



**San Diego Unified School District**

**Proposition S Independent Citizens' Oversight Committee**

**Review of the**

**Fiscal Year 2010-2011**

**Major Repair and Replacement Plan**

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Major Repair and Replacement Plan**

## **Introduction**

Consistent with Board of Education policy, the ICOC reviewed the “Major Repair and Replacement/Repair and Replacement Fiscal Year 2011 Implementation Plan” (MRR Report) prepared by District staff and has adopted recommendations for the Board based on that review. The MRR Plan coordinates the Long Range Facility Master Plan and Short Range Facility Plan with the continuing need for major repair and replacement of school facilities. The bond accountability requirements in Proposition 39 require ICOC review of the Deferred Maintenance (DM) program. The state DM program provides annual funding for repair, replacement, and major maintenance projects.

## **ICOC Recommendations**

- Full funding of the 3% restricted maintenance account in the General Fund should be restored as soon as possible, but not later than fiscal year 2012/2013.  
*Achieving goals to improve the condition of District schools over the next 18 years requires full funding of the 3% restricted maintenance account in addition to the use of other available funding including programmed Prop. S funds.*
- The \$501 million of Prop. S funding programmed for MRR work should be used for that purpose.
- The balance of grant funds in the State School Facilities account, which were generated by Prop MM funded projects, should be used to supplement recurring annual funds available for MRR until exhausted in fiscal year 2012/2013.  
*Funds available for MRR through fiscal year 2012/13 are projected to be inadequate to prevent a degradation of the condition of existing school facilities.*
- Plans to accurately update Facility Condition Indexes (FCI's) for all school facilities by 2012 and to develop processes to maintain FCI's should be implemented.  
*The FCI is a meaningful measurement of school facility condition and a needed element for effective management of the District's capital assets. Accurate and up to date FCI's should be the measure that satisfies board policy for Facility Condition Assessments (FCA).*

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*NOTE: The impact of 40-year bonds has not been factored into the MRR Report and was not considered in this review.*

## Review Summary

The ICOC has reviewed the “Major Repair and Replacement/Repair and Replacement Fiscal Year 2011 Implementation Plan” (MRR Report) and has determined that it satisfies the requirements of board policy as follows:

- 1) Condition of schools – The aggregate average Facility Condition Index (FCI) is 17.9%, which is considered a poor to fair facility condition by industry standards; FCI is defined below, lower indexes reflect better condition. The 17.9% FCI reflects a decline in facility condition from the 15% FCI achieved at completion of Prop. MM supplemental funding of the MRR program.
- 2) Current and long term MRR funding needs – The fiscal year 2010/2011 (FY 2011) MRR budget of \$8.4 million will not be adequate to prevent a continued decline of facility conditions within the District. Significant supplemental funding is expected to be provided by Prop. S beginning FY 2014. Prop. S programmed \$501 million for MRR and is targeted at achieving a District wide FCI between 7% and 5% by 2028, which is a fair to good facility condition by industry standards.
- 3) Status and adequacy of annual recurring funding for maintenance, repair and replacement work, and MRR – Annually recurring funding available for maintenance and repair work is inadequate to meeting recurring needs. FY 2010 had a total budget of about \$37 million for maintenance and repair programs. This amount is not sufficient to maintain the condition of District facilities; facility conditions degraded during this period. Only \$15 million of that total was funded from annually recurring funding sources. The FY 2011 budget of \$46.1 million is receiving only \$11 million from annually recurring funding sources.

*Due to the current fiscal crisis, California has temporarily removed requirements for a 3% restricted maintenance and repair account funded by the General Fund. Due to budget cuts General Funds, which would otherwise be dedicated to funding the 3% restricted maintenance and repair account, have been diverted to fund other critical programs. Reductions in General Fund dedicated to maintenance and repair have, in part, been made up from various other funding sources. These funding sources are not recurring and will not be available in the future; example – the State Schools Facility Fund contains state grants that were a result of Prop. MM funded projects.*

*Even at fully funded levels, current recurring funding sources are inadequate to maintain the condition of facilities. During Prop. S, \$501 million in supplemental funding for MRR is projected to achieve needed improvement in the condition of facilities.*

- 4) Status of Debt Mechanisms Used to Finance MRR Work – Prop. MM general obligation bonds provided \$370 million in supplemental funding for MRR between 1998 and 2008. The debt service of those bonds is \$24.3 million annually and the bonds will be paid off by taxpayers in 2029.

