

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
- ACTION REQUESTED:** Annual report of account finances and status of repair and maintenance (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:**
Introduction: Attached is the annual report of the repair and maintenance accounts and review of the repair and maintenance program.
- FINDINGS:** See attached.
- RECOMMENDATIONS:** See attached.

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

I. Introduction

A key component to improve public education in Hawaii is the provision of school facilities that support and enhance academic programs. Public education facilities include 262 school campuses, statewide, which consist of:

- 3,972 acres
- 19.17 million square feet of building space, and
- average building age of 59 years (ranging from 1 year to 166 years)

II. Past Legislation

In 2001, the 21st State Legislature passed Act 316 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.

Act 188, passed by the 22nd State Legislature in 2003, gave the Department of Education (DOE) authority to set priorities for R&M projects.

III. Current Financial Assessment

A. R&M Backlog

The list of unfunded or deferred 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.

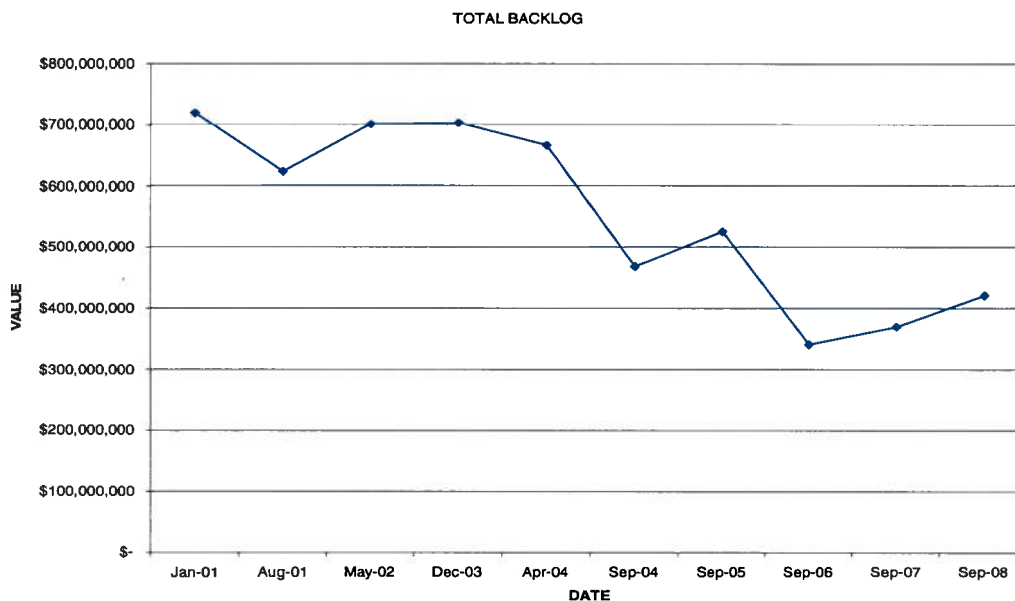
The figures used to prepare this report were taken from the "backlog" as of September 2008.

B. Status of R&M Backlog

R&M Backlog Totals - Trend

In 2008, the 24th State Legislature appropriated \$66,461,000 to fund Repair and Maintenance and \$100,000,000 to fund Classroom Renovations of the State's public schools. This will enable the DOE to continue the overall trend

to improve backlog totals. However, funding restrictions imposed by the Department of Budget and Finance (B&F), due to declining economic conditions, have resulted in a reverse trend. The backlog has steadily risen from \$341 million in September 2006, to \$370 million in September 2007, to \$421 million in September 2008.

