

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

BRIAN SCHWEITZER
GOVERNOR



PO Box 200802
HELENA, MONTANA 59620-0802

Date: September 1, 2005

To: Quality Education Interim Committee

From: Mike Burke, Budget Analyst

Subject: Final Report on School Facilities

Purpose

The purpose of this report is to provide an overview to the Quality Schools Interim Committee on school facilities with data and discussion on current expenditures then discussion of information relevant to facility issues. The report is broken into two sections. Section I has information on litigation, current expenditures for facilities and comparisons to other states. Section II presents data on square footage, facilities assessments, State facility programs and prototypes of different programs throughout the states. Concluding remarks briefly summarize both sections and provide points to consider going forward.

Specific information on building condition, square footage or utilization of facilities is currently not available. Data on school expenditures and enrollment are used to provide estimates of current O&M costs and square footage. A comprehensive facilities assessment could provide this data but it takes considerable time, a wide variety of experts and additional financial resources.

Background

The Joint Select Committee on Education Funding from the 59th legislature presented a report, which provides a framework of entitlements that could be built upon for further study and in the generation of a new funding formula. The goals for the entitlements are to simplify the funding process for schools, consider all related costs under a particular cost category and provide the greatest flexibility for schools. Below is a list of entitlements that involve facilities:

- 1) Building Operations and Maintenance includes personnel costs for custodians and maintenance, health insurance, retirement, other personnel benefits, utilities, telephone and Internet, sewer, road assessments, annual inspections, property and liability insurance, supplies.
- 2) Capital Projects includes construction and major capital outlay costs including buses. Combining the lease rental, bus depreciation, building reserve and building funds would make up the entitlement. Costs for this entitlement would cover long-term costs for schools.
- 3) Debt Service involves the current program called the School Facilities Reimbursement Program or Debt Service GTB. This is the State's share of principal and interest on general obligation bonds. To be eligible the district must have a taxable valuation per ANB that is less than the statewide guaranteed level.

Operations and Maintenance (O&M)

The expenditures for operations and maintenance are vital to the function of the school because this spending insures that the school's infrastructure is kept in good repair and provides a pleasant learning environment for students. As outlined in the Montana Accreditation Standards, operations and maintenance are those activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, building and equipment in effective working condition and state of repair. Funding comes from the general fund. It is used to finance "instructional, administrative, facility maintenance, and other operational costs of a district not financed by other funds established for special purposes." (MCA 20-9-307) Areas of O&M budget that typically receive the largest allocations are: Personal services, utilities and insurance. The Montana School Accounting Manual lists the following expenditures for O&M:

- Supervision of plant services
- Operations of buildings
- Care, upkeep of grounds
- Care, upkeep of equipment
- Vehicle operations & maintenance
- Security services

Capital Projects

Facilities acquisition and construction services are those activities concerned with the acquisition of land and buildings, construction of buildings, additions to buildings, remodeling and initial installation or extension of service systems and other built-in equipment and improvements to the site. Montana School Accounting Manual lists the following expenditures for facilities acquisition and construction:

- Land acquisition
- Land improvement
- Architecture and Engineering Services
- Education specification development
- Building acquisition and construction
- Building improvement
- Other facilities

Section I

Litigation

Judgments from the courts around the nation have resulted in enormous sums of state dollars being directed toward school facilities. For its 1.1 million students, New York State has been ordered to pay \$5.6 billion for operating expenses and \$9.2 billion for facilities. Colorado committed \$190 million over a ten-year period, California \$800 million over two years. Montana is in a unique position now with its ruling; there isn't a specific dollar amount above what is provided in State funding that must be committed to facilities to correct deficiencies and make them adequate. The court has given the State considerable latitude to devise a viable fix for facilities, which is subject to passing muster when the court reviews it. This is the opportunity for the Executive and Legislature to study and resolve these funding issues.

In the lawsuit the Montana Supreme Court did not affirm all findings from the District Court's opinion, therefore its unclear on what findings for facilities it did agree with. The District Court decision did list a number of findings, which can give guidance to the legislature where the problems lie and what has been ruled inadequate. The District Court's findings are listed below:

- Finding 132 points out that adequate and safe facilities are an essential component of a quality education system, which is addressed in the Montana Accreditation Standards.
- Finding 133-135 provided testimony by administrators and school district personnel on projects needed for building safety and increased classroom space.
- Finding 158 noted that the plaintiff's evidence in the A&M study didn't address building costs.
- Finding 159 found that capital outlay wasn't proportionately large. The evidence was the ratio of state revenue for debt service compared to total expenditures for debt service. The state share for total debt service for construction ranged from 6.7 percent to 9.8 percent in 2002.
- Finding 160 (E) pointed out that schools are having increased difficulty constructing safe, adequate buildings and maintaining code compliance.
- Finding 171 by the plaintiff showed that school construction is mainly a burden of the local community.
- Finding 172 the court categorizes construction as an inadequacy rather than inequity.
- Finding 192 outlines that the State's obligation isn't merely general fund budgets but also encompasses all costs of the basic system such as capital outlay and debt service.

Not presented during the District Court case were the state increases in entitlements to fund capital projects in the School Facilities Reimbursement Program. The 2003 legislature increased State funding in this program from \$8.5 to \$16.7 million nearly doubling the biennial appropriation.

Operations & Maintenance

Table 1 below shows district expenditures per average number belonging (ANB) for O&M statewide for ten years, 1994 to 2004. OPI expenditure data break schools into groups by Elementary, High School and K-12 then into size categories. The “Total Per ANB” row shows the steady increase in costs per ANB for all categories. Total O&M costs are also given with 2004 at \$116.8 million. In 2004 (blue column) as school size decreases in each of the categories expenditures steadily rise per ANB. This seems to prevail in all groups for elementary, high school and K-12 showing that smaller schools generally have higher costs per ANB for O&M. Factors that could impact O&M costs would be rising utility, personnel and supply costs. Less and less ANB bear more of the O&M costs.

