LEGISLATIVE REPORT

Subject:	Annual Report for Repair and Maintenance
Reference:	Section 36-35, Hawaii Revised Statutes; Section 36-36, Hawaii Revised Statutes; and Section 302A-1312, Hawaii Revised Statutes (Act 189, SLH 2005)
Action Requested:	Annual report of account finances and status of R&M projects undertaken and an annual report on six-year program and financial plan for school R&M including annual funding requirements.
DOE Report:	Attached is the annual report of the repair and maintenance accounts and review of the repair and maintenance program.

Annual Report for the Repair and Maintenance of Public School Facilities in the State of Hawaii

I. Introduction

A key component in improving public education in Hawaii is the provision of school facilities that support and enhance academic programs. Public education facilities include 262 school campuses statewide consisting of:

- 3,972 acres
- 19.17 million square feet of building space, and
- average building age of 59 years (ranging from 1 year to 165 years)

II. Past Legislation

In 2001, the State Legislature passed Act 316, Session Laws of Hawaii (SLH) 2001, to fund the then $600 million backlog of Repair and Maintenance (R&M) projects over a 10-year period through legislative appropriations, and to fund on-going R&M projects through general fund appropriations. Therefore, the Act established two funds:

- State Educational Facilities R&M (SEFR&M) account to eliminate the backlog of projects existing on June 30, 2000.
- School Physical Plant Operations and Maintenance (PPO&M) account to fund regular, on-going school R&M projects scheduled after June 30, 2001.

In 2003, the State Legislature passed Act 188, SLH 2003, which gave the Department of Education (DOE) the authority to set priorities for school R&M projects. This was the start of the movement to give DOE the authority to oversee its own funds and facilities.

In 2004, the State Legislature passed Act 51, SLH 2004, which "delinked" the DOE from the Department of Accounting and General Services (DAGS) on July 1, 2005, and enabled DOE to restructure itself to achieve the following major objectives:

- Establish that schools are the "Clients."
- Restructure within the current DOE Office of Business Services so that the Capital Improvements Program (CIP) and R&M processes are transparent to the schools and principals.
- Create "district support teams" to oversee and manage the CIP and R&M needs of each school.
- Create a 24 x 7 "call center" to support the day-to-day facilities needs of the schools.

III. Current Financial Assessment

A. R&M Backlog

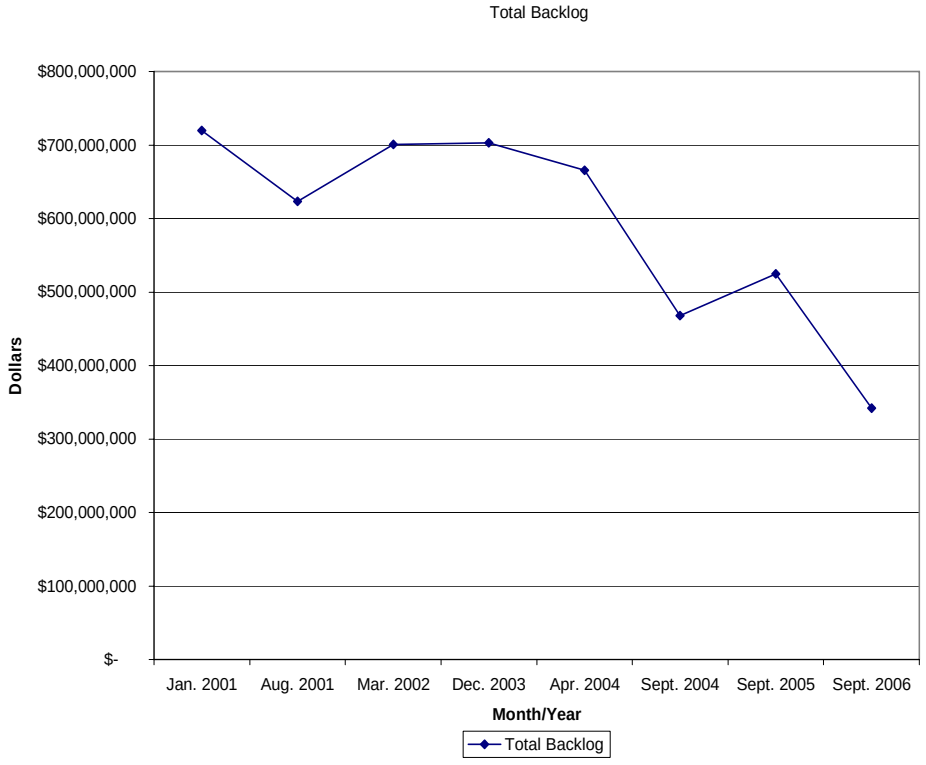
The list of unfunded major repair and maintenance projects for schools and other DOE facilities is commonly known as the R&M "backlog." This "backlog" is dynamic, growing through December as schools submit additional projects during the fall R&M prioritization period and shrinking in July and August, when the R&M projects funded by the "R&M lump sum" appropriation are taken off the "backlog" and moved to the "funded projects" list.