*No significant MRR work has been completed to date using the first issue of Prop. S bonds, which were 25-year bonds. On July 13, 2010 the Board authorized development of financial plans based on the use of 40-year bonds for comparison with 25-year bonds and possible implementation. The impact of 40-year bonds was not factored into the MRR Report and was not considered during this ICOC review.*

## **Background Information**

ICOC Review of the MRR Plan – Section 15278 of the California Education Code (Ed Code 15278) establishes the requirement for a citizens' oversight committee for Proposition 39 bonds. This section requires the ICOC to actively review and report on the proper expenditure of taxpayers' money for school construction and provides that the ICOC may receive and review copies of any deferred maintenance proposals or plans. In addition, Board policy E-2570 requires ICOC review of the annual Major Repair and Replacement (MRR) plan.

Board Policies – Board Policy Changes for the Facilities Major Repair and Replacement Program (MRR) were passed at the April 8, 2008 meeting of the Board. These policy changes have not yet been incorporated in the SDUSD Policy Manual and Alphabetical Index available thru the sandi.net public website, but are documented in Board meeting minutes. The policy changes included new policies for MRR and Facility Condition Assessments (FCA), and modifications to incorporate MRR and FCA's into existing policies related to the maintenance and repair of school facilities.

### *New board policy statements under Facilities Policy Statements:*

#### **MRR Plan: E-2570**

*Procedures for a Major Repair and Replacement plan for school facilities shall be established. MRR refers to recurring repair or replacement of facilities and/or building systems where the completed repair or replacement work has an expected life exceeding 20 years. Annual updates to the MRR Plan shall consist of: 1) Reporting of the current assessment and rating of the condition of all District facilities and/building systems; 2) current and anticipated MRR long-term funding needs; 3) status and adequacy of annual recurring funding for maintenance, repair and replacement work and MRR; 4) status of debt mechanisms used to finance MRR work.*

*Prior to MRR Plan submission to the Board, the plan updates shall be reviewed by the standing oversight committee. Based on such review the oversight committee shall provide recommendations to the Board at a regular public meeting. Funding the costs of MRR work shall consist of two strategies: 1. Provision of annually recurring funds for MRR items whenever such funds are available; 2. Use of long term debt funds for MRR work only if the borrowed monies are repaid during the useful life of the completed MRR work.*

#### **Goals/Priorities: E-1500**

*San Diego Unified School District shall coordinate the Long-Range Facilities Master Plan, Annual Short-Range plan and Major Repair and Replacement (MRR) plan. This coordination extends the useful life of existing school facilities, enhances the physical environment of existing school facilities, and provides for efficient use of existing facilities, new facilities as needed to address enrollment changes, and maintenance of existing school facilities in a safe and functional condition.*

*New board policy statement under Support Services:*

**Facility Condition Assessment (FCA)-G- 3250**

*All District-owned property and equipment, consisting of buildings and building systems, grounds and site improvements shall be assessed on a recurring cycle not to exceed five years. At a minimum, the facility condition assessment (FCA) shall implement standards and a rating system that meets or exceeds the facility evaluation standards and ratings defined by the Office of Public School Construction (OPSC). FCA shall be utilized by District facilities staff in short- range and long-range facility planning.*

Prop. S Funding Programmed for MRR Work – Prop. S programmed \$501 million for MRR work. Rescheduling of Prop S bond issues as a result of decreased assessed property values within in the District is expected to delay Prop. S funded MRR work until 2014; refer to Attachment A of the MRR Report.

Williams/SARC Inspections – In California, it is mandated that school facilities be evaluated annually based on the Williams Act/SARC survey form. This requirement was the result of the settlement of a class action lawsuit in which the state of California was sued in part for inequitable access to school facilities that were maintained in a safe, clean and functional condition.