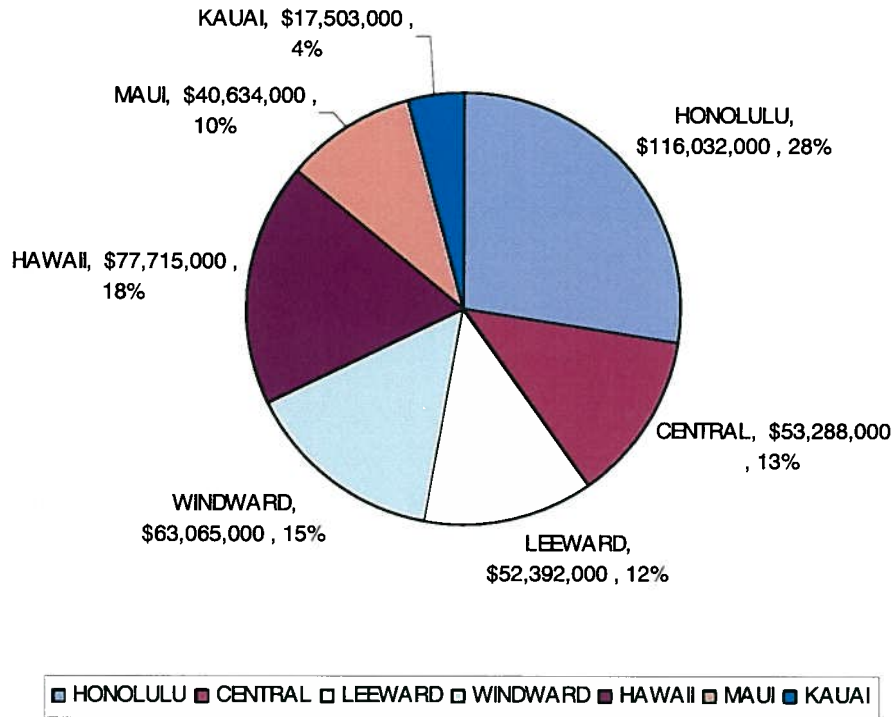


Geographic Breakdown

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

DISTRICT	# OF SCHOOLS	TOTAL BACKLOG	AVERAGE BACKLOG PER SCHOOL
HONOLULU	54 (incl 1 PCS)	\$116,032,000	\$2,148,741
HAWAII	43 (incl 1 PCS)	\$77,715,000	\$1,807,326
WINDWARD	31 (incl 1 PCS)	\$63,065,000	\$2,034,355
LEEWARD	42 (incl 1 PCS)	\$52,392,000	\$1,247,429
CENTRAL	42	\$53,288,000	\$1,268,762
MAUI	30 (incl 1 PCS)	\$40,634,000	\$1,354,467
KAUAI	16	\$17,503,000	\$1,093,938

GEOGRAPHIC BREAKDOWN



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 DOE or Department of Accounting and General Services (DAGS) Neighbor Island work crews under the “work order” program.
- Minor repairs – repairs which DOE or DAGS Neighbor Island 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 37 percent of the backlog consists of recurring projects and 63 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.
- Projects worth \$158,000,000 or 37 percent of the total backlog is recurring. The categories of recurring projects include reroofing, interior and exterior painting, recarpeting, termite treatment, repaving and resurfacing, air conditioning and lighting.

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.
- Sixty-three percent (63%) or \$263,000,000 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 restroom renovation projects. The restroom renovation projects typically address both recurring work (i.e., repainting interior, replacing windows and replacing lighting) and non-recurring work (i.e., replacing floor tile and wainscot, toilet partitions, and fixtures), as well as ADA improvements whenever possible.
- Since non-recurring projects typically occur only once or twice during the average life of a building facility, these are considered one time projects. Thus, planning for future R&M work is handled differently from recurring projects.
- A further analysis of the non-recurring projects indicates that many of these projects can be bond funded.

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 determined by B&F. Typically bond funds can only be used on projects which will last the life of the bond.
- About 19 percent of the R&M backlog requires general funds, and 81 percent can be funded with bond funds.
- Of the recurring projects, 29 percent can be funded with general funds and the remaining 71 percent with bond funds.
- Of the non-recurring projects, 17 percent can be funded with general funds and the remaining 83 percent with bond funds.
- Projects which require general funds can be funded using bond funds if the work is included in the classroom renovation scope of work (i.e. repainting of the interior and exterior of classrooms).

B. Minor R&M Program

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

- Emergency repairs - by definition, emergency repairs are critical repairs which need immediate attention. 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 which are considered "irritant" in nature. These repairs are needed, but can wait since health or operational issues are not involved. DAGS Central Services Division has district/island crews which handle minor repairs through work orders submitted by schools. The crews include tradesmen (painting, carpentry, electrical, and plumbing) and support (masonry, welding).

- Service and maintenance contracts - contracts are maintained on all islands. Currently, all services and maintenance contracts for schools are handled by DAGS Central Services Division, with the exception of trash pick up on Kauai. 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) pick up (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.

V. Future Outlook and Projected Plans

The DOE has proposed an R&M bond budget of \$100,000,000 and \$75,000,000, respectively, per year over the next biennium. We are currently studying the general fund needs and will present the general fund needs to the Legislature at a later date. It is obvious that the current level of general funds appropriated by the Legislature (\$22.5 million for the minor R&M program) is inadequate.

A. Program and Funding Requirements

Forecast of Program Needs

Using the APWA recommendation that annual R&M should be 2 to 4 percent of replacement value of invested assets and a total current replacement value of \$5 billion (not including land value), the 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 should 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

Asset Management and Life Cycle Costs

The DOE has begun to implement a facilities asset management system to better track and predict future facility and funding needs. A roof maintenance contract was recently awarded and a Request for Proposals is being developed to develop the infrastructure necessary to carry the asset management system forward. The DOE has begun to compile data necessary to further develop this system.

Funding

About 19 percent of the total backlog will require general funds, and 81 percent can be funded with bond funds. Of the recurring projects in the backlog, 29 percent must be funded with general funds and the remaining 71 percent with bond funds. Of the non-recurring projects in the backlog, 17 percent must be funded with general funds and the remaining 83 percent with 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, and
- 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.

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.

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 to establish a cyclical replacement program.

C. Classroom Renovations

A substantial increase in the funding available (\$100 million) for the Classroom Renovation Program will allow the DOE to complete a portion of the remaining 96 schools in the last two phases. The DOE has proposed a budget of \$30 million in FY 2010 to move towards completing the balance of the 96 schools. 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 жалousies, floor tiles and carpet, light fixtures, doors/hardware, cabinets, sinks/faucets, outlets, etc.), and
- Renovation of restrooms within classroom buildings.

The objectives of this program were to:

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

Due to current funding restrictions however, it is unknown if all of the appropriated funding will be released.