The figures used to prepare this report were taken from the "backlog" as of September 2006.

B. Status of R&M Backlog

R & M Backlog Totals - Five Year Trend

In 2006, the State Legislature appropriated $235 million to fund the repair and maintenance of the State's public schools. This has enabled the DOE to reduce the R&M backlog from $525 million in September 2005 to $341 million in September 2006.This is the lowest level in five years.

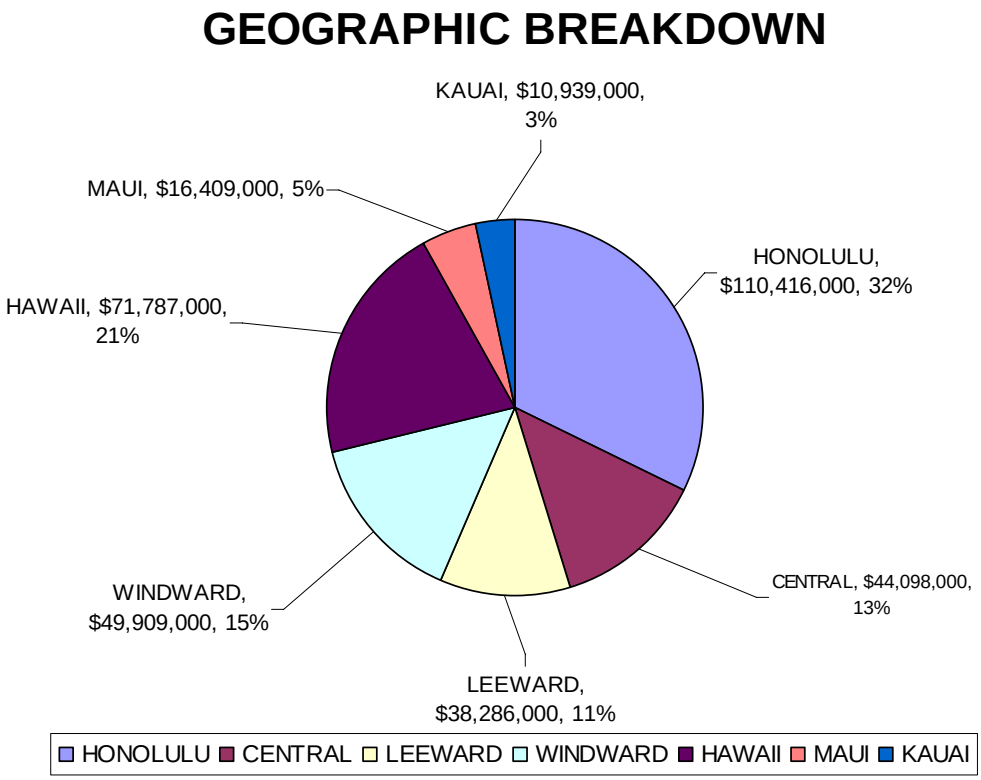


Geographic Breakdown

A breakdown of the projects by DOE districts indicates the following:

DISTRICT	NUMBER OF SCHOOLS	TOTAL BACKLOG	BACKLOG PER SCHOOL (Average)
HONOLULU	54 (incl 1 Charter)*	$110,416,000	$2,007,600
HAWAII	43 (incl 1 Charter)*	$71,787,000	$1,669,500
WINDWARD	31 (incl 1 Charter)*	$49,909,000	$1,663,600
LEEWARD	42	$38,286,000	$911,600
CENTRAL	42	$44,098,000	$1,049,900
MAUI	30 (incl 1 Charter)*	$16,409,000	$546,900
KAUAI	16	$10,939,000	$683,700

*Public Conversion Charter School



C. Financial Assessment – Bond Funds vs. General Funds

The overall purposes of Act 316, SLH 2001, were:

