

## ICOC Review of MRR Plan

### INTRODUCTION

The ICOC has reviewed the "Major/Repair and Replacement 2009/2010 Implementation Plan" (MRR Plan) prepared by staff and is forwarding recommendations based on that review. The MRR Plan coordinates the Long Range Facility Master Plan and Short Range Facility plans with the continuing need for major repair and replacement of school facilities; per district policy, the ICOC is required to review the annual MRR Plan and provide recommendations to the Board. Proposition 39 bond accountability requirements provide for ICOC review of the district's Deferred Maintenance (DM) program; DM work may include MRR work and is directly linked to other district maintenance and repair programs required to preserve the district's capital assets in a safe and functional condition.

### ICOC RECOMMENDATIONS TO THE BOARD

- A continuing source of recurring funds sufficient to meet annually recurring MRR work must be identified in order to preserve existing district capital assets.
- Recurring funds available for MRR in the near future are projected to be inadequate to prevent a degradation of the condition of existing school facilities. The balance of grant funds in the State School Facilities account, which were generated by Prop MM funded projects, should be reserved to supplement recurring annual funds available for MRR.
- The state's failure to provide Deferred Maintenance (DM) matching funds this fiscal year will contribute to a projected degradation of the condition of district school facilities.
- The Facility Condition Index (FCI) is a meaningful measurement of school facility condition and a needed element for effective management of the district's capital assets. Resources should be dedicated to maintaining up to date FCI's on all school facilities.

### BACKGROUND SUMMARY

Staff made a presentation concerning the maintenance and repair of district capital assets to the ICOC FPC subcommittee at their June 2009 meeting. At the August 2009 meeting of the FPC subcommittee staff presented the Deferred Maintenance (DM) plan. During the months of October and November the ICOC Consultant worked with staff to revise the Deferred Maintenance Plan to incorporate the Major Repair and Replacement (MRR) Plan into the report. The resulting 2009/2010 MRR Implementation Plan was submitted to Deanna Spehn for review and to work with the ICOC Consultant to provide a report of such review to the ICOC prior to the ICOC's report to the Board of Education. The resulting report of the review of the "2009/2010 MRR Implementation Plan" was received by the ICOC at its January 2010 meeting.

### SUMMARY OF DETAILS

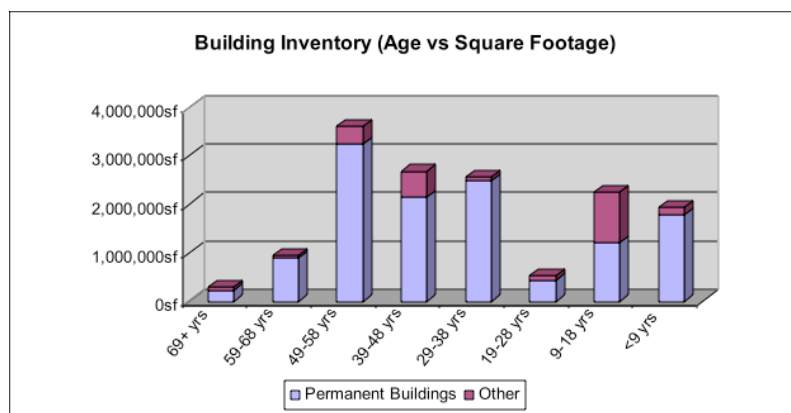
The June 2009 staff presentation to the FCP subcommittee included background information on various funding sources and programs that related to the maintenance and repair of school facilities. Key points & concepts were as follows:

- State Defined Funds Related to school maintenance, repair, & replacement of building systems

- Routine Restricted Maintenance Account (RRMA): restricted funds within the General Fund that are targeted for routine maintenance and repair needs. Set by the State as a minimum of 3% of the total General Fund budget amount, this minimum has temporarily been lowered to 1% because of the State's fiscal condition.
- Deferred Maintenance (DM): This state defined program targets larger recurring maintenance and repair projects. The State matches district funds used for this program up to at 1/2 of 1% provided that the State's fiscal condition allows for full funding of the State DM program. There is a 5-Year DM plan submission requirement and the DM funds must be used for projects listed on the 5-year DM plan.
- District Programs used to manage school maintenance, repair, & replacement of building systems are:
  - Major Repair/Replacement (MRR): Repair/Replace of building systems with life expectancy exceeding 20 years; a project in this category typically consists of replacing a whole building system that is beyond it's expected useful life.
  - Repair/Replacement (RR): Repair/Replace of building systems with life expectancy less than 20 years
  - Regular Maintenance (RM): Minor repairs to facilities that keep the facility in operational condition; includes unscheduled responses to breakdowns, normal wear and tear, and vandalism.
  - Preventive Maintenance (PM): Recurring maintenance for system upkeep; also optimizes system performance, ensures that the full expected useful life of a building system is achieved, and reduces unscheduled repair calls.
  - Tenant Improvements (TI): Reconfiguration of facility spaces to accommodate changes in use.
- New District policy (Apr-2008) defines MRR, and minimum requirements. Purpose of new policy is to ensure that 1) actual funding needs are effectively communicated to the community, and 2) budget decisions are informed decisions.
  - MRR Plan must be coordinated with Long Range Facility Master Plan
  - MRR Plan must be coordinated with Short Range Facility plans for providing appropriate facilities for changing student enrollment and educational programs.
  - MRR plan includes a reoccurring assessment of facility conditions
  - Annual report of MRR to the standing ICOC with recommendations to the Board of Education is required:
    - Current facility condition
    - MRR funding needs
    - Status and adequacy of annual recurring funding for maintenance, RR and MRR
    - Status of debt mechanisms for MRR financing
    - ICOC review of plan prior to submission to Board

