



**Testimony to the House Education Committee
On House Bill 2124
Amendments to Public School Code - Planning and Construction**

March 31, 2014

Good morning. My name is John Callahan, senior director of government affairs for the Pennsylvania School Boards Association. The Pennsylvania School Boards Association is a nonprofit statewide association representing the 4,500 elected officials who govern the commonwealth's public school districts. PSBA is a membership-driven organization, pledged to the highest ideals of local lay leadership for public schools and working to support reform for the betterment of public education that prepares students to be productive citizens, and promote the achievements of public schools, students and local school boards.

On behalf of the 4,500 elected officials we commend Representative Seth Grove for addressing the fiscal and process challenges of the School Construction Reimbursement Program (PlanCon). Representative Seth Grove's legislation amends the Public School Code to provide for a more modern, simplified, and financially sustainable process of reimbursement. This legislation along with an additional appropriation of State money will begin to address the backlog of school district construction projects awaiting reimbursement.

Current Plan Con Process

Pennsylvania provides partial reimbursement to school districts for new construction, additions to existing buildings, and/or renovations to existing buildings to meet current educational and construction standards. Districts that undertake school construction projects and seek reimbursement must engage in a process to receive approval from PDE. The process, often referred to as PlanCon, is an acronym for Planning and Construction Workbook. The PlanCon process for reimbursement for a portion of the cost has been established in the School Code and state regulation for decades.

The process consists of 11 steps with a multitude of forms and procedures that require completion and approval from PDE at each interval in order to receive partial reimbursement for the project. The steps in the process consist of Parts A through K, beginning with the project justification and a description of the project through project accounting based on final costs and project refinancing if a reimbursable bond issue is refunded, refinanced or restructured. A project is deemed eligible for reimbursement upon PDE approval of PlanCon Part G; however, reimbursement does not begin until PDE has approved a PlanCon Part H application.

The PlanCon process is lengthy and requires PDE approval at multiple steps as a district proceeds with a project. Districts are required to hire architects and consultants, put project financing in place, and enter into construction contracts just to move through the process and towards reimbursement. On any school building project, a school district generally spends about 25% of the total project cost on design, pre-construction fees, bond-related fees, and related costs just to proceed through the PlanCon pipeline from Part A to Part H. Many of these costs, however, including the cost of a feasibility study, architect and engineer fees, legal and advertising fees, bond-related fees, construction management fees, utility and agency fees, permits, reviews, and land development costs, asbestos abatement, LEED project costs, and architectural printing and advertisement costs, occur between Part A and Part F.

On a relatively small school building project with a \$10 million budget, this means that before the school district can even apply for Part G approval, it has already had to spend over \$1 million, or about 12% of its total project costs just to comply with the PlanCon process even before construction has begun. The cost of reliance on state reimbursement through PlanCon is even higher for larger and more costly school building projects.

PSBA conducted an informal survey in 2012 of school districts regarding school construction projects, both past and present. Of those responding districts that reported a current PlanCon project, over 75% of the projects were renovations or additions, while less than 25% were for new construction projects.

The respondent school districts were asked the reasons for the school construction and were able to report multiple reasons for engaging in a project. They include: 1) deteriorating facility or systems; 2) increased enrollment; 3) school consolidation as a result of decreased enrollment; 4) necessary for ADA compliance issues; and 5) changes in grade configuration.

Nearly 75% of the responding school districts also indicated that they expect to realize operational savings as a result of the construction project. Of the districts that noted operational savings, the overwhelming majority of these savings are expected to come from reductions to utility and maintenance costs. Other cost savings noted were for reductions in transportation and personnel costs. Some districts quantified their savings, which ranged from saving 15-25% on their annual utility costs, to annual savings of \$800,000 when adding up all the operational savings.

The Problem That is Only Growing Worse

Many school districts have undertaken construction or renovation because of enrollment or safety needs that cannot be ignored, and the consequences of failing to provide relied upon state reimbursement to school districts are severe. *Of the approximately 354 school construction and renovation projects at various stages in the PlanCon pipeline that have not yet been approved for reimbursement, 81% involve renovations or alterations to existing facilities, and many involve critical renovations or repairs.* This includes projects to fix leaking roofs, failing mechanical and electrical systems, and crumbling infrastructure or to address overcrowded classrooms, school security, and ADA compliance concerns.

203 projects are being halted by PDE due to fiscal constraints. PDE has estimated it would need approximately \$1.2 billion to completely reimburse all 354 projects that are at various stages in the PlanCon process. This means that in most cases, Part H applications to begin receiving reimbursement have been submitted to PDE school construction or renovation projects are

complete and the facilities are in use, debt is in place and payments are coming due. The delay in receiving reimbursement is so substantial that many school districts have been waiting at this stage for more than two years.