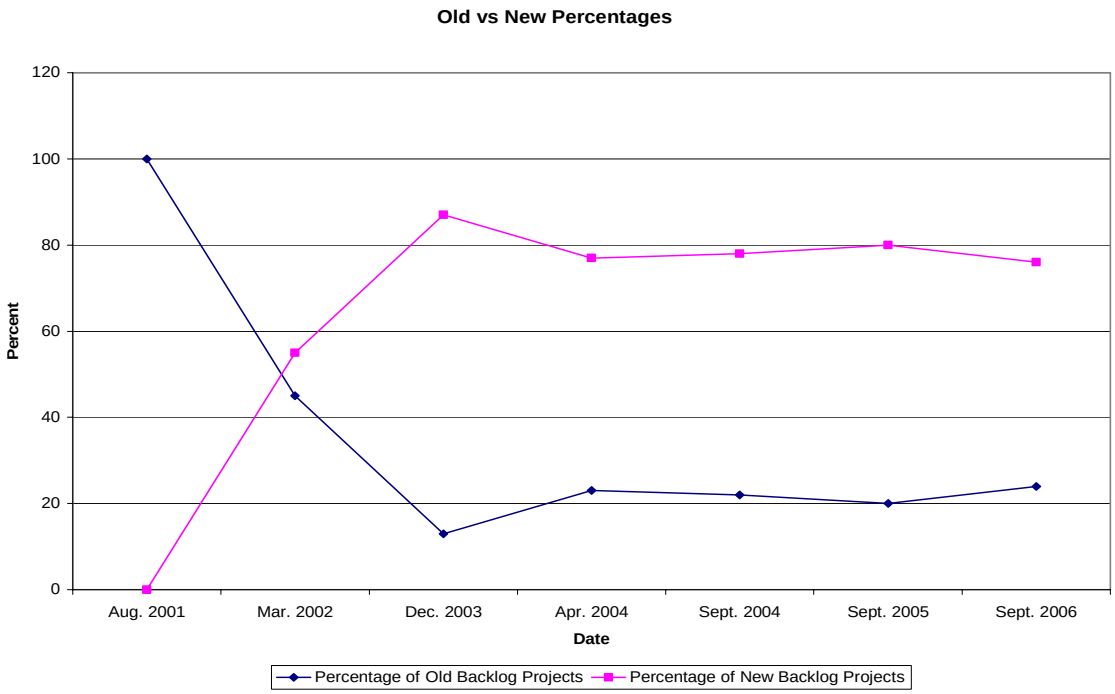
- To fund the $600 million R&M backlog over a ten-year period through legislative appropriations.

- To fund normal R&M through general fund appropriations.

  The PPO&M account was established for normal, on-going R&M scheduled after June 30, 2001, and the SEFR&M account to eliminate the backlog of projects existing on June 30, 2000. The balances as of September 2006 in each account are as follows:

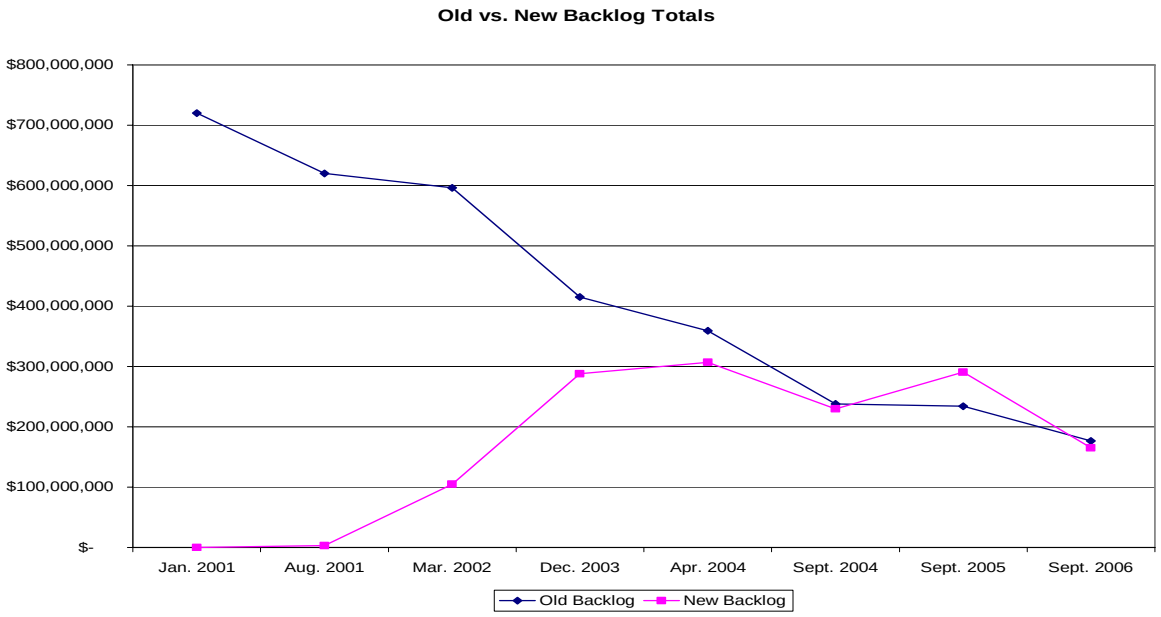
PPO&M	$165.3 million (new backlog)
SEFR&M	$176.5 million (old backlog)