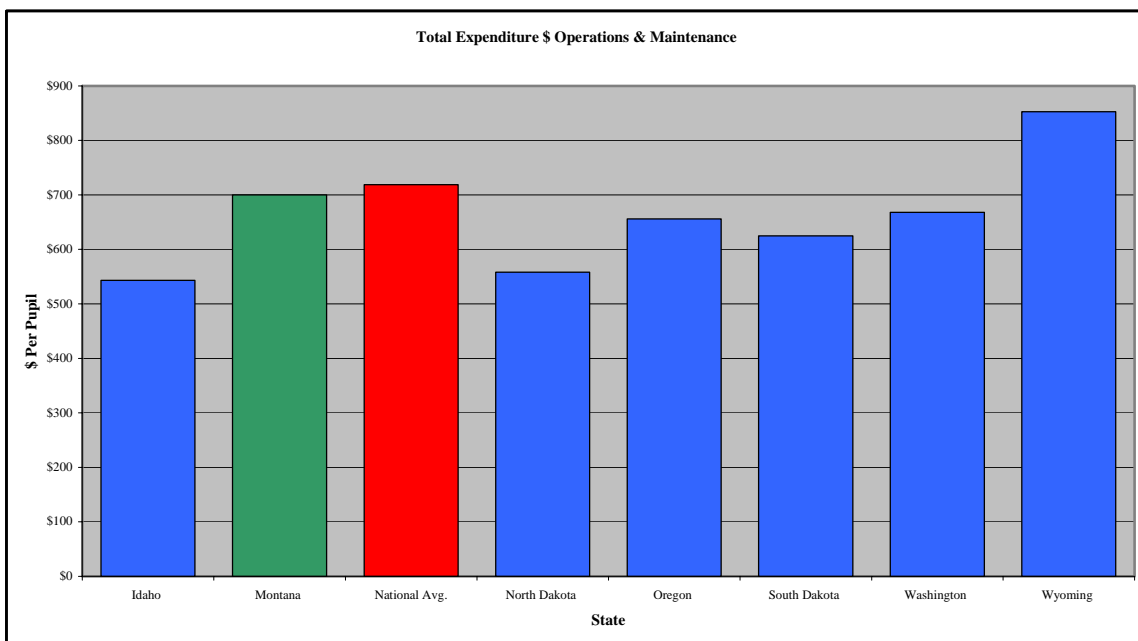
Table 1

		Average O&M Cost Per ANB										
Cost Per ANB		Year										
Type	Enrollment Description	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	Elementary > 2500	440	452	446	450	467	498	570	590	578	644	629
2	Elementary 851-2500	442	440	451	474	497	513	543	589	627	673	703
3	Elementary 401-850	489	478	489	484	492	513	554	639	668	730	751
4	Elementary 151-400	456	436	478	477	477	522	519	568	630	656	697
5	Elementary 41-150	590	567	581	595	571	662	658	760	862	850	894
6	Elementary < 40	622	590	571	654	666	647	752	800	891	1027	1022
7	High School > 1250	586	588	612	610	581	604	640	715	664	701	744
8	High School 401-1250	665	655	658	685	663	714	726	764	811	891	910
9	High School 201-400	721	717	736	756	823	804	826	920	959	1023	1075
10	High School 76-200	873	831	843	866	884	920	912	1087	1119	1237	1240
11	High School 75 or less	1499	1415	1457	1408	1392	1606	1572	1602	1748	1842	1861
12	K-12 > 399	468	488	502	527	538	548	554	654	625	633	696
13	K-12 < 400	923	800	800	834	836	865	886	997	1015	1163	1212
Total Per ANB		537	532	543	555	562	593	627	690	703	757	782
Total O & M costs \$ (millions)		84.2	86.5	88.9	91.5	92.1	95.9	100.2	108.6	108.6	114.7	116.8
Average annual increase		3.8%										

Enrollments have shown a steady decline from the peak in 'FY 1997 at 164,734 down to 149,463 in FY 2004 yet costs have continued to rise over the ten-year period. For instance heating, a small school with declining enrollment may still require the school to heat the same amount of space in a classroom. Unless the district can sell, rent out or shut down space, the costs per ANB will rise with declining enrollment.

For national and regional expenditures on O&M the latest Digest of Education Statistics for 2003 gathered by the National Center for Educational Statistics (NCES) shows 2001 data on the per student basis.¹ Table 2 below graphically illustrates spending by states for the region, Montana in (green) at \$700, compares with the national average in (red) at \$719 per pupil for all schools. This data is also useful when comparing states regionally. Neighboring states (blue) such as Idaho, N. Dakota and Wyoming expended \$543, \$558 and \$853 respectively. Spending for other states in the region was, Washington \$668, Utah \$446 and Oregon \$656. All states in the region under-spent Montana with the exception of Wyoming \$829. NCES enrollment data show that most states surrounding Montana that are rural in nature are also experiencing declining enrollments.

Table 2



According to the Education State Rankings 2003-2004, Montana O&M expenditures for 2001 as a percentage of current expenditures was 10.3 percent, the national average was 9.7 percent. Montana and West Virginia were ranked 12th for all states. Expenditures include building services, grounds maintenance, salaries, benefits, services and supplies.²

Another comparison for O&M expenditures comes from the American University 34th Annual Cost Study report for 2004-2005 school year, which shows the national median for O&M costs per student were \$723. The survey for the report takes responses from school business officials that document O&M costs for their districts, which were grouped by payroll, utilities and equipment & supplies.

For comparison OPI data from Table 1 above for the 2004-05 school year show average costs

¹ NCES, Available: <http://nces.ed.gov/programs/digest/d03/tables/pdf/table168.pdf>

² Education State Rankings, 2003-2004, Pre K-12 Education in the 50 United States, K. Morgan, S. Morgan, Morgan Quitno Press 2003.

per ANB of \$782.