Level-funding of this line item has only exacerbates the backlog that has been created by the state and almost guarantees that school districts that have complied with PDE's rules in proceeding through the PlanCon process will not receive their reimbursement in a timely manner. As a result, districts that have carefully planned for financing school construction and renovation projects have had to throw their plans out the window and use up their reserves waiting for reimbursements, cancel needed repair projects, increase taxes, cut programs and services, and borrow additional money to cover the state's share of their debt payments.

Impact on School Districts

School districts have relied on the integrity of the current PlanCon process and many of the districts that have played by the rules of the game, obtained the required approvals, engaged in their projects and have been waiting for funding for several years.

Following are some examples of how this backlog is impacting school districts across the state:

Mifflinburg Area School District: The district has been waiting to begin receiving state reimbursement for their school construction project for over two years. Mifflinburg Area is expecting approximately \$300,000 annually in reimbursement payments on a 2010 bond issue, and as a small district, this lack of funding is significant. The district has had to take almost \$900,000 out of its fund balance to cover the lack of reimbursement, despite the fact that the fund balance was designated to cover increases in pension liability. By the end of this fiscal year the district will be owed \$1.2 million.

North East School District: The district is in the midst of a \$6.4 million high school renovation project. The building being renovated is over 30 years old and has never had any significant work done to it since the district maintained the building very well over the years. The building infrastructure is now mostly obsolete and many components have lasted well beyond their expected useful lives, requiring the district to focus on replacing the original boilers, uni-vents, lighting, and windows.

When the district started the project in 2007 the original cost estimate was \$17 million; however, by 2008 the district scaled back the project to around \$13 million and decided to postpone the renovation due to the downturn in the economy. In 2011, the district could not postpone the project any further and moved forward with the bare-bones \$6.4 million renovation project. The estimated local share of the project was approximately \$2.6 million, and the district planned to pay for their share out of their fund balance instead of borrowing money or raising taxes. The district is currently waiting has gained Part G approval and they have submitted the Part H and Part J.

Despite the fact that the district did everything right in maintaining their facility, paring down the scope of their project, foregoing the project during the economic downturn, and planning to pay for their share of the project entirely from reserves, the district is now at the point where it will likely need to borrow funds to cover the state's share of the costs, because it cannot carry the state's share of the costs for more than a few months.

Mt. Lebanon School District: The district has been planning to renovate its high school building built in 1920 since 2005. The district borrowed the first \$109 million project in 2009, with PlanCon Part G approved in January 2012 and Part H submitted to PDE shortly thereafter. For this bond issue alone, the district anticipates receiving approximately \$623,000 per year, yet has received nothing due to the lack of state approval. The district is now owed 1.8 million in back payments from 2009 and has a \$623,000 deficit in its current budget. However, with Act 1 limitations, the

district has serious concerns about the ability to provide funding for the bonds if it does not receive the state subsidy on the bond issue. In order to cover the state's share of the bond the district will need to raise property taxes by .25 mills or find other cost reduction methods.

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The legislation that Representative Seth Grove proposes will help streamline the reimbursement process and with support of an additional budget appropriation in June the Commonwealth will begin to address this issue in a comprehensive manner. The legislation would:

- Set a ceiling for an appropriation of an additional \$100,000,000 for school construction reimbursement.
- Provide for a public database on PDE's website providing information about school construction and reconstruction projects, building purchases, and charter lease reimbursements.
- Establish a simplified process for school districts to apply for construction reimbursement, to be known as the "Accountability and Reducing Costs in Construction Process", or ArcCon. Among other reforms, ArcCon will:
 - Require reimbursements to be made in the order of PDE approval, unless the Secretary prioritizes a project of a financial recovery school district.
 - Provide reimbursement for a new building only if a cost-benefit analysis indicates the cost to construct does not exceed the cost to expand or renovate existing buildings, or if the district can demonstrate that a new building is necessary.
 - Require automation of the ArcCon Process.
 - Eliminate microfilm requirements.
- Allow school districts that began a construction project during the moratorium on new applications to apply for reimbursement following the expiration of the moratorium.
- Provide for interest payments to school districts on artificially-delayed reimbursements.
- Allow lump sum reimbursement equal to 75% of the total eligible reimbursement, with school district agreement.

PSBA would like to note that the legislation does not address a little known double dip that is wasting taxpayer funds. Not only can a Charter receive direct reimbursement for leased and owned buildings under the current formula - but under Plan Con they can charge the state directly for lease payments. Charter schools can have this bill paid twice - one time by the school district and a second time by the State Department of Education. We respectfully ask that this overpayment be addressed.

I appreciate the opportunity to testify on this important issue and will answer any questions you may have.