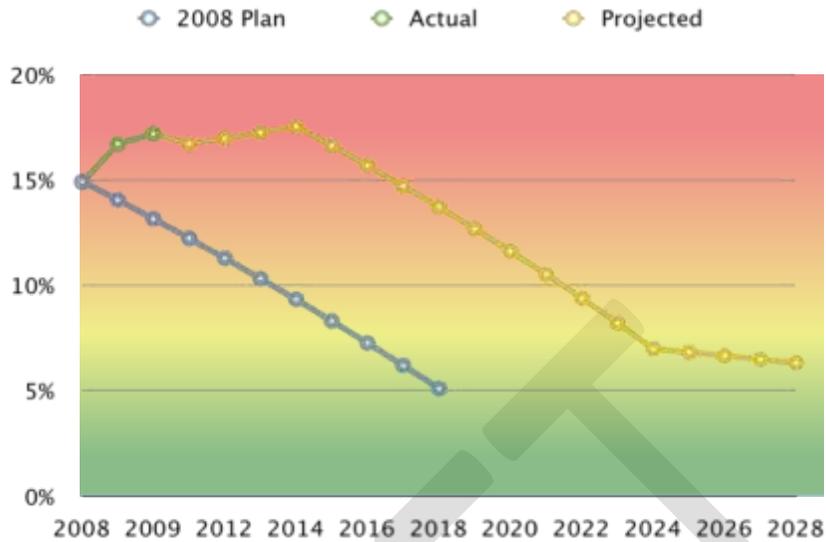
*An attachment to the MRR Plan provides a sample of the required form developed by the Office of Public School Construction (OPSC) and an in-house supplemental form that will be used collect additional data to be used in completing a more comprehensive FCA and calculating FCI's.*

Facility Condition Index (FCI) – The FCI is an industry standard measurement of the condition of a facility or capital asset. The FCI is calculated by dividing the total amount of maintenance and repair needs by the total current replacement value of the capital asset; this ratio is typically expressed as a percentage. ***The lower the FCI is, the better the condition of the capital asset.***

*The FCI value varies with time as maintenance and repair work becomes due, or is needed as result of normal use or age. Future FCI values of any particular facility may be predicted based on projections of when maintenance and repair work will be needed on the facility.*

Goals for Improvement of Facility Condition – As reported in the FY 2010 MRR Report, goals were established in 2008 to improve the condition of facilities as measured by the FCI to between 7% and 5% (a fair to good condition per industry standards) by 2018. However, Prop. S funds programmed for MRR work will not be available until 2014. The limited availability of funding for maintenance and repair work, including MRR, between 2009 and 2014 will result in a decline in the condition of District school facilities. The goal of improving the condition of District school facilities to a FCI between 5% and 7% (Fair to Good) will be pushed back to the end of the Prop. S program in 2026; refer to Attachment C of the MRR Report upon which the following display is based.

### Facility Condition Index (FCI) 20 Year Projection



Definition of Maintenance and Repair Programs & Work – Capital assets of the District include over 14.77 million square feet of buildings and 2,600 acres of developed property. There are a number of programs and different types of work that is required to maintain the District capital assets in a safe and functional condition.

Capital Improvements (CI):

*CI refers to tenant improvements and upgrades to meet District educational and curriculum needs, and to keep up with changes in technology.*

Major Repair & Replacement (MRR):

*MRR refers to the replacement and upgrade of building systems or site improvements where the completed work has a useful life expectancy of 20 years or more.*

Repair & Replacement (RR):

*RR refers to repair and replacement of building systems or site improvements where the completed work has a useful life expectancy that is less than 20 years.*

Regular Maintenance (RM):

*RM refers to minor repairs, resulting from normal wear and tear on buildings and site improvements.*

Preventive Maintenance (PM):