One option from the Joint Select Committee discussed was to base an O&M entitlement on a national average for square footage. The American University’s report also contains a breakout of O&M out on a per square foot basis for a school district with the national median at \$3.84 in 2004. This rate is useful but it should be noted the size categories do not necessarily address the rural nature of Montana; the smallest category was for 1,000 students or less. A per square foot cost of \$3.84 then might be conservative if applied to schools in Montana since a portion of districts are smaller and would probably have higher per square foot costs than larger schools. It is assumed that this cost only reflects general O&M costs that maintain the facility not necessarily major maintenance costs.

Another approach is a method used by the American Physical Plant Administrators to determine maintenance needs is based on a percent of Current Replacement Value (CRV). Typically these percentages run between 1.25 percent to 3 percent. For example a 50,000 square foot building with a replacement value at \$110 per square foot would have an estimated low-end O&M cost of \$82,500 or \$1.65 per square foot (1.5%) and a high-end of \$165,000 or \$3.30 per square foot (3 %).

The Architecture & Engineering Division manages the State’s Long Range Building Program and is considered a useful source for building cost data for state-owned buildings, which can provide for reasonable comparisons. In conjunction with a 2005 analysis of the O&M budget of the Montana School for the Deaf and Blind, the Architecture & Engineering Division (A&E), in consultation with the Montana University System, assessed that a reasonable range of O&M for that facility would be in the range of \$4.50-\$5.00 per gross square foot. While this range was developed for a specific facility, the functions and operation of this facility are somewhat similar to what would be expected at many of the medium to small K-12 school campuses in the state. Projecting this O&M range to the estimated 22.1 million square feet of K-12 space provides an estimated range in O&M cost of between \$671 and \$745 per student, as shown in the following table. As noted in the preceding paragraph, the A&E analysis presumes that the school will perform all general and preventative maintenance from the O&M amounts, but that major maintenance and major repair projects will occur outside of this funding.

<u>A & E Estimate for Cost per Square Foot to Maintain</u>					
Low	\$4.50	(per sq ft)			
High	\$5.00	(per sq ft)			
		Total Square Ft			
		<u>Elem.</u>	<u>Middle</u>	<u>HS</u>	<u>Total</u>
		9,665,945	4,094,022	8,349,735	22,109,702
Low	\$4.50	43,496,753	18,423,099	37,573,808	\$99,493,659
High	\$5.00	48,329,725	20,470,110	41,748,675	\$110,548,510
Cost Per Student using 22 million gsf					
		<u>Elem.</u>	<u>Middle</u>	<u>HS</u>	<u>Total</u>
Low	\$4.50	608	632	788	\$671
High	\$5.00	675	703	876	\$745

Given that the current O&M expenditures from Table 1 on page 4 generally appear to be in excess of the estimated amounts immediately above determined by national averages and as experienced at similar facilities by State professional staff, the current funding levels for O&M in the general operating budgets appear to be adequate.

Capital Projects

The fund structure proposal includes an entitlement for capital projects including buildings, technology, major maintenance and school buses. Schools typically fund major maintenance in the building reserve fund or bus depreciation fund. As discussed in Appendix A “Capital Construction Program” capital/major maintenance projects are distinguished from preventative maintenance. Capital projects are addressed outside the regular operating budget while preventative maintenance is addressed as part of the regular operating budget. The State A&E Division has estimated that between 1.0 to 1.25% of building replacement value should be re-invested in a typical State building annually, in the form of major repairs and maintenance, in order to avoid adding to the State backlog of major repair and replacement needs. As described above, this percentage is to address capital/major maintenance projects that are beyond what would be considered included in the typical O&M budgets of State agencies. Determining how this entitlement is funded needs to be coordinated with the overall data determined by the consultants.

Debit Service

The School Facilities Bond Payment Reimbursement Program could be a form of debit service entitlement suggested by the Joint Committee. The program subsidizes school construction projects through the repayment of general obligation bonds the district has issued. The district must meet certain eligibility criteria to receive assistance with bond principle and interest payments. The two primary criteria are: 1) the district total taxable value per ANB must be less than 140 percent of the State level 2) the State sets the maximum entitlements in state law (MCA 20-9-366)

During each legislative session an appropriation is establish with OPI for distribution to eligible school districts that have outstanding general obligation bonds funded with debt service. If the appropriated amount is smaller than the estimated entitlements due then the reimbursed amounts are prorated. For the 2007 biennium the amount was \$16.8 million and the 2007 legislature appropriated an additional \$4 million above this amount to reduce or eliminate the pro-ration needed. OPI data in the table below shows the 2007 biennium adjustments.

Facilities Reimbursement & Debt Service									
<u>Yr</u>	<u># Districts</u>	<u>% of Districts</u>	<u>ANB</u>	<u>Appropriation</u>	<u>Reimbursement Prorate</u>	<u>Total Outstanding Bonds</u>	<u>Total Debt Service Obligation</u>	<u>% of Debt Subsidized</u>	
1995	19	4	24,734	\$ 1,000,000	72.4%	182,470,239	26,608,214	3.8%	
1996	26	6	26,499	\$ 1,500,000	93.7%	176,142,645	26,329,137	5.7%	
1997	35	8	31,540	\$ 2,000,000	75.6%	208,236,394	27,743,312	7.2%	
1998	44	10	40,229	\$ 2,500,000	78.6%	219,247,733	28,991,775	8.6%	
1999	51	11	43,113	\$ 3,000,000	86.6%	211,694,185	30,282,552	9.9%	
2000	53	12	44,231	\$ 3,359,559	100.0%	212,788,217	27,293,329	12.3%	
2001	60	13	51,524	\$ 4,140,441	97.7%	244,887,321	28,735,944	14.4%	
2002	70	16	51,680	\$ 4,350,000	100.0%	247,765,586	31,096,453	14.0%	
2003	73	17	52,052	\$ 4,450,000	100.0%	246,707,573	30,539,332	14.6%	
**2004	114	26	75,878	\$ 8,270,735	95.0%	248,575,695	32,247,316	25.6%	
2005	100	23	77,752	\$ 8,411,293	81.6%	226,495,154	33,962,627	24.8%	

**Rise in State payments from 14.6 percent in FY 2003 to 25.6 percent in 2004 due to legislation increasing State entitlement levels by 11 percent.

