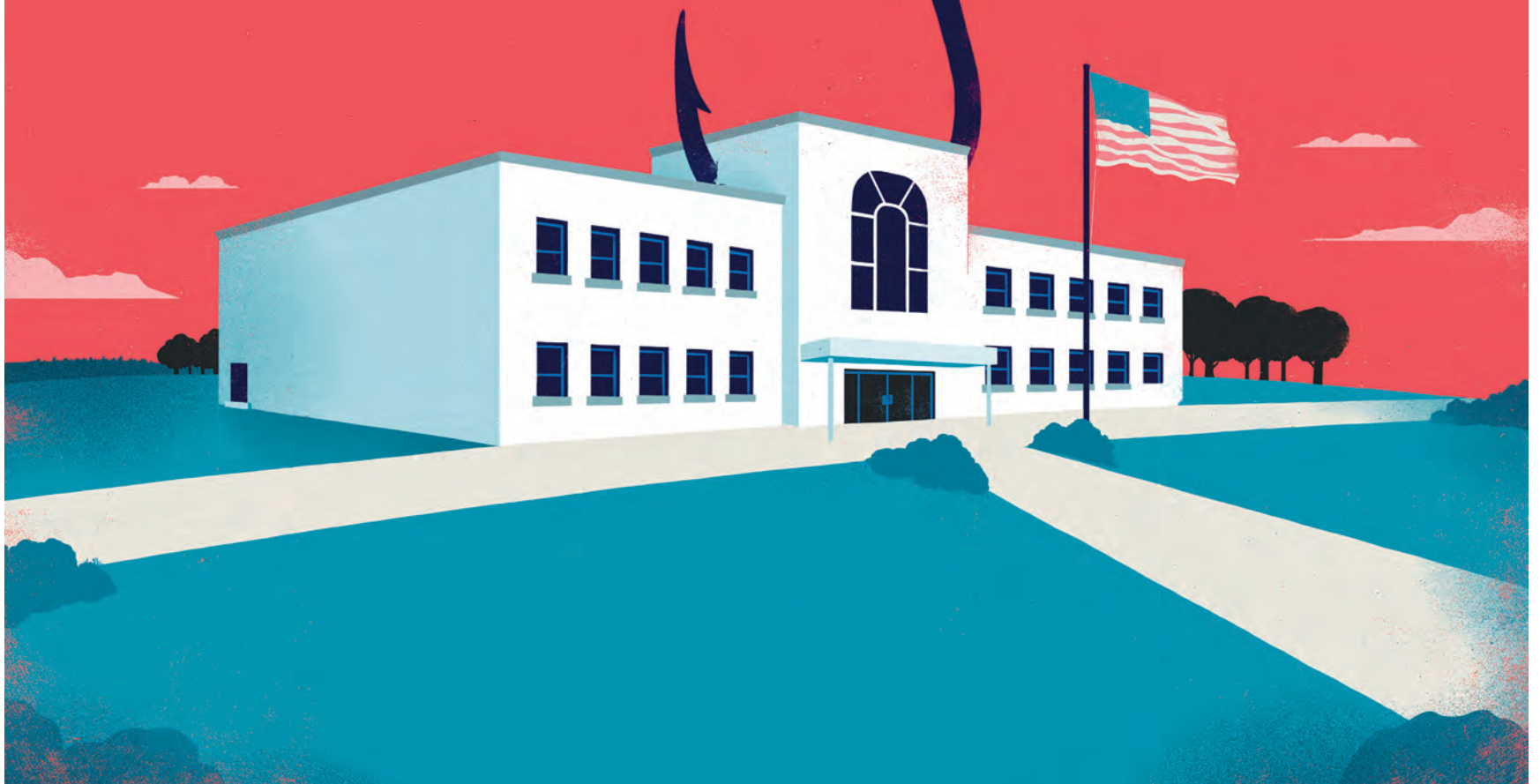


JANUARY 25-31, 2017 | CITYPAGES.COM | FREE

CITY PAGES

A consultant
sinks its
talons into
Prior Lake.
For very big
money.

