

School Construction Update

JOINT COMMITTEE ON THE PUBLIC SCHOOLS
February 6, 2007

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Introduction

- **Presentation will highlight the following:**
 - ✓ Reform Efforts – New Management & Cost Recovery Efforts
 - ✓ Project Life Cycle – Pre and Post 2006
 - ✓ Need for Legislative Action
 - ✓ Project Deferment
 - ✓ 2007 Operating Budget

History

- **SCC has undergone a great evolution of reform**

- ✓ **April 2005:** Inspector General issues first report saying SCC is “vulnerable to mismanagement, fiscal malfeasance, conflicts of interest and waste, fraud and abuse of taxpayer dollars...”
- ✓ **December 2005:** Inspector General issues follow-up report saying the SCC lacked “an overall coordinated plan to enable Design and Construction to efficiently build schools...”
- ✓ **January 2006:** Inspector General issues update report saying the new leadership is implementing recommendations, therefore, the SCC should be “able to resume spending on new construction projects.”
- ✓ **December 2006:** In a statement announcing the assignment of two SCC Inspector Generals, Inspector General says, ***“SCC’s new leadership has demonstrated a strong commitment to the efficient use of state funds to build schools by implementing internal controls, restructuring the organization, and hiring knowledgeable and experienced staff...”***

SCC Reform Efforts - 2006

Transparent and Ethical Behavior

- Posted Board memos, agenda, and minutes online
- Hired KPMG to conduct internal audit function
- Two SCC Inspector Generals on site
- Strengthened ethics program by providing all employees with Code of Conduct/ Code of Ethics; new employee ethics training; Requiring employees to complete Conflict of Interest Questionnaire and receive regular ethics training

Fiscal Responsibility

- Pursuing cost recovery opportunities resulting from architect/ engineer design errors or omissions
- Seeking reimbursement for monies spent to clean polluted sites
- Established an internal legal function staffed by experienced construction attorneys
- Reduced the number of open change orders by 50% since March

Strong Project Management & Administration

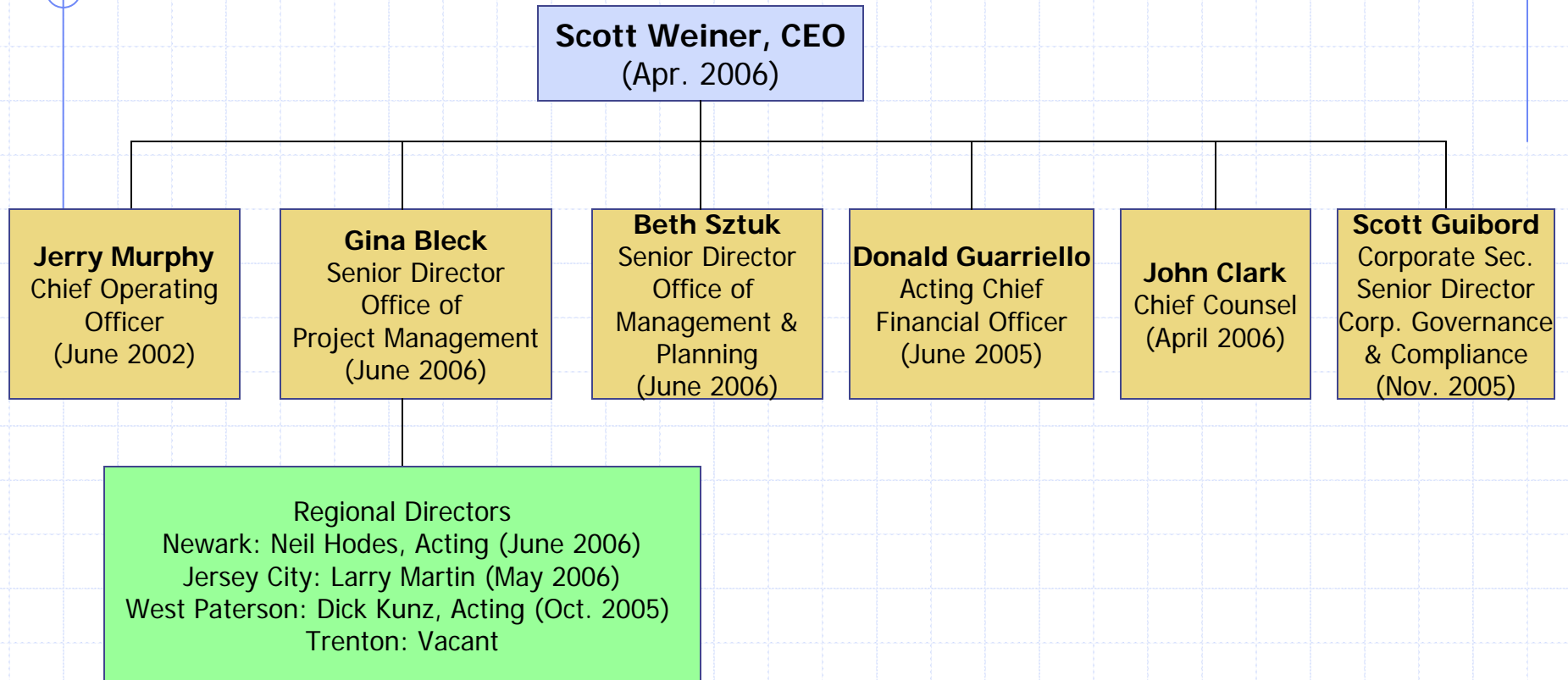
- Utilizing prioritization methodology to sequence projects based on educational factors
- Created Division of Management & Planning to develop strategic and capital plans
- Established process for project forecasting, including inflation factors
- Established holistic project budgets
- Preventing institutionalized waste by revising inadequate contract provisions, ensuring strong management of projects, and providing for effective management of contracts
- Hired experienced construction and real estate professionals
- Discontinued practice of bidding on incomplete designs and effectively eliminating the opportunity for project scope to change during design or construction