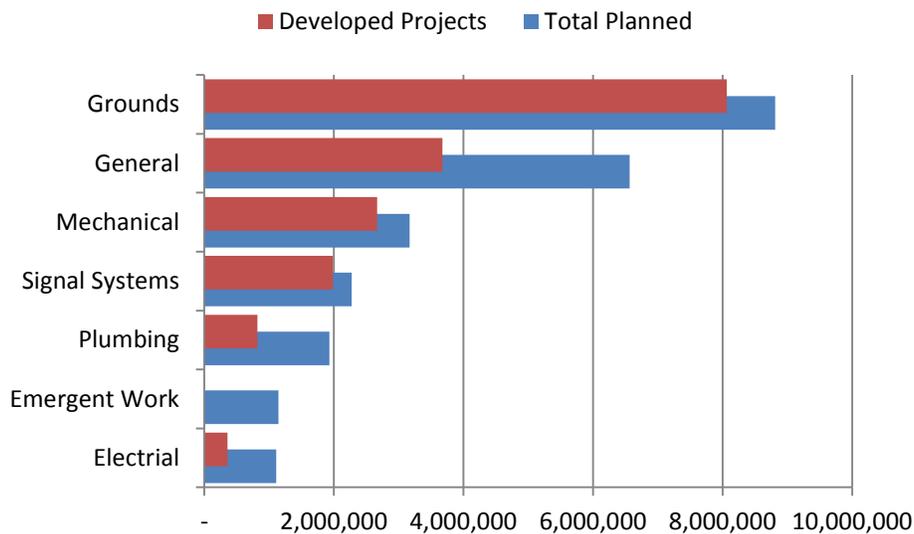
*PM refers to maintenance of building systems and site improvements designed to prevent deterioration and achieve the full useful life expectancy.*

Deferred Maintenance Program – As used in this report Deferred Maintenance (DM) refers to the state funding program for repair, replacement, and major maintenance projects including MRR work. The state provides DM based on the District providing matching funding. To qualify for this funding the District must file a Board approved Five Year Plan for DM qualified projects. In general terms, the DM funding match is equal to ½ of 1% of the District's annual unrestricted General Fund budget and is not based on an assessment of need. An attachment to the MRR

Report included a summary of 1,975 projects which qualify for DM funding over the next five years; the cost of listed projects exceeds the proposed DM funding by a factor of two.

The FY 2011 MRR/RR Work Plan – The FY 2011 plan calls for a total of \$25 million of MRR and RR work; \$8.4 million of MRR work, \$15.3 million of RR work, and \$1.1 million of uncommitted reserve for emergent and emergency work so PPO may respond to unforeseen conditions. Approximately 70% of this budgeted amount has been developed into specific projects, with the remaining MRR/RR projects to be developed during the FY. Attachment D of the MRR Report provides a display of the status of 198 MRR/RR projects scheduled for FY 2011.

### Development of FY 2011 MRR/RR Projects



## **Ad Hoc and ICOC Review Activities**

25-Mar-2010: An Ad Hoc subcommittee was created at the Finance, Planning & Controls (FPC) subcommittee to review the 2010/2011 MRR Plan. Deanna Spehn volunteered to represent the FPC, a second member would represent the Construction subcommittee.

6-May-2010: The Construction subcommittee added Glenn Hillegas as second member of the Ad Hoc subcommittee.

11-May-2010: The first draft of 2010/2011 MRR Report was forwarded for review by the Ad Hoc subcommittee.

25-May-2010: Glenn Hillegas and Larry Goshorn (ICOC Consultant) met with Physical Plant Operations (PPO) staff. They spent 2.5 hours going through the MRR draft plan in detail. The MRR document was still in rough form because there is a lot of information with different people providing input. Staff indicated that a revised MMR Plan would be submitted for publication.

MRR budget is \$25M for next fiscal year. This level of funding has been maintained since inception of Prop. MM; during Prop. MM it was subsidized by bond funds and is currently subsidized by State grants that resulted from Prop. MM projects. The ICOC has expressed concern that sustainable recurring funding sources are needed once the State grand funds are depleted. Recurring funding of \$25M per year subsidized by Prop. S MRR work is required to achieve the improvements in the condition of District schools promised to the voters.

27-May-2010: Ad Hoc subcommittee status report to FPC.

3-Jun-2010: Ad Hoc subcommittee status report to Construction Subcommittee. Chair Pinson requested that Tom Wright and Larry Goshorn bring forward Board Policies that were passed in the last 2 to 3 years concerning MRR to the next 7-1-10 Construction meeting.