  Since its inception, a tracking of all projects prioritized by the schools indicate that although the "old" backlog items have been waiting longer, 80 percent of the projects selected for funding by the schools are from the "new" backlog list, with only 20 percent from the "old" list.



Backlog Totals – Old vs. New

As a result, the totals for the "old" backlog, after a period when it declined, has begun to level off, and could actually increase again if the low level of selection continues, and the inflation levels remain high.



DOE will review the pre-2001 backlog and remove those items that no longer appear relevant during fiscal year 2006-07.

IV. Program Assessment

The facility repairs can be separated into two major categories:

- Major repairs – repairs, which, because of the scope or cost, cannot be performed by the DOE work crews under the "work order" program.
- Minor repairs – repairs which the DOE work crews can make via "work orders" or repairs which are emergency in nature requiring immediate action to abate either the loss of resources or to enable the school to open.

A. Major R&M Program

The DOE conducted a rough analysis of the existing projects on the backlog list. About 30 percent of the backlog consists of recurring projects and 70 percent are non-recurring projects.

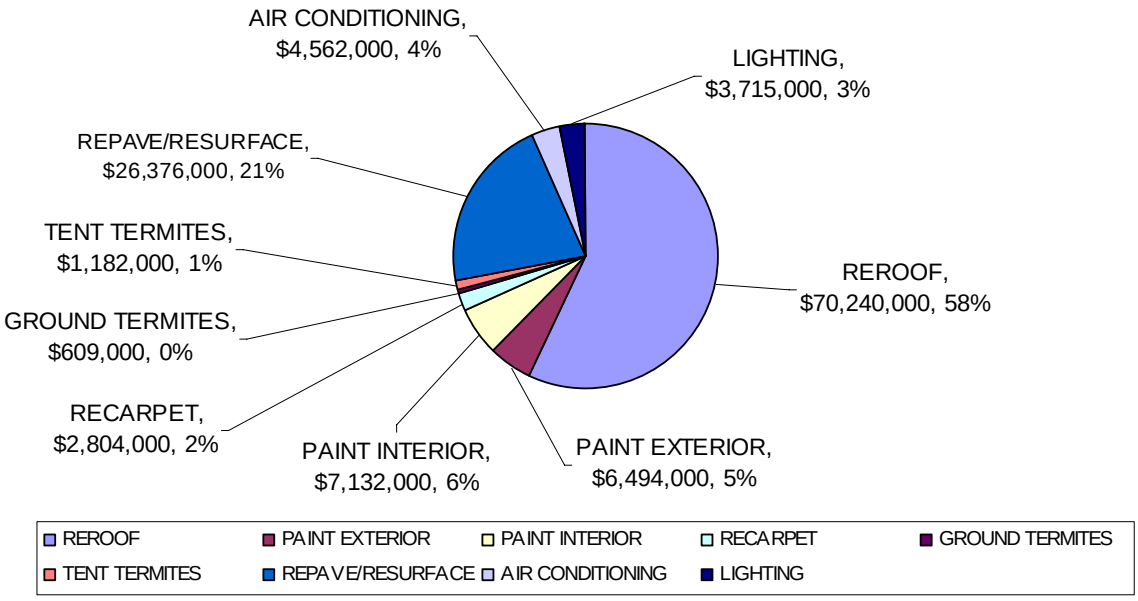
Recurring Projects

- Recurring projects are projects which must be repeated every so many years over the life of the facilities.