Efforts in Progress

- Scheduling monthly in-house training for Project Management Staff
- Preparing for "on-call demolition" contract
- Implementing a new process to capture and disseminate "lessons learned"
- Implementing a fully integrated information system that will track project budgets and schedules in real-time
- Reviewing and renegotiating PMF contracts; Seeking additional project delivery options
- Implementing a protocol for the evaluation of 3rd parties, contractors and PMFs

New Management

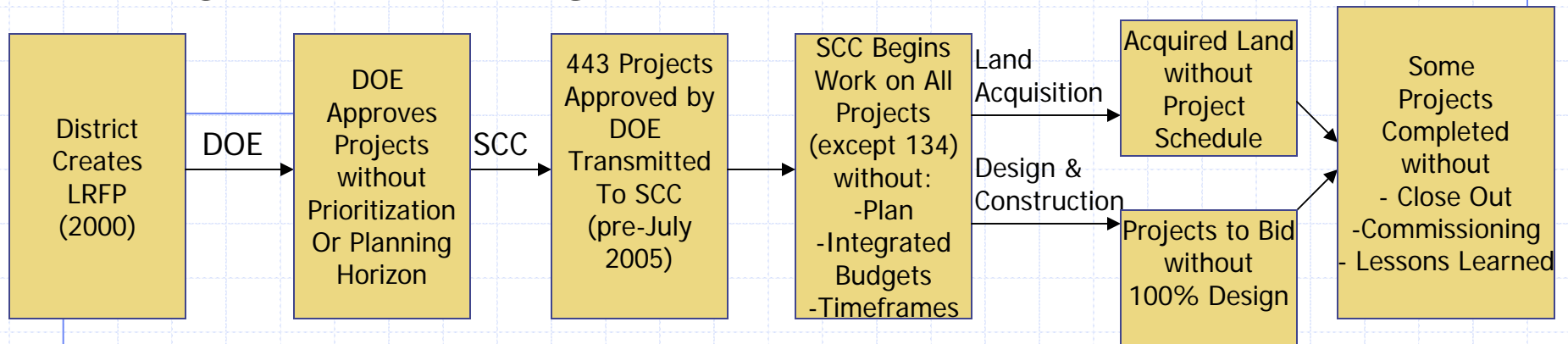
- SCC's senior management has undergone an almost complete turnover