Summary of Section I

The District Court case points out areas that schools may need assistance on for facilities. Building projects need to address safety and classroom space. The majority of school construction and funding decisions remain in the hands of the local community and an appropriate amount of state share must be included in a new funding formula. Expenditure data for O&M shows that Montana compares closely or above what schools spend nationally and regionally. A national per square foot cost of \$3.84 to A&E's estimate of \$4.50 to \$5.00 help us to focus the issues on ranges of spending that are reasonable. As stated before, current O&M expenditures appear to be adequate. The School Facilities Reimbursement Program has been successful in allowing districts with low taxable value to improve facilities however; there are no checks and balances to determine if major maintenance needs are not being met. It could be model for a similar program that assesses school projects, prioritizes need and disperses State funding based on policy guidelines.

Section II

Montana Square Footage

States with established facilities programs continuously plan for space needs by surveying districts for changes in square footage to understand how space is impacted from different factors such as enrollment, program needs and building capacities. School utilization rates based on density factor calculations are useful in determining if a school is overcrowded or underutilized causing the need to expand or consolidate its facilities. From these calculations some states have adopted gross square footage (gsf) guidelines for each student, which provide an allotment of space necessary for the student to learn in a school. For instance Washington uses 80 square feet elementary, 110 square feet middle and 120 square feet for high school.

Idaho is 150 square feet elementary and 200 square feet for high school.

Since statewide data regarding school district square footage is not available, an estimate from A&E Division is provided to get an idea of the total square footage of K-12 buildings, the estimate was based on an average gsf per student averages compiled by the American School & University Magazine. Using the enrollment in 2004 of 148,356, the table below shows an estimated 22,109,702 gross square feet for all schools. This estimate was also used above in the discussion on O&M costs per square foot.

<u>A & E Estimated Total Gross Square Footage K-12 Buildings</u>			
	<u># Students</u>	<u>gsf/student</u>	<u>Total gsf</u>
Elementary	71,554	133	9,516,682
Middle	29,128	141	4,107,048
H.S.	47,674	178	8,485,972
Total K-12 gross square footage	148,356		22,109,702

For comparison purposes data obtained from Western States Insurance, a carrier for 85 % of property and casualty insurance for school buildings in the state, shows a close comparison to the A&E estimate for square footage. Western States data showed there was approximately 21,100,000 gsf for buildings, which range from athletic storage buildings to classrooms. The data was broken into 5 categories based on the usage of the space. The table below lists the type of space and gross square footage. It should be noted in the data that the category “Athletic other” is the square footage of athletic fields and athletic storage areas. This could be problematic since a portion of this square footage may not be considered instructional space and the actual costs associated for maintenance may be considerably less than other instructional spaces.

<u>Western States Ins. Gross Sq Footage by Category</u>		
<u>Space</u>	<u>GSF</u>	<u>% of total</u>
Instructional Space	12,216,847	58%
Storage, Garage, Maintenance	4,144,480	20%
Athletic, Other	3,265,876	15%
Housing	770,355	4%
Admin, Other	746,513	4%
Total	21,144,071	100%

Facilities Assessments

Most states that have faced facilities lawsuits have completed an assessment of all school facilities to get a “state of condition.” This provides a starting point when there isn’t data

available showing what the current physical condition of schools is. Usually after the completion of the assessment an ongoing facilities program is established. A Facility Condition Inventory (FCI) is a consistent and unbiased assessment of building conditions, which give technical information necessary for school/state administration to make capital improvement decisions. A FCI program will produce information and reports on all the building components- providing current condition, identify deficiencies and estimate building component lifespan.

What an FCI does not provide is administrative staffing and support for an ongoing capital improvement program such as the Long Range Building Program, which is administered by the A&E Division for 19,800,000 gross square feet of State-owned buildings. As the estimated quantity of square footage to be administered within the K-12 system would roughly equal the total amount of State buildings currently being administered by the A&E Division it would be reasonable to assume a similar administrative framework would be needed, the cost of which would be in the range of \$2.5 million per biennium.

Two ways to conduct an FCI that can be considered:

1. State FCI. Cost: \$1.0 to \$1.9 million. The per square foot range would be from \$0.095 to \$0.099 dollars per square foot, depending upon the frequency with which a building is evaluated. Evaluating buildings on a shorter interval, such as every two years will result in a lower unit cost, however this alternative will result in a greater biennial cost. The table below gives the costs of the FCI depending on the interval time. (See Appendix B for a breakout of personal services, operating, startup costs)

<u>Interval</u>	<u>\$ Per sq Ft</u>	<u>\$ Biennium</u>
2-yr	0.095	1,957,000
3-yr	0.096	1,479,000
4-yr	0.098	1,000,000
5-yr	0.099	1,000,000

2. Private Consultant FCI. Cost: \$2.3 million. The estimated cost to outsource an FCI by the DLR Group in Portland is \$0.103 dollars per square foot. Private consultants typically charge a lump-sum fee statewide based on a dollar rate per square foot. The market currently has a fee range from \$0.10-0.12 dollars per square foot. For example Arkansas just completed an assessment in 2004 using a consulting firm with a budget of \$10 million based on approximately 80 million gross square feet, which works out to \$0.125 dollars per square foot.

A statewide FCI might be necessary if a State administered facilities program is developed. Positive aspects of a statewide FCI are that all buildings would be reviewed and a district's needs for safe, adequate buildings would be addressed through ongoing assessments and state of condition reports in the program. Negative aspects are that while there may be a large amount of school buildings in need of upgrade, major repairs or reconstruction; not all buildings necessarily need work and less critical repairs may be delayed drawing out planning and completion timeframes that would be unacceptable at the local level. Life, safety and ADA concerns would have higher priority during a review and ranking process while less critical

needs might get lower rankings such as upgrades for classrooms, requests for new or additional facilities and others. Some local communities may view their school buildings adequate and in good repair other communities might want to upgrade but have buildings with low need in good repair.