- **$123,114,000** of projects in the backlog or 36 percent of the total backlog is recurring. The categories of recurring projects are listed below:

RECURRING BACKLOG - 2006	
REROOF	$70,240,000
PAINT EXTERIOR	$6,494,000
PAINT INTERIOR	$7,132,000
RECARPET	$2,804,000
GROUND TERMITES	$609,000
TENT TERMITES	$1,182,000
REPAVE/RESURFACE	$26,376,000
AIR CONDITIONING	$4,562,000
LIGHTING	$3,715,000
	$123,114,000

RECURRING BACKLOG PROJECTS - 2006



ASSET MANAGEMENT AND LIFE CYCLE COSTS

Beginning last fiscal year, the DOE began segregating recurring projects for planning and budgeting purposes. Roofing was selected first because it is the largest category of non-recurring projects. This will enable the DOE to better predict future facility maintenance needs and, in turn, future funding needs.

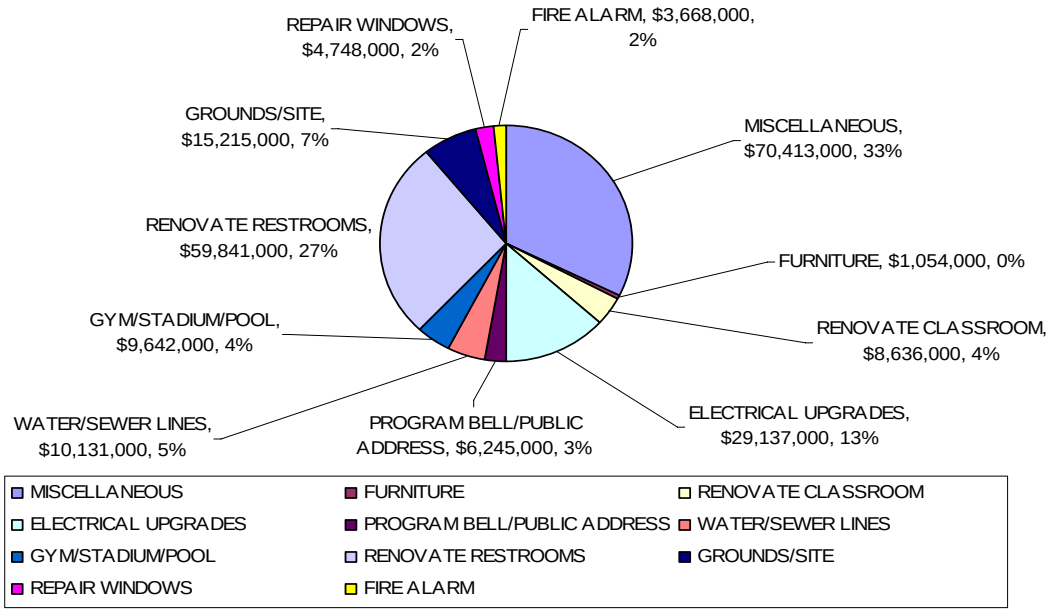
The DOE has begun to compile data necessary to further develop this system.

Non-recurring projects

- The remaining projects can be grouped as "non-recurring" projects or projects which are usually only needed once during the life of the facilities.
- 64 percent or $218,730,000 of the current backlog is non-recurring projects.
- Many of these projects are replacement of an existing facility or facility component, or rehabilitation of part of an existing facility due to deterioration, usage, or accident.
- The largest category of non-recurring projects is classroom renovation. Classroom renovation projects typically address a multitude of recurring work (i.e., repainting interior and exterior, lighting, re-carpeting) as well as many of the miscellaneous and work order projects on a school's backlog list.
- Since non-recurring projects typically occur only once or twice during the average life of a building facility, these can be considered one time projects and therefore, planning for future non-recurring R&M work will be scheduled differently from recurring projects.
- A further analysis of the non-recurring projects indicates that many of these projects can be bond funded.