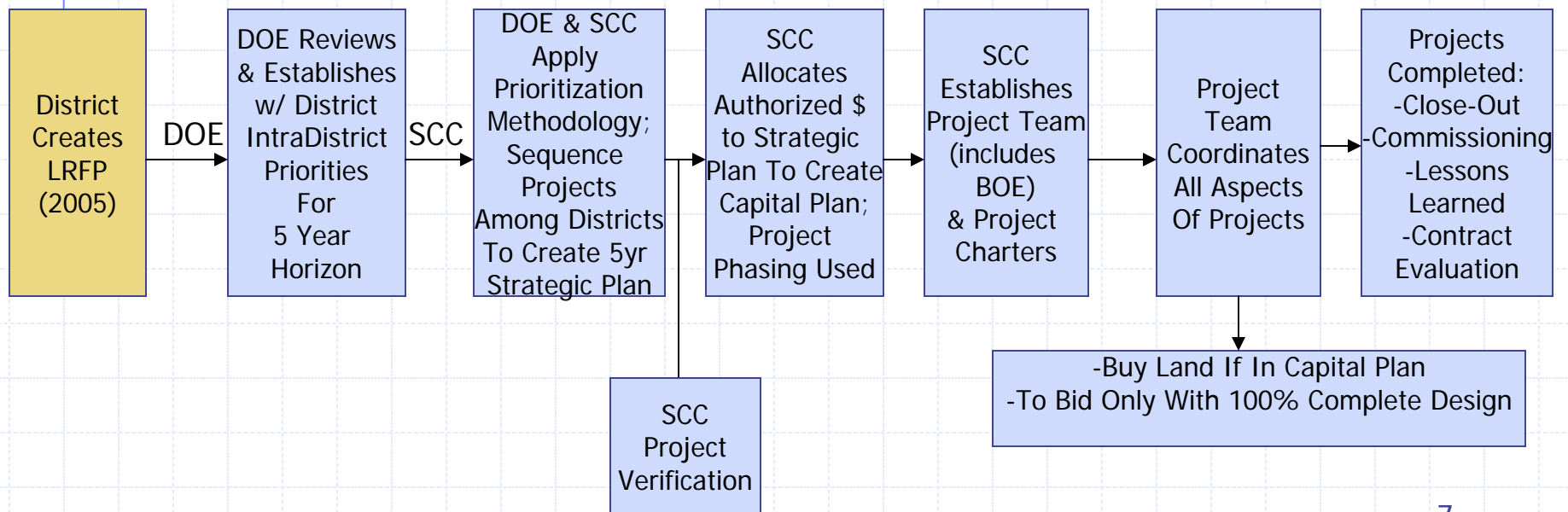
Cost Recovery Efforts

- **SCC is actively pursuing cost recovery opportunities**
 - ✓ Lawsuit filed by Attorney General to recover costs incurred by the SCC during the clean-up of the School #30 site in Elizabeth. SCC has incurred approximately \$885,000 in costs related to the site clean-up.
 - ✓ Lawsuit filed by Attorney General to recover more than \$3.5 million in costs incurred by the SCC to repair structural and design defects due to design errors found in the Mount Vernon Elementary School Project in Irvington.
 - ✓ The SCC will be asserting a liquidated damage claim against the contractor for Science Park High School in Newark this week.
 - ✓ Continue to coordinate with the Attorney General to announce additional cost recovery suits toward the end of Feb/ early March.