Facilities Programs

State programs like Long Range Building Program (LRBP) and Treasure State Endowment Program (TSEP) could be used as models for the development of a school facilities program. The LRBP and TSEP programs have a variety of funding methods but have basic similarities that could be utilized in a facilities program such as planning, prioritizing and administering maintenance and construction projects. Below are brief outlines of the two state programs.

- 1) Long Range Building: This program is administered by the A&E Division on approximately 19,800,000 square feet of buildings. Building assessments are done at regular intervals to determine needed repairs or upgrades. In the 2007 biennium, 95 projects were authorized for a total of \$275.7 million. Projects are reviewed and ranked by A&E each biennium and listed for approval by the legislature. The program is meant to present a single, comprehensive and prioritized plan to allocate resources for construction and renovation. Administration for the program is \$1.9 million in personal services and \$650,000 in operating for approximately \$2.5 million for the 2007 biennium. Funding is provided from LRBP fund, state special revenue, federal and other funds for construction, alteration, repair and maintenance of State owned buildings.
- 2) Treasure State Endowment Program: The program provides grants up to \$500,000 with a local match for cities, town, counties and governments to replace and repair infrastructure for drinking water, wastewater treatment and bridges. Approximately 40 projects are approved for the 2007 biennium. Administration of the program is \$1.7 million. Eligible participants submit proposals then TSEP provides a review and ranking of projects with recommendations based on seven statutory priorities. State share for the program will be \$17 million; Local share will be approximately \$19 million. Funding for TSEP grants is derived from investment earnings on the treasure state endowment trust.

Programs like LRBP and TSEP are essential in constructing and maintaining buildings and infrastructure at both the state and local level. Both also show either a high level of state involvement such as the LRBP or a lower, mixed level of state and local involvement like TSEP. Determining an appropriate level the state is involved is an important consideration for any proposed program brought forth for consideration on school facilities.

Prototypes

There are a variety of facility programs throughout all states with various levels of state control and funding. On one end of the scale, states such as Wyoming or Arizona have programs that are well structured, comprehensive and generally have a high degree of state control and input.

On the other end of the scale it could be said that Montana that doesn't have a highly structured or comprehensive school facilities program.

The idea in presenting these prototypes is to provide the reader with the general level of state involvement in the program, show general differences between each then provide a ranking of the prototype on a simple scale of low, medium and high. Low representing Montana's current facilities funding system and high representing facilities programs such as Wyoming and Arizona. Each of the four prototypes has characteristics that distinguish it from the others and affect the way it's administered, funded and carry out its mission. The table below first explains each prototype by category in the following areas: State Control, Percent of State Share, Implementation Time, Program Cost and, Administration Cost. Then the graphic shows a simple range of low, medium and high levels of state involvement. Following the table are narratives of each prototype, which outline the process and general information.

Prototypes					
Type	State Control	Percent State Share	Implementation Time	Program Cost	Administration Cost
Wyoming/Arizona	High- state controlled thru established school facilities boards, guidelines tied to state standards	High- WY- 100% AZ- 100%	High- completion of FCI, program standards, establish program, Est. 2-4 years	High- FY2004 WY- \$156 m per student \$1,880 AZ- \$489 million, per student \$493.00	High- 10-20 FTE, FY2004 WY- \$ 1 million AZ- \$1.7 million
Washington State	Medium- state controlled, based on standards, high input from locals	Medium- State 50% of project cost, locals must provide bonding for balance, local funds used first	High- completion of FCI, program standards, establish program, Est. 2-4 years	High- FY 2004, \$170 million, per student \$171.00	High- 11 FTE FY2004, \$1.1 million
Treasure State Endowment Program added to current Montana system	Medium- state administered but locals submit projects, must meet criteria	Medium- grant process, state max per project is \$500,000	Medium- 6 months to 1year, utilize current TSEP as a model	Medium - FY06-07, \$16 million, maximum of \$500,000 per project	Medium- 5- 7 FTE, FY2006 \$850,000
Montana current system	Low- state administered based on local decisions	Low- FY2004 approximately 25% of bond payments	Low- currently in place	Low, minimal	N/A

1. Arizona/Wyoming models: This prototype would be considered a full program, similar to the bonding program of A&E. The state programs generally have high state control with established facilities boards or commissions. Decisions on construction and renovation follow guidelines established in the programs, which are based on accreditation standards for adequacy. Both programs use square footage calculations to determine utilization and classroom capacities. State share for both states is 100 percent for school construction. Time to implement this type of program is long with estimates ranging from 2 to 4 years since a facilities inventory is needed and basic

program established. Program costs can be very high initial because the state may be require to correct deficiencies bringing schools up to minimum adequacy standards. Operating costs for the program tend to run between \$1 and \$2 million. Staff for the programs fall between 10-20 FTE depending on the amount of projects or deficiencies found. Specifics for Arizona and Wyoming are broken out below:

Arizona- the legislature established the Arizona School Facilities Board (ASFB) as a result of litigation over school facilities. The board creates standards, manages projects and administers appropriations for school construction and renovation. Appropriations flow through three separate funds: New School Facilities, Building Renewal, and Deficiencies Correction. The program institutes school building adequacy requirements, a mechanism for curing existing deficiencies in school buildings, constructing new schools and funding renovation projects on existing buildings.

- Funding- Bonds offered by ASFB provide funding, bonds paid for by dedicated revenue from sales tax.
- Assessments- schools must submit annual updates of facilities condition for database. ASFB randomly inspects approximately 30 buildings on annual basis.
- Administration- establishes rules and guidelines. Adequacy guidelines are minimum standards new and existing schools must meet. ASFB bids and manages all projects to obtain best price, ensures project is completed on time and budget.
- Expenditures- FY2004 approximately \$489 million, \$493.00 per student, operations \$1.6 million.