NON-RECURRING BACKLOG - 2006	
MISCELLANEOUS	$70,413,000
FURNITURE	$1,054,000
RENOVATE CLASSROOM	$8,636,000
ELECTRICAL UPGRADES	$29,137,000
PROGRAM BELL/PUBLIC ADDRESS	$6,245,000
WATER/SEWER LINES	$10,131,000
GYM/STADIUM/POOL	$9,642,000
RENOVATE RESTROOMS	$59,841,000
GROUNDS/SITE	$15,215,000
REPAIR WINDOWS	$4,748,000
FIRE ALARM	$3,668,000
	$218,730,000

NON-RECURRING BACKLOG PROJECTS - 2006



Bond Funds vs. General Funds

The backlog can be further analyzed as to the amount of both the recurring and non-recurring projects that can be funded by either bond funds or general funds (cash).

- To fund an R&M project with bond funds, the project must meet certain guidelines issued by the Department of Budget and Finance. Typically bond funds can only be used on projects which will last the life of the bond.
- About 7 percent of the R&M backlog requires general funds, and 93 percent could be funded with bond funds.
- Of the recurring projects, 19 percent must be funded with general funds and the remaining 81 percent could be bond funds.
- Of the non-recurring projects, 5 percent must be funded with general funds and the remaining 95 percent could be bond funds.
- Projects which require general funds (i.e. repainting of the interior and exterior of classrooms) can be funded using bond funds if this work is included in the classroom renovation scope of work

B. Minor R&M Program

On July 1, 2005, Act 51, SLH 2004, transferred the R&M operating budget from DAGS to the DOE. In addition to the Central Services Division personnel and operating costs, the remaining AGS 807 budget funds for the following school R&M programs were transferred to DOE:

- Emergency repairs - by definition, emergency repairs are critical repairs which need immediate attention. Emergency work is performed by DOE work crews on Oahu and by DAGS on the neighbor islands. In some instances emergency repairs may also require emergency contracts. Within this category are two sub-categories,
  - Critical emergencies where the school cannot operate (i.e. loss of power to all school buildings) or resources are being wasted (i.e. underground waterline leak). Critical emergencies require a response within two hours or less.
  - Urgent emergencies, which require a 48-hour response. When addressing an emergency repair, permanent repairs may not be immediate but adequate steps are taken to assure health and safety or prevent the waste of resources.

- Work order repairs - generally speaking, work order repairs are minor repairs of problems which are considered irritant in nature. These repairs are needed, but can wait since health or operational issues are not involved. This work on Oahu is handled by DOE (former DAGS) district crews which respond to work orders submitted by schools. The crews include tradesmen (painting, carpentry, electrical, and plumbing) and support (masonry, welding). This work continues to be done by DAGS work crews on the neighbor islands pursuant to the Service Level Agreement between the departments.

- Service and maintenance contracts – DOE contracts with vendors are maintained on all islands. Currently, all DOE services and maintenance contracts for schools on Oahu are managed by the DOE and on the neighbor islands by DAGS. The list of service and maintenance contracts includes:
  - Fire extinguishers and related fire equipment (all islands - yearly inspection).
  - Air conditioning (all islands - monthly service).
  - Grease trap (Oahu only; Maui as needed - monthly service).
  - Fire protection devices (all islands - annual service).
  - Program bells (as needed).
  - Refuse (trash bin) pickup (all islands - 2-5 times a week, depending on school location).
  - Palm tree trimming (Oahu only 3 times a year).
  - Tree trimming (Oahu only - bi-annually).
  - Furniture repair program with Correctional Industries (Oahu only).

- Classroom replacement furniture - schools annually prioritize projects to replace student classroom furniture and position related furniture. In FY 2006, the Legislature appropriated $775,000 for replacement furniture.

C. Other Sources of School Level R&M Funds

There are other programs which address the repair and maintenance of school facilities.

- School Level R&M - Act 311, SLH 2001, allocated up to $25,000 directly to schools to use for minor R&M projects. In FY 2006, the DOE received $1,890,886 which was allocated to public schools based on a formula which incorporated the age of the school, number of facilities, and student enrollment. This fund was repealed by Act 245, SLH 2006. Beginning July 1, 2006, these funds are allocated to the schools through the weighted student formula.
- Hawaii 3R's Program – This program coordinates projects for schools where businesses/contractors contribute materials and/or professional labor and schools contribute sweat equity to do major R&M projects at a fraction of the cost. Hawaii 3R's received a $400,000 grant for FY 2006 for project activities.
- Tax Return Contributions - Act 311, SLH 2001, established a special fund for a $2 tax contribution from each taxpayer who so indicates the desire to donate to the DOE Repair and Maintenance program on his/her tax form. The DOE received $111,580 in FY 2006.