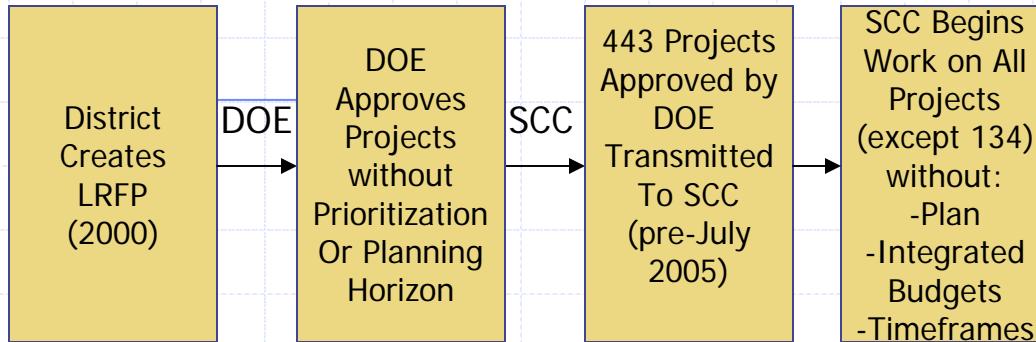
Project Life Cycle: Pre-2006



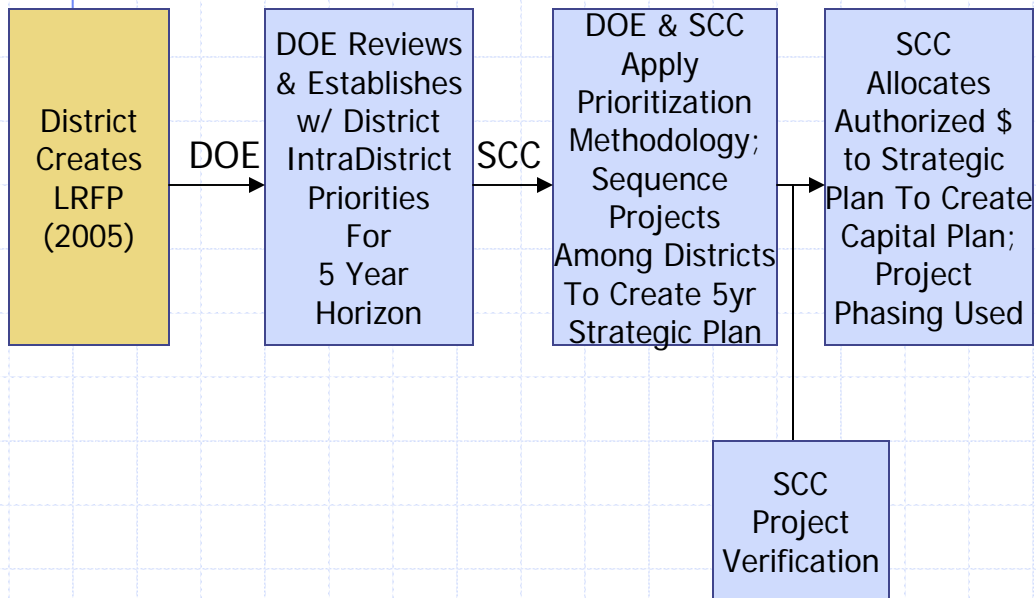
Project Life Cycle: Post-2006



Project Planning: Pre-2006



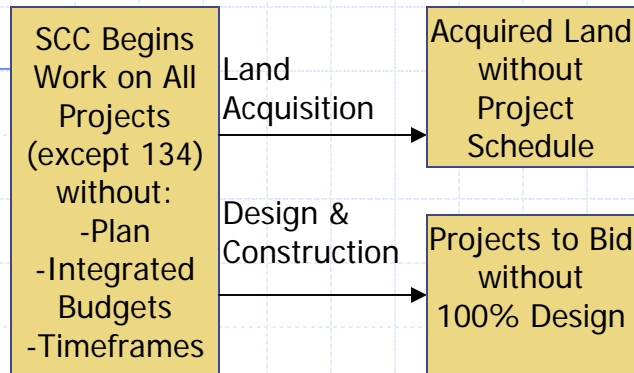
Project Planning: Post-2006



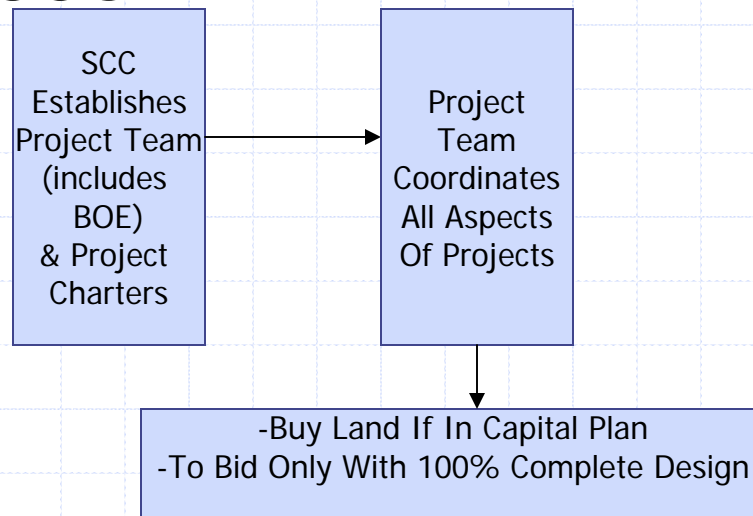
IMPLICATIONS AND CONSEQUENCES

- No prioritization resulted in 315 unfunded projects approved by DOE
- Lack of strategic and capital planning resulted in hundreds of millions of dollars allocated to projects not advancing
- No holistic project budgets led to not knowing the full cost of projects at start
 - ✓ Costly inefficiencies due to lack of integrated project management
- No project verification activities – Full scope of project not verified; Results in change orders and inefficient project planning
 - ✓ i.e.: Health and safety work snowballed into larger projects