During the meeting, Mr. Wright responded to several questions from subcommittee members. The \$25 million in funding for the MRR budget this fiscal year will be provided by \$20 million from the State Facilities Fund, and \$5 million from the sale of excess properties. Because of the current economic conditions, the State has temporarily relaxed rules on mandatory set asides for maintenance and deferred maintenance. State grant funds are expected to support the \$25 million annual funding for MRR thru 2013 when they will be exhausted, without any replacement identified. The state's temporary relaxation of mandated set asides are expected to expire in 2014. The District's current expectations for 2014 and beyond are to meet a 3% set aside for maintenance, which equates to about \$34 million annually. While approximately \$19 million of that will be available for MRR/RR work it is expected that most work supported by this recurring funding source will be repair and replacement (RR) work with Prop. S funding the MRR work. The annual \$34 million allocation is expected to fund only facility maintenance and repair and does not include any funds for custodial and landscaping services, bussing, other operational costs, or maintenance/repair/replacement of i21 equipment.

Mr. Pinson stated that \$34M annually was well below funding levels used in other industries and would be inadequate to maintain current facility conditions and/or replace facilities that were beyond their useful life. Mr. Watts indicated that, other than current Prop. S projects, there were no plans to replace the many District facilities that were over 50-years old, but that this would likely be a critical discussion topic for any future bond measures.

1-Jul-2010: PPO presentation of final MRR Report to Construction subcommittee.

29-Jul-2010: PPO presentation of MRR Report to Financial, Planning and Controls (FPC) subcommittee, and review/consideration of Ad Hoc subcommittee draft report.

Projected → 19-Aug-2010: ICOC review/consideration of Ad Hoc subcommittee report and FPS subcommittee recommendations.

Projected → Sep-2010: Presentation of ICOC Recommendations regarding the MRR Report to the Board.

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## Conclusions

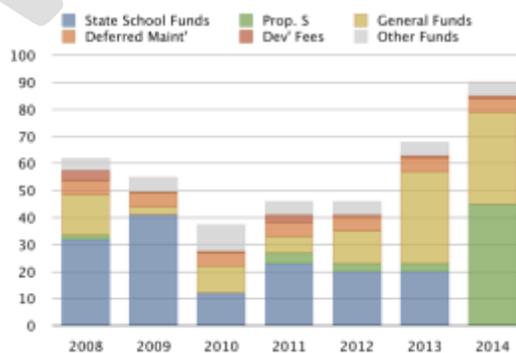
The MRR program was formally established by the Board in 2008 to provide a more integrated approach to managing the District's largest physical assets and to ensure that the Board is provided the requisite resource management information to make informed decisions concerning the maintenance and repair of school facilities. Planning for Prop. S coordinated MRR needs with the Master Plan and resulted in the programming of \$501 million for MRR work.

Some of the improved condition of facilities achieved by Prop. MM, as measured by a District wide calculation of the FCI, has been lost due to the current fiscal crisis and delay of the Prop. S funds programmed for MRR work.

PPO has made progress toward developing and maintaining an accurate and meaningful FCA of school facilities. The MRR Report provides an outline of how legally required annual assessments will be leveraged to collect data for use in maintaining accurate FCI's for all schools and has set a goal of completing a full FCA on 10 schools during FY 2011.

The most significant continuing challenge for the District maintenance and repair program is in securing adequate funding from annually recurring funding sources. Current expectations are that \$34 million in annual recurring funding will be available beginning in 2014 when minimum maintenance and repair program funding levels that have temporarily been lifted are reestablished.

- Between 1998 and 2008 annually recurring funding was augmented by Prop. MM funds for MRR. The total averaged about \$65 million annually for all maintenance and repair programs, and resulted in an improvement in facility conditions.
- Between 2008 and present capital funding sources that will not be replenished have been used to supplement recurring funding; this is expected to continue through 2013. The total ranged between \$62 million and \$37 million annually for all maintenance and repair programs; facility conditions declined slightly during this period.
- The proposed allocation of Prop. S funds, beginning in 2014 will provide about \$51 million annually for MRR work to supplement \$34 million in recurring funding sources. It's projected that this will result in an improvement to facility condition.
- Taxpayers will continue to pay about \$24 million annually through 2029 for MRR work completed prior to 2008 using Prop. MM bonds.



The MRR Report satisfies requirements to identify needs and efficiently plan the best use of available resources in the near term. While Prop. S will provide needed supplemental funding to be used for MRR work through the year 2026, the long term challenge of identifying adequate funding of maintenance and repair programs to preserve capital assets remains unresolved.