Wyoming- the School Facilities Commission provides technical assistance and interpretation of state and federal laws, rules and regulation concerning school buildings. The State Supreme court has mandated a school construction program placing the burden of school construction on the state, instead of local districts.

- Funding- designated revenue from coal tax proceeds
- Assessment- schools must annually submit and state of condition report to the facilities board to update the database.
- Administration- establishes rules and guidelines. 11 FTE, operations \$1 million
- Expenditures- FY2004 approximately \$156 million, \$1,880 per student

2. Washington State model: This prototype has a mix of state and local control. Projects are reviewed and appropriation made to the legislature, similar to the Long Range Building Program of A&E. The state control is at a medium level. The program has a facilities board. State share is based on equalized funding. The percentage of cost of a facilities program the state pays is in direct relation to the district's wealth. Time to implement this type of program is long with estimates ranging from 2 to 4 years since a facilities inventory is needed and basic program established. Program costs can be very high initial because the state may be require to correct deficiencies bringing schools up to minimum adequacy standards. Operating costs for the program tend to run between \$1 and \$2 million.

- Process- the state legislature appropriates funds for the program each biennium based on district-requested and state-approved projects using the eligible square footage for the coming two years. State law requires local districts to pass a bond issue to pay for construction costs to receive any state funds. To remodel or build a school, a district first determines the cost and the state contribution. The

difference between the two becomes the local responsibility. The district then must pass a bond issue to cover the local share. Once voters have approved the bond, the state reviews the information in a grant process using the results of survey. The funds are provided to the district through a grant, not through the basic education program. On average, the state funds half of the allowable costs. However, the state does not pay out any money until all local dollars are spent.

- Funding- resource revenues, general fund, local funds.
- Assessment- schools must submit annually a update of facilities condition. Every 6 to 10 years schools must request assessment, \$15,000 per school.
- Administration- FY 2004 \$1.1 million.
- Expenditures- FY2004 \$170 million, \$171.00 per student.

3. Treasure State Endowment Program model: This prototype is a mix of state and local control. Projects are reviewed and appropriations made based on recommendations by Executive and the legislature. The program is a grant program with a local match. The program could be quickly implemented following the TSEP program guidelines and would allow local communities access to funding that might otherwise be difficult to secure.

- Process- eligible applicants include cities, towns, counties and tribal governments, or county or multi-county water, sewer, or solid waste districts. TSEP applications are submitted to the Department of Commerce on a biennial basis where they are evaluated according to a two-step process and are ranked according to seven statutory priorities and relative financial need. The Department of Commerce then makes recommendations to the Governor for grant awards. The Governor then makes funding recommendations to the legislature based on revenue projections. Provide funding assistance through matching grants for local government infrastructure projects
- Funding- investment earnings on coal severance tax funds plus local match.
- Assessment- participants submit project applications, project is reviewed by TSEP
- Administration- estimated at \$1.8 million for 2007 biennium.
- Expenditures- FY2006-2007 \$17 million.

4. Montana's Current System- Low state control, high local control. No implementation time. If eligible, capital projects can be subsidized by facilities GTB program, state share cost is based on outstanding bonds in the program.

- Funding- general fund appropriation.
- Administration- Debit Service GTB, OPI administers.
- Expenditures- FY2004 approximately \$8.3 million, \$109 per student (this is based on districts in program, approximately 76,000 ANB)

Conclusion

Available evidence indicates that Montana does reasonably well for O&M funding on a national and regional level. The current expenditures levels appear reasonable and adequate for schools.

The GTB program for facilities is beneficial for eligible schools but does not assure all building needs are addressed. Other funding methods might be necessary for districts that are unable to pass bond issues. There are a variety of options the state could pursue for funding and administration to address the findings from court.

The one option is that the current system remains in place letting the state continue to study the issue and resolve it in next regular legislative session. Second, the current system remains but the state utilizes expert opinion to determine what rates should be applied on O&M and capital project expenditures. Third, the state could implement a program similar to the TSEP model, which could be based on grants for school construction projects. This program could have a component that also helps determine O&M costs. The State could also continue to study and begin assessing facilities with a FCI by either the state or a private consultant. This option would take a longer time with an estimated minimum of approximately \$2 million to assess all school facilities in the state.

Apendix A

STATE OF MONTANA CAPITAL CONSTRUCTION PROGRAM 2006-2007 BIENNIUM AND LONG RANGE BUILDING PROGRAM INSTRUCTIONS AND PROCEDURES JANUARY 2004 DEPARTMENT OF ADMINISTRATION ARCHITECTURE AND ENGINEERING DIVISION

INTRODUCTION

The Long Range Building Program is primarily concerned with those aspects of agency programs that require facility improvements. The Montana Code Annotated (MCA) Section 17-7-201 through 17-7-212 requires a format for the building program that clearly indicates the relationship between facilities utilization and operational program objectives. In other words, an agency's facility needs should be closely related to long-range operating program needs.

The responsibility to complete a Long Range Building Program request rests with each agency. The biennial requirement for submission of this plan should be only part of a continuing program of agency planning. The Architecture and Engineering Division will provide consultation and assistance in developing and completing the plans. While these instructions constitute a general framework for presenting information in a standardized format, agencies should go beyond the instructions in developing techniques of planning programming. For example: relationships between the proposed project and surrounding facilities should be shown and any future planning impacted by the project should also be delineated.

Upon submittal, the Architecture and Engineering Division will review each proposed project for justification, program impact, costs, relationship to any overall long-range strategic and site plans, and other pertinent factors. Due to the fact there is a fixed amount of money available we focus on two goals during the review process. The first is to make sure the requests are presented in their best light to give them the best chance of success in the legislative review process. The second is to balance the Agency's needs and requests with the statewide requests of all other Agencies. Projects requesting authorization in the coming biennium will receive the most attention in this review and evaluation process. Finally, in conjunction with the Governor's Office, recommendations for a Capital Construction Program will be made and included as an integral part of the budget documents for presentation to the legislature.