Hook, Line, & *Suckered*



Hook, Line, & Suckered



SÉBASTIEN THIBAUT

A CONSULTANT SINKS ITS TALONS INTO PRIOR LAKE. FOR VERY BIG MONEY.

BY CORY ZUROWSKI

THE SOCCER MOM glared at the single mother, leaving nothing to interpretation. By day, Stacey Ruelle worked a desk job at the Prior Lake Soccer Club. By night, she chaired the Prior Lake-Savage school board.

Melissa Enger, the single mom of three and Ruelle's board colleague, sat four seats removed, yet the chairwoman's vexation could be felt a county away on this October night.

Enger was explaining her nagging unease with Nexus Solutions, a one-stop construction services shop specializing in consulting,

planning, and building.

Prior Lake schools had paid the company a king's ransom. While overseeing about \$35 million worth of various upgrades and renovations, Nexus had collected close to \$9 million in fees and bonuses.

Paying a middleman that much didn't make sense to Enger, the board's fiscal hawk. She wanted Nexus' contract re-evaluated by lawyers. In writing.

Her request seemed innocuous enough. Prior Lake had serious growing pains. To accommodate swelling enrollment, the district was asking residents for upward of \$150 million to build more classrooms, modernize technology, and upgrade athletic facilities.

According to Julie Cink, the schools' business director, that meant the district was on the hook to Nexus for in excess of \$10 million if voters finally approved the referendum. Enger wanted to make sure there weren't any surprises.

"I'm not an attorney, and none of us have

that background in construction," she said. "As a board, we have nothing to lose, but everything to gain from getting a legal opinion.... Let's do it right."

Ruelle looked up from behind her glasses, her chin still pointed south.

Not happening, she said. We've already gotten the verbal okay from lawyers.

"We're not changing the contract tonight," added vice chairman Todd Sorensen. "We're bound by the contract...."

Enger slumped. Some nerve she had publicly defying majority wisdom.

"At this point we need to move on," Ruelle chided. "...I don't understand why we're still discussing this."

Enger, she said, was merely working "a delay tactic."

Perhaps. But for good reason. Consummated without public explanation and defended with impunity, the Nexus deal is a case study of how consultants find gold in Minnesota's schools.



GALEN FLETCHER

Shake your moneymaker

Elinor Burkett's 2002 book, *Another Planet: A Year in the Life of a Suburban High School*, chronicled Prior Lake's pride and insecurities, depicting it as both beautiful and flawed. The book illuminated youth as king, providing an intimate portal into those charged with shaping young people for what comes after

Six new gyms at Prior Lake High School were among the district's 100-plus needs that voters shot down in last spring's funding referendum.

four years of pep rallies and lunchroom cliques.

What's irrefutably changed since that account is that Prior Lake has officially

arrived. Today, dreamers, breeders, and anglers coming in the southwestern suburb, its 30,000 residents triple the population of 1990.

About 7,800 kids attend Prior Lake-Savage Area Schools, 2,500 of whom make its high school one of Minnesota's largest and most crowded. The building, opened in 2003, was intended to accommodate 2,000.

The district has also become an open enrollment destination. At Glendale Elementary, one-third of the kids come from outside of Prior Lake and Savage.

At the same time the high school makes *Newsweek's* top schools list, Lakers' sports teams smell of victory. The girls volleyball team made the state tournament again after finishing runner-up in 2015. The case can be made that last year's boys hockey team, which lost in the section final, was the best high school team in Minnesota.

"Prior Lake very much sees itself as the next Eden Prairie," says longtime resident Joe Mannelly. "It wants to have this reputation of the best public schools as well as the athletic facilities that support the best sports programs."