V. Future Outlook and Projected Plans

The DOE was appropriated $235,000,000 in fiscal year 2007 and has proposed an R&M budget of $75,000,000 per year for the next biennium (Fiscal Biennium 2007-2009)

A. Program and Funding Requirements

Forecast of Program Needs

Using the American Public Works Association (APWA) recommendation that annual R&M should be 2 to 4 percent of replacement value of invested assets, annual R&M should be between $100 million to $200 million per year. Further, additional amounts should be invested to remove the backlog of deferred maintenance that currently exists. Depending on the rate of reducing the backlog and further analysis of the "true" backlog, the estimate could be increased. Our proposed six-year plan will be based on further analysis of backlogged and future requirements for:

- Preventative and Scheduled Maintenance.
- Recurring Maintenance.
- Health and Safety Requirements.
- Legal Mandates.

Funding

About 7 percent of the total backlog will require general funds, and 93 percent can be funded with bond funds. Of the recurring projects in the backlog, 19 percent must be funded with general funds and the remaining 81 percent can use bond funds. Of the non-recurring projects in the backlog, 5 percent must be funded with general funds and the remaining 95 percent can use bond funds.

B. School Prioritization of Upgrades

The amount of funds appropriated by the Legislature cannot keep up with the major repair projects needed on school campuses. Therefore, the DOE has developed an annual process to work with schools to "prioritize" each school's list of backlog projects for funding consideration. Within the process, the DOE is committed to the principles of:

- Local control.
- Decentralized decision making.

The current method of project prioritization is done in the following manner. Projects which must be funded because of regulatory laws (i.e. grease trap projects, fire alarm projects), or statewide initiatives (i.e. classroom renovation program) are identified and funds "taken off the top" of the R&M appropriation for a portion of these backlog projects. In FY 2006, funding for classroom renovation projects, electrical upgrade projects, and air-conditioning replacement projects were taken off the top.

The rest of the appropriation is allocated by formula to the districts. The R&M appropriated funds are split among the seven districts based on a formula which takes into account variables of the age, square footage, and student enrollment count of each school. This formula was developed by KPMG in 1996 as a "fair" way to allocate the R&M funds, rather than just an equal share per school. The school R&M projects are then funded according to the individual school's priorities up to the budgeted amount of funds available to each district.

Minor CIP improvements should be coordinated with the R&M program requests, handled in a fashion similar to the school R&M program, and prioritized by the schools. Minor CIP improvements include additional electrical outlets, walls to divide "three on two" classrooms, additional security lights, sidewalk extensions, and conversion of existing general classrooms to special classrooms.

Currently, schools must include furniture replacement as a project to prioritize using R&M funds. The existing procedures will be revised to

improve internal control of the furniture replacement program. This process will facilitate the establishment of life cycles for specific school furniture, identify funding requirements to reflect "catch-up" needs, and establish a cyclical replacement program.

C. Classroom Renovations

A substantial increase in the funding available ($160 million approved by the 2006 Legislature) for the Classroom Renovation Program will allow the DOE to complete the remaining 96 schools in two phases. This program was developed as a six-year program beginning in 2002 to complete the renovation of 232 schools which were or would be at least 25 years old in 2007. The scope included:

- Exterior painting of all buildings and covered walkways.
- Interior renovation/refurbishment of classroom/portables (paint, whiteboards, tack-boards, window jalousies, floor tiles and carpet, light fixtures, doors/hardware, cabinets, sinks/faucets, outlets, etc.).
- Renovation of restrooms within classroom buildings.

The objectives of this program were to:

- Renovate entire schools to look new.
- Reduce the backlog.
- Decrease future work orders.

D. Facilities Assessments

To insure regular and systematic repairs to school facilities, Act 316, SLH 2001 Section 3, requires the DOE to develop and maintain a facilities physical analysis report and a facilities financial analysis report for each public school. These reports are to be posted on the web. Annual inspections are conducted by lay stakeholders at each school (DOE's School Inspection Program). However, a technical analysis and financial analysis is not currently done. The DOE has developed a metric (a standard of measurement) and pilot program to conduct these facilities and financial assessments. These assessments will be used as the basis for budgeting for future years. Further, in line with the DOE's intent to make information transparent to all school stakeholders, this information will be posted on the web through the DOE's FACTRAK tool. The data will include an inventory of existing school buildings, an assessment of their expected life, and an R&M plan to match or exceed the expected life of each building.