**LONG-RANGE BUILDING PROGRAM AND BUDGET
MONTANA CODES ANNOTATED**

The Long-Range Building Program is defined in MCA 17-7-201 through 17-7-212, as follows:

17-7-201. DEFINITIONS OF BUILDING AND CONSTRUCTION.

In this part the following definitions apply:

- (1) "Building" includes:
 - (a) building, facility, or structure constructed or purchased wholly or in part with state moneys;
 - (b) building, facility, or structure at a state institution;
 - (c) building, facility, or structure owned or to be owned by a state agency, including the department of transportation.

- (2) "Building" does not include:
 - (a) building, facility, or structure owned or to be owned by a county, city, town, school district, or special improvement district;
 - (b) facility or structure used as a component part of a highway or water conservation project.

- (3) "Construction" includes construction, repair, alteration, and equipping and furnishing during construction, repair, or alteration.

17-7-202. PREPARATION OF BUILDING PROGRAMS AND SUBMISSION TO THE DEPARTMENT OF ADMINISTRATION.

- (1) Before July 1 of each even-numbered year, each state agency and institution shall submit to the department of administration, on forms furnished by the department, a proposed long-range building program, if any, for the agency or institution. Each agency and institution shall furnish any additional information requested by the department relating to the utilization of or need for buildings.

- (2) The department shall examine the information furnished by each agency and institution and shall gather whatever additional information is necessary and conduct whatever surveys are necessary in order to provide a factual basis for determining the need for and the feasibility of the construction of buildings. The information compiled by the department shall be submitted to the governor before December 1 of each even-numbered year.

17-7-203. SUBMISSION TO THE LEGISLATURE.

During the first week of each regular legislative session, the governor shall submit to the legislature:

- (1) The requests of all state agencies and institutions compiled in the form of a comprehensive, long-range proposed building program, including:

- (a) the purpose for which each building would be used;
- (b) the estimated cost of each building, including necessary land acquisition;
- (c) the reasons given by the institution or agency for needing each building;
- (d) a priority order recommended by the agency or institution for each building;
- (e) the recommendation of the institution or agency as to when each building is needed;
- (f) any comments of the governor;

(2) A building program proposed by the governor for the forthcoming biennium in the form of a capital construction budget, including:

- (a) the purpose for which each building would be used;
- (b) the estimated cost of each building and necessary land acquisition;
- (c) the reasons for the governor's recommendation to construct each building during the forthcoming biennium;
- (d) the proposed method of financing for each building;
- (e) any long-range building plans;
- (f) any changes in the law necessary to insure an effective, well-coordinated building program for the state.

17-7-204. LONG RANGE BUILDING PROGRAM.

The executive budget for all state agencies must include detailed recommendations for the state long-range building program presented in order of importance by fund type. Each recommendation must be presented by agency or branch by funding source, with a description of each proposed project. The recommendation must also include an explanation of the problem to be addressed by the proposed project, alternative methods of addressing the problem, the rationale for the selection of a particular alternative, and a projection of increased operating costs incident to the project for the next three biennium.

17-7-205. LONG RANGE BUILDING PROGRAM ACCOUNT

- (1) There is a long-range building program account in the capital projects fund type.
- (2) Cigarette tax revenue deposited in the account pursuant to 16-11-119 must be obligated prior to obligating other funds in the account.
- (3) Coal severance taxes allocated to the account under 15-35-108 may be appropriated for the long-range building program or debt service payments on building projects. Coal severance taxes required for general obligation bond debt service may be transferred to the debt service fund.
- (4) Interest earnings, project carryover funds, administrative fees, and miscellaneous revenue must be retained in the account.

17-7-206. MAINTENANCE FOR STATE BUILDINGS.

- (1) Subject to legislative determination as provided in subsection (2), a major

capital project appropriation by the legislature may include an amount for maintenance as a part of the appropriation. The amount appropriated for maintenance must be deposited in the long-range building account for use in future maintenance.

(2) A state building recommended for construction in the report to the legislature required by 17-7-203 may also be recommended as appropriate for the inclusion of an amount for maintenance. For those buildings recommended for construction, the legislature may allocate an amount not to exceed 2% of the appropriated cost for use in maintenance.

(3) This section does not preclude additional funds, including separate appropriations, donations, grants, or other available funds, from being used for the construction or maintenance of state buildings.

7-7-211. EXPANSION TO BE AUTHORIZED - BUDGET AMENDMENT

(1) An existing capital project may not be expanded beyond the scope of the project approved by the legislature unless the expansion of the project is authorized by a long-range building program budget amendment approved by the budget director.

(2) A proposed long-range building program budget amendment must be submitted to the budget director through the Architecture and Engineering Division of the Department of Administration. The budget director, through a Long-Range Building Program budget amendment, may authorize:

- (a) the transfer of excess funds appropriated to a capital project within an agency to increase the appropriation of another capital project within that agency; or
- (b) financing to expand a project with funds that were not available for consideration by the legislature.

17-7-212. REAPPROPRIATION OF CAPITAL PROJECTS.

The remaining balances on capital projects previously approved by the legislature are reappropriated for the purposes of the original appropriation until the projects are completed.

DEFINITIONS

The following terms are defined because of their significance to the Long Range Building Program. It is important to note that capital projects are to be distinguished from preventive maintenance as defined below. Preventive maintenance items should be addressed in the Operational Budget for the facilities.

1. The Long Range Building Program is a six-year schedule of capital expenditures listing needed projects, their estimated costs, and other such material as necessitated by MCA 17-7-201 through 17-7-212. The purpose of the Long Range Plan is to identify the overall facility needs of the State from which a specific program can be developed.

2. The Capital Construction Program constitutes the first two years of the Long Range Building Program. This is the period for which funds are requested from the legislature. While developing project requests for this program, special attention must be given to the accuracy of cost estimates, the assignment of priorities, the identification of funding sources, the examination of alternatives, the explanation of the problem being addressed, and the description of the project. Any project that is required to accommodate a specific goal of an agency during the biennium ahead should be included in the list.