To those aims, Prior Lake summoned outside help in 2012. The plan would involve three phases: evaluating its needs, modernizing existing buildings, and building new classrooms, athletic facilities, and

perhaps schools.

While it would require one of the largest school funding referendums in recent state history, its situation wasn't unique.

The business of public education has spawned a specialized kind of vendor. They're called construction services managers. They serve as consultants, assessing facilities operations and planning for future needs.

But these companies don't just consult. They parlay their expertise into managing the very work they say is needed, providing incentive for them to urge as much building as possible. They oversee refurbishments and new construction from planning to completion, collecting fees with each move.

Some districts separate consulting from construction management. In 2010, Wayzata summoned public bids to assess its facilities. Nine firms applied, with Wold Architects and Engineers securing the \$78,000 contract.

Wold would later earn Wayzata's architectural and engineering work, but the firm had to reapply for that job. Kraus-Anderson would score the construction manager contract.

By contrast, Prior Lake seemed to do as little as possible to protect its money.

Instead of putting out a public request for consulting proposals, the district used word-of-mouth, admits business director

Julie Cink.

ICS Consulting of Blaine had other public school clients, including Shakopee, Fairmont, and Pequot Lakes. It offered to evaluate Prior Lake for a lump sum not to exceed \$19,000.

The company also proposed to take on the role of “program manager,” overseeing everything from engineering to construction. It again pitched a lump fee based on the total budget, which would later be estimated to fall somewhere between \$3 and \$5 million.

There are advantages to having one firm handle both roles. The upside is cohesion from start to finish. But the risk is an incentive to increase costs.

Nexus wasn’t officially a company in the spring of 2012. It wouldn’t register with the Minnesota Secretary of State until June.

Its principals, Michael David and Brent Jones, had parted ways with their longtime employer, Johnson Controls, where they amassed decades of experience in energy use and facilities management. They’d been part of Johnson’s team overseeing Duluth’s ambitious school plan.

By all accounts, the \$315 million project on the North Shore was a show. Duluth needed to slim its existing buildings, renovate others, and build anew. The result, according to projections, would be stable financial footing by way of \$122 million

in savings over 18 years.

Johnson’s promises of savings fell woefully short. They were compounded by budget overruns, increased fees, and money for unbudgeted expenses like temporary heating and additional personnel.

What was originally a \$296 million plan ballooned by \$19 million.

But Duluth’s pain proved Johnson’s gain. According to the district’s director of business services, Johnson received almost \$57 million for its work — with nearly \$45 million coming in various fees.

“Our schools were supposed to be in good shape for decades, is how it was presented by Johnson Controls and the people supporting the plan,” says Sharla Gardner, a former Duluth city councilwoman.

“If it was possible to do again, I know there’s no way, no way at all, the community would choose the same. The new buildings are nice, I will say that. But at what cost? It hasn’t been worth the dollars or the harm it’s done.”

Duluth’s lessons would be lost 220 miles to the south.

No one seems willing to say how Nexus discovered Prior Lake, or vice versa. What is known is that Nexus pitched itself as the total package. For \$95,000, the company would assess Prior Lake’s needs.

The bid came in at \$76,000 more than ICS’. It also came with the “understand-

ing” that Nexus would also be contracted “for all professional services required to implement this work.”

In other words, ICS had offered a \$19,000 first date. Nexus was proposing a multimillion-dollar marriage, with a lot more strings attached.

Nexus also pitched fees seemingly well above what other districts were paying. Architectural services came in at almost 8 percent. Engineering, close to 9 percent. Construction management, nearly 6 percent.

Compare these with what Wayzata schools paid. In 2014, voters approved a \$109 million building and technology funding referendum. According to Finance Director Jim Westrum, Wold Architects and Engineers fixed fees averaged out to be about 6.5 percent. Kraus-Anderson, the construction services manager, earned slightly more than 2 percent. It also agreed to a cap “for site services and fees” that wouldn’t “exceed \$2,120,205.”