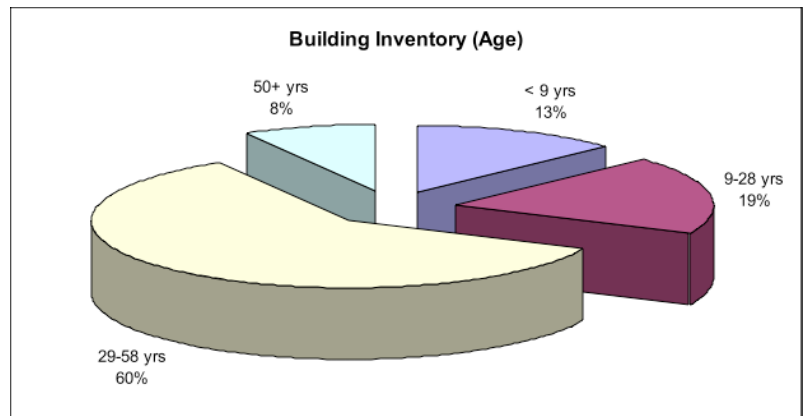
The August 2009 DM Plan presented to the FCP subcommittee included the following key elements:

- Facilities Overview: District has over 14 million square feet of buildings
  - 84% are permanent buildings, while 16% are a mixture of



portable buildings, relocatable modular buildings and trailers.

- About 60% of the district's buildings are between 29 and 58 years old; at this age a number of the building systems within these buildings are beyond their expected useful life and require major repair to extend their useful life or complete replacement with new systems.



- MRR/RR Overview: Different funding sources and multiple programs are used to maintain the condition of school facilities.
  - Programs include RM, PM, RR, and MRR, (per district policy these programs must be paid out of recurring annual funding. MRR work has an extended useful life and may use debt financing provided the useful life of completed work extends beyond the repayment of debt).
  - Prop S program planning coordinated the Long Range Facility Master Plan and the MRR plan resulting in \$501 million of the Prop S proceeds being ear marked for MRR.
    - The length of the Prop S program has been extended due to a drop in the assessed valuation of real property.
    - MRR system replacements included in the Prop S program will be delayed as result of the above.
- 2009/2010 MRR/RR Plan
  - RR program for 2009/2010 consists of \$11.1 million.
  - MRR program for 2009/2010 consists of \$10 million.
  - Work is reported in the following categories: electrical, grounds, plumbing, general, signal systems, and mechanical systems.
  - The 2009/2010 MRR/RR Plan will be funded from the State Schools Facilities fund, (this fund holds the balance of state grants generated by Prop MM projects).
    - \$4.4 million of the above is identified as DM projects
    - The state will not be funding their match for DM due to their current fiscal condition.

The 2009/2010 MRR Implementation Plan consisted of the above DM plan with the addition of the following key elements:

- Current Facility Condition: Attachment C consists of a graph that depicts the average Facility Condition Index (FCI) of all district facilities from 2008 through 2028. The current FCI is shown as about 15%, which is considered 'Poor' condition. In addition, the MRR Plan reports that the Williams/SARC survey of district facilities resulted in a "good" condition; this means that district facilities meet the minimum state standards for "safe and functional" school facilities.
  - FCI is a ratio of needed repairs/maintenance against the replacement value
  - Williams/SARC surveys form the basis for the definition of state standards; state law has always required "safe and functional" school facilities, these defined standards are the result of a class action lawsuit that alleged that the state was inadequately maintaining school facilities in disadvantaged areas of the state.