3. A capital project is defined to include: Acquisition of land and buildings or improvements and additions to these, construction and initial equipment, reconstruction, significant demolition, major alteration of any capital asset and major maintenance projects.

4. Major maintenance means building maintenance or repair projects that are not needed on an annual or biennial basis or are not the function of the permanent maintenance staff of the agency.

5. Preventive maintenance consists of normal upkeep or repairs to keep fixed assets and their attached fixtures, such as buildings or improvements, in their present condition or state of usefulness, to prevent their deterioration, or to restore them to their previous condition. Provisions for such work should be included in the regular operating budget requests.

Examples of preventive maintenance are:

a. Painting and decorating. An exception would be work done at the time of original construction, change of function, or major alteration.

b. Repairs to, or replacement of, fixed equipment or their components, which do not extend capacity or function. An exception would be repairs to, or replacement of, fixed equipment at the time of major alteration or change of function or replacement of a major component, such as an entire elevator.

c. Repairs which are necessary to prevent deterioration, or which restore a building to its previous condition without extending the life of the building. An example of this would be a roof repair. A complete roof replacement would not be considered a preventative maintenance item.

6. A major alteration is a project which will increase the capacity, effect a major change in use, increase the efficiency or economy of operation, or extend the life of an existing fixed asset to a major degree.

7. Capital project estimates should include and identify preconstruction costs of site acquisition and surveys, soil tests, architectural and engineering services, project management services, initial equipment, landscaping and site development, contingencies, artwork (percent-for-art), and the like. Particular care should be taken to identify all indirect costs, such as additional utilities required to serve new buildings and the necessary operational costs upon occupancy of the facility.

8. Fixed equipment is original equipment that is permanently attached to the building by plumbing, wiring, or structural connections. Such equipment should be included as an integral part of the facilities project.

9. Movable equipment is original equipment that is not attached to the building, or if attached, can be removed without cutting and/or unfastening the connection. Items such as beds, wardrobes, tables, and desks are examples of movable equipment recognized in the scope of a project. Items such as supplies, linens, glassware, utensils, personal computers, specialty equipment, and items typically purchased with operating funds are not to be included in the project estimate.

10. Scope of project is a synopsis of the entire project parameters defined in the Capital Project Request Form. It includes, but is not limited to, items such as: The project description, the impact on existing facilities, the explanation of the problem being addressed, the estimated cost, and the number of people to be served by the facility.

11. Relocation costs for moving to a completed Capital project are to be excluded from the Capital Construction request and should be included in the agencies operating budget. Costs for relocations required as part of a renovation may be included in the Capital Construction request.

PROJECT PRIORITY BY AGENCY

PRIORITY: Each Agency is required to rank their proposed projects in order of importance. It is essential that succeeding levels of management reviewing the projects also establish their priority for recommended capital construction projects. Agencies with multiple sub-units such as the University System and the Department of Corrections are required to submit a single priority ranking for all projects to the Department of Administration. Multiple ranking systems will be returned as not meeting the requirements of this program.

RATIONALE FOR PRIORITY RANKING: Give reasons why a particular project priority was established. The justification should be based on items such as:

- (1) Does the project improve conditions that threaten life or property or involve improvements to comply with State or Federal regulations?
- (2) Is the project critical to the continuation of a current program level?
- (3) Does the project correct a problem that if not corrected would cause further deterioration of an existing structure?
- (4) Does the project accommodate a program expansion over which no control can be exercised by state government?
- (5) Will the project demonstrate a savings in operational costs that could offset the capital investment over a relatively short period of time?
- (6) Will the project facilitate a better utilization of an existing facility or the adaptation of it to a change in program direction?
- (7) Does this project continue or complete a project that has been previously authorized and/or funded?

Appendix B State FCI

FACILITY CONDITION INVENTORY PROGRAM - 2YR CYCLE COST (est)				
Personal Services				
Architect (\$50k + 30% I&T)	4 ea	65,000	260,000	
Mechanical Engineer (\$50k + 30% I&T)	4 ea	65,000	260,000	
CAD tech/support (\$35k + 30% I&T)	4 ea	45,500	182,000	
Subtotal Personal Services				\$702,000
Operating Costs				
Rent/utilities	12 persons @ 200sf leased/person	2,400 sf	12.00	28,800
Phone/data lines	itsd charge--provide phone/data svcs	1 ls	20,000	20,000
Office supplies	General office expendables/person	12 ea	1,000	12,000
Mileage	4 teams 48wks @500miles/wk/tm	96,000 mi	0.195	18,720
lodging	8 persons 48wks @ 3 nites/wk	1152 nites	60.00	69,120
per diem	8 persons 48wks @ 4 days/wk	1536 days	23.00	35,328
equip/software	pc's incl basic software/2yr cycle	6 ea	3,000	18,000
CAD programs	Specialized software-annual cost	4 ea	4,500	18,000
FCI license	Proprietary Program-annual cost	1 ls	10,000	10,000
Subtotal Operating Costs				\$229,968
Startup Costs				
Hiring expense	12 positions	12 ea	850	10,200
Office furniture	12 setups, including cubicles	12 ea	2,500	30,000
Test equipment	One time startup costs	1 ls	25,000	25,000
Subtotal Startup Costs				\$65,200
TOTAL ANNUAL COST (1st Year)				\$997,168
TOTAL ANNUAL COST (2nd Year = 1st yr cost less startup, inflated at 3%)				\$959,927
GRAND TOTAL CYCLE COST (2 Year Cycle)				\$1,957,095
			total square footage completed	20,600,000
			calculated unit cost	\$0.0950
<small>Note: 48wks x 2 schools/wk/team x 4 teams = 384 schools/yr x 2 yrs = 768 schools out of the total 825 schools (equiv 20.6mil sf completed).</small>				