Edina found cheaper work as well. It paid Kraus-Anderson less than a 1.5 percent construction management fee for its recent referendum work, according to an email obtained by City Pages from Margo Bauck, director of business services.

But just weeks after signing up with the secretary of state, Nexus landed the Prior Lake job.

The middleman taketh

Then-Superintendent Sue Ann Gruver would explain the decision in an email that, according to business chief Cink, was sent to members of the school board.

Yes, Nexus was more expensive, admitted Gruver, but its plan took a “fresh, holistic look at our district.”

ICS wanted to partner with the district when picking designers and outsourcing contractors. On the other hand, Nexus’ “in-house engineering team has an excellent reputation,” she said, adding that “their approach provides us with sole source accountability.”

There was an added bonus, according to Gruver. From energy usage to copying costs, Nexus would conduct a comprehensive audit. This, she said, “would help us make better use of taxpayer dollars” by identifying waste.

(Messages left for Gruver were not returned. Neither David nor Jones responded to repeated interview requests.)

Ruelle was sold. Though Nexus was a new company, its leaders had decades of expertise doing this very work.

Yes, there were rumblings about Johnson’s work in Duluth. But Ruelle wasn’t particularly curious. “I didn’t go into the details or anything,” she says. She felt com-



CARLOS GONZALEZ/STAR TRIBUNE

fortable with the firm's pitch of one-stop accountability.

"The idea of having one company that's responsible for everything made good business sense." It would also prove expensive. Nexus was allowed to tack a 10 percent fee on top of its reimbursable expenses, be they for postage or office supplies.

Later that year, the parties entered another agreement that would also pay Nexus for various energy, operational, and maintenance savings it said the district would achieve.

Company projections said this would amount to \$3.8 million over 15 years. Yet most of those savings would be devoured by Nexus' performance bonuses. And the company would begin to collect these payouts before the savings even became reality. By last year, they had already amounted to \$3.2 million, according to Cink.

All told over the past three years, Nexus has administered about \$35 million in projects, while collecting \$8.7 million in fees and bonuses.

Business in a vacuum

The third and most lucrative leg of Prior Lake's plan was unveiled to the public a year ago. The district had tallied its list of needs — aided in no small way by Nexus' advice. The tab came to \$150 million.

The 100-plus item roster included 12 school additions, a second-to-none robotics lab, six new high school gyms, and a new elementary school.

Ruelle was a fan.

"It was based on where we were at and where we needed to be over the next 10 years," she says.

Ruelle's enthusiasm wasn't totally shared. Mannelly, who moved from Eden Prairie 16 years ago, got sticker shock from the price of the new elementary school.

School board member Melissa Enger has often stood alone in questioning the wisdom of the district's contract with Nexus Solutions.

He was among those soon pointing out that Redtail Ridge Elementary, built four years earlier, cost 30 percent less.

"I asked why it was going to be so much more expensive," says Mannelly. "I was told by Julie Cink construction costs were higher."

"She said she'd been told construction materials had gone up 15 percent every year."

But that figure seems inflated. According to a construction cost index compiled by Mortenson Construction, a Golden Valley contractor whose projects have included U.S. Bank Stadium and Target Field, materials prices rose just 18 percent over a five-year period from 2011 through mid-2016.

As Mannelly was scratching his head, a group calling itself Citizens for Accountable Government was combing through Nexus' fees.

Its members caught wind of what the company had been paid and started asking questions. The queries were met with vague assurances that often turned into defensiveness when pressed, according to Accountable Government member John Diers.

"I was appalled when I found out about the contract," he says. "Here we have all this public money and nowhere does it seem is there any accountability."

Unfortunately, Prior Lake's problems were baked in at infancy.

Without open public bidding for the original consultant and management contract, "it becomes that much harder to know what kind of deal you're getting in the real world," says professor David Larson of Mitchell Hamline School of Law.