- NOTE: Supplemental information provided indicates that Prop MM funds of \$320 million used to complete backlogged MRR work, and \$57 million of used to supplement annual funding of recurring MRR work improved the FCI from 22% to 14.8% during the Prop MM program.
- Status and Adequacy of the Annual Recurring Funding for Maintenance: Attachment C shows the FCI over time based on a delay of Prop S funding earmarked for MRR. During the period where supplemental funding from Prop S is not available the FCI increases from 15% to about 17.5%; this is an indication that currently planned annual funding for maintenance will not be sufficient to avoid a temporary deterioration of the condition of school facilities.
- Status of debt mechanisms for MRR financing: \$370 million, or 23%, of Prop MM was expended on MRR related work to eliminate a backlog and to supplement annual recurring funding. Prop MM bonds will be paid off in 2029, this year's debt service for Prop MM attributable to MRR expenditures is \$24.3 million.

Supplemental information was provided in response to questions raised during review of the MRR 2009/2010 Implementation Plan:

- New District policy (Apr-2008) that defines MRR requires the development of written procedures for implementing the policy. Written procedures have not yet been developed. Development of written procedures has been overshadowed by a newly implemented Board Governance Policies process, current budget challenges, a newly replaced Computerized Maintenance Management System (CMMS), and resultant focus of resources on short term facility needs.
- New District policy for MRR that requires a continuing assessment of facility condition is being satisfied this year by the state required Williams and School Accountability Report Card (SARC) annual facility inspection.
  - The addition of the Facility Inspection Tool (FIT) to SARC is the result of the settlement of the Williams class action law suit in which the state was being sued for inadequately maintaining the condition of school facilities in disadvantaged communities. Prior to this settlement there was no formal state law/regulation defining "safe and function" despite long standing laws/regulations requiring the maintenance of school facilities in a "safe and function" condition. The FIT provides a pass/fail assessment based on newly defined standards (reference: <http://www.opsc.dgs.ca.gov/Programs/SABPrograms/GRS.htm>).
- In future the MRR annual plan should be submitted prior to the beginning of the fiscal year. Submission and review at this time will provide for informed decision making at the time when fiscal budgets are being established.
- MRR 2008/2009 work planned at \$25 million was under spent by \$1.3 million per direction for all departments to reduce expenditures to save money; unspent funds were returned to the School Facilities.
- New technologies that reduce energy and/or water consumption are continually evaluated and are incorporated into repair and replacement work where appropriate. The PPO Support service department has national recognition in sustainability work and meeting the requirements of the California High Performance Schools (CHPS).
- The District's 5-Year DM plan was submitted during the 2006/2007 fiscal year and is still valid thru fiscal year 2010/2011.
- Use of State Schools Facilities (balance of state grants generated by Prop MM projects) moneys to fund MRR, RR, and DM is under review by the Office of Public School Construction (OPSC). These are grants provided to complete specific projects and we

believe the district has demonstrated to the state that the projects for which the grants were provided have been completed; in most cases we believe the work was completed prior to receipt of the grants. The School Facility Program (SFP) Handbook dated July 2007 indicates that retained grant savings may be used for facility capital outlay purposes. While, the SFP Handbook is silent with regard to grants received after work is completed it is reasonable to assume that the same rules would apply.

- DISCUSSION: The definition of MRR as work with an expected useful life exceeding 20 years is targeted at insuring that MRR work satisfies tests for 'capital outlay'. However, RR and DM may, or may not, satisfy tests for 'capital outlay'

ICOC Receipt of Draft Report: The draft of this report was received by the ICOC at the January 21, 2010 meeting. Staff presented the MRR Plan, and the draft report of the review was presented. After discussion, the ICOC acted to receive the MRR Plan and the report, and to forward recommendations to the Board based on the conclusions of the report.

## CONCLUSIONS

- The submitted MRR 2009/2010 Implementation Plan satisfies the requirements of board policy in that it communicates actual funding needs for MRR, and demonstrates the impact of budget decisions on the condition of district capital assets.
  - Rescheduling of Prop S bond issues as result of decreased assessed property values within in the district is expected to result in a limited decline in the condition of district school facilities; this decline is limited by the delay in Prop S supplemental funding for needed MRR work.
  - The goal of raising the condition of district school facilities, currently rated at a FCI of 15% (Poor), to a FCI between 5% and 7% (Good) will be pushed back from 2018 to 2025.
- A continuing source of recurring funds sufficient to meet annually recurring MRR needs has not been identified
  - Between 2000 and 2007 recurring funds available for MRR were supplemented by Prop MM funds
  - Since 2007 recurring funds available for MRR have been supplemented by state grants received as a result of Prop MM funded projects and held in the State School Facilities Account.
- The balance of grant funds in the State School Facilities account that were generated by Prop MM funded projects should be reserved to supplement recurring annual funds available for MRR work to preserve district capital assets.
  - Grant funds in the State School Facilities account should not be used for RR or DM work.
- The state's failure to provide DM matching funds this fiscal year will contribute to a projected degradation of the condition of district school facilities.
- The FCI is a meaningful measurement of school condition and a needed element for effective management of the district's capital assets. Up to date FCI's should be maintained on all school facilities.