"If you're going to profit from the work

that's going to be done, of course you have an incentive to provide the largest estimate possible."

Last spring some residents got out their

**"HERE WE HAVE
ALL THIS PUBLIC
MONEY AND
NOWHERE DOES IT
SEEM IS THERE ANY
ACCOUNTABILITY."**

calculators, trying to gauge what Nexus stood to collect. The contract's dizzying fee schedule and unbudgeted expenses only allowed for educated guesswork.

So they started with a number the school district provided: Nexus fees were estimated at 15 percent of the total budget. At \$150 million, that meant \$22.5 million.

"We found out what happened in Duluth and it didn't take us long to realize \$30 million, quite possibly more, was what Nexus might very well take in," says Diers. "When we asked for hard numbers, all we were told was Nexus fees were in line with industry standards."

School board vice-chair Sorensen was quick to dismiss their misgivings.

"If the referendum passes," he wrote in May 2016, "Nexus' professional fees would be significantly less than the \$30 million...."

In one correspondence, Sorensen also assured the group that "Nexus has a strong reputation... and their fees are in line with industry standards."

That doesn't jibe with Wayzata's experience. For the same kind of services, it added up to about 10.5 percent, according to business director Westrum.

And unlike in Prior Lake, Wayzata restricted payments for unbudgeted items to minor out-of-pocket expenses like printing and mileage — with no 10 percent tack-on for everything spent.

The gloves come off

In the weeks leading up to Prior Lake's \$150 million referendum last May, the district mailed literature asking, "What if the Referendum Does Not Pass?"

It warned of school boundary changes and raised the specter of safety because "we would not be able to improve security at all buildings."

At the high school, Superintendent Teri Staloch, who'd succeeded the retired Gruver, convened a seniors-only meeting. The group watched a district-produced video

emphasizing the referendum's import.

"This excellent and popular school district" needs more space for its students, technology for learning, and security for its buildings, the narrator says.

"When it's turned into an emotional argument, what gets neglected is the fiscal stewardship part," Diers says. "But that's what some people were wanting to turn it into. You were either for children or against."

The referendum failed by 457 votes.

"There was this myth that the people who don't have kids didn't want to support the referendum," says board member Enger. "That's an outright fallacy.... They knew we have to be smart and live within our means."

Enger had been the only member to vote against bringing the referendum to voters, saying she couldn't justify asking residents to pay for "125 different construction projects."

She would pay for her dissent.

Last summer, an accuser told district officials Enger had hosted a prom party where alcohol and marijuana were present.

The school board hired a law firm, which found the accusations baseless. It nonetheless cost taxpayers nearly \$8,000.

"I think anybody who has a party like that and something happens... would expect a full investigation," vice chairman Sorensen

told the Star Tribune.

Fellow board member Chad Rittenour, however, told the newspaper the matter reeked of "political shenanigans."

The episode left marks. Enger declined to discuss the investigation. She does say it was "easily one of the most awful things I've had to go through in my life."

"Over promise, under deliver"

As Prior Lake crafts plans for a second referendum, words of caution come from the northland.

Slipping enrollment and aging buildings moved St. Louis County schools to hire Johnson Controls in 2009. (The St. Louis school district is separate from Duluth's.) For \$300,000, the company would develop a game plan to keep the rural district solvent.

Covering 4,000 square miles, Minnesota's largest geographic district stretches from near Cloquet to the Canadian border, with 2,000 students.

"They didn't know exactly how Johnson Controls' strategic plan was going to come out, but I believe Johnson Controls certainly did," says Marshall Helmberger, publisher of the Timberjay, a weekly newspaper in Tower.

"Johnson Controls had incentive to lay

out a scenario in which the bigger the issues the district had, the more the referendum would be," he says. "Because the higher the budget, the more money the company would make."

Johnson urged the district to modernize buildings and close five schools, replacing them with two regional ones. Consolidating operations, energy efficiency, and staff restructuring would produce surplus budgets, according to Johnson. To do nothing meant a \$4 million deficit within three years — and the risk of being dissolved by the state.

(Johnson spokesperson Ryan Nolan declined comment for this story.)

"We had a business manager working with them closely and a couple of school board members who were tight with Johnson Controls," Helmberger says. "They all came up with this scare tactic and these financial projections that were frightening. They put this information out there and said we can't recover without doing what Johnson Controls is proposing."

Voters approved funding for the \$80 million plan in 2009. Johnson would manage the project, with fees amounting to \$12 million.

Johnson warned us "we were going into dissolution," school board member Troy Johnson told Minnesota Public Radio in 2012. "It was the perfect situation for [Johnson Controls] to come in and basically make it a crisis, and they were going to get paid by how large the bond referendum is."

But the district's struggles weren't about to go away.

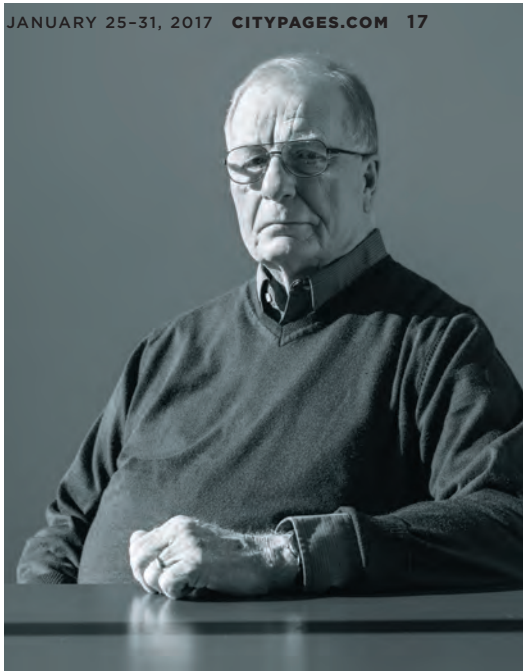
According to paperwork provided by Johnson, the district could expect more than \$5 million in savings. Three years later, officials were reporting a \$650,000 deficit in its \$21 million budget.

Two schools were closed, replaced by the new South Ridge School. Its energy bills came in at almost double those of the closed schools.

"Only later did we find out Johnson Controls' numbers, the numbers used to justify closing these schools, were bogus," says Helmberger. "It used, in some cases, information that was inaccurate. The projected savings were inflated and the new costs were understated. It was the classic case of over-promise, under-deliver."

His advice to Prior Lake: Tear up the contract and start over.

"They have to make sure they bring in a consultant to do strategic planning for your school district that can't have a vested interest in that planning effort," he says. "And whomever comes in to do that



GALEN FLETCHER

A persistent critic of the Prior Lake Schools/Nexus contract, John Diers of Citizens for Accountable Government wants to see the deal scrapped and the district start over.

work, they need to come into it knowing they're working for the school district and only for the school district, and not to pad their bottom line."

School of crock

Prior Lake business chief Julie Cink was recognized by the Association of Business Officials last year for "excellence, expertise, and transparency" in school finance and operations.

This may explain why she defends the district, saying, "Nothing illegal is going on.... I still don't know how we could have done this differently."

Meanwhile, the district's website featured a "Rumor Alert" page. The "Alert" page was recently replaced by an "FAQ" one, addressing "questions and rumors." Sorensen still doesn't understand what the fuss is about.

Nexus "has been a phenomenal company to work with [that's] actually saved the district money," he says.

Helmberger has heard all this before. Looking back at St. Louis County's experience, he fingers a confederacy of moneyed interests and individual egos that succeeded in deflecting questions and assuaging misgivings.

"When people questioned the school board and the business manager for what later turned out to be a really bad decision, they just dug in deeper," he says. "They weren't big enough people to admit they'd made a mistake." ☐