Design-Pre-Construction: Pre-2006



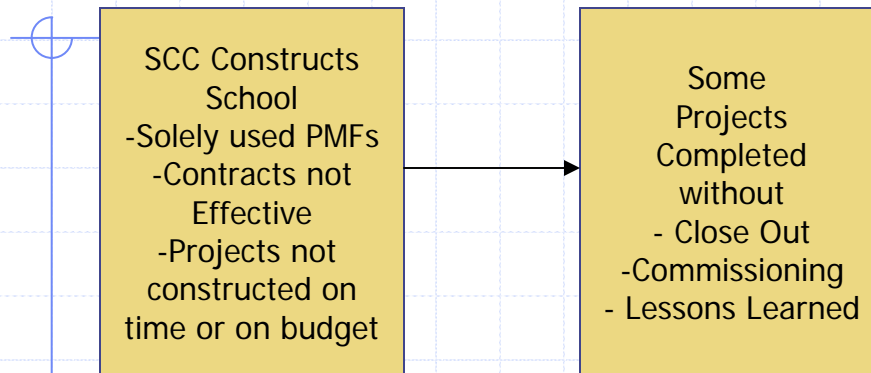
Design-Pre-Construction: Post-2006



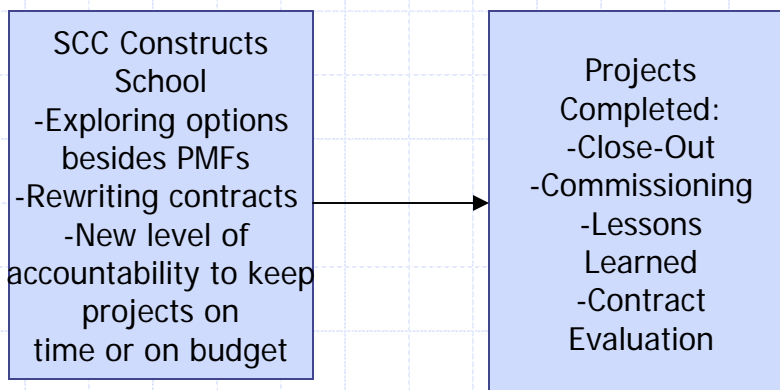
IMPLICATIONS AND CONSEQUENCES

- Acquired land without project schedule
 - ✓ 260 parcels of land worth approximately \$97M for deferred projects
- Without development moratoriums, land speculation drove-up costs of land by tens of millions of dollars
- Change order rate before Sept. 2005 was 50% higher, costing tens of millions
 - ✓ Reduction significantly due to bidding projects with complete design documents

Construction & Close-Out: Pre-2006



Construction & Close-Out: Post-2006



IMPLICATIONS AND CONSEQUENCES

- Lacked cost-effective contracts – currently being rewritten
- Used costly PMF model for construction management – now pursuing other options
- No accountability to keep projects on time and on budget

✓ Implementing Primavera management tool

- Failed to capture lessons-learned
- Failed to close-out projects

Construction Need Exists Statewide

Abbott Districts

- ✓ 315 unfunded school construction projects that were approved by DOE based on the 2000 LRFPs
- ✓ If construction on the 315 projects began in January 2006, the total cost would have been in excess of \$12 billion to complete those projects
- ✓ Calls for multiple staged program planning and funding

Regular Operating and Vocational School Districts

- ✓ Need exists for non-Abbott districts
- ✓ Since September 2005, 71 referendum have passed totaling \$929 million; state share would be \$286 million
- ✓ There is a long-term need for school funding

Need for Legislative Amendments

- **New State Authority for School Construction**

- ✓ Enhance governance and focus Board expertise on school construction

- **Increased District Role and Accountability**

- ✓ Authorize districts to manage a projects such as capital maintenance projects
- ✓ Allow qualified districts to assume full responsibility for the design and construction of projects; develop criteria to evaluate capacity; and assist in capacity building

- **Streamlined and Collaborative Project Approval Process**

- ✓ Approval for projects will be based on a collaborative review conducted by DOE, SCC and DCA, district and municipal stakeholders

- **Expanded Land Acquisition Options**

- ✓ Involvement of districts/ municipalities in identifying and acquiring land
- ✓ Use of development moratoriums to prevent land speculation
- ✓ Incorporation of school sites into Master Plans

- **Multiple Project Delivery Methods**

- ✓ Expressly provide for a variety of procurement options to build schools including: design-build, at-risk construction manager, and public/ private partnerships (Build-Own-Operate-Transfer BOOT)

Need for Legislative Action

- **Consequences of Inaction**

- ✓ Lose the opportunity for effective capital planning
- ✓ Projects in existing Capital Plan will be deferred
- ✓ Projects in new LRFPs will not commence and priority projects will not advance to the next stage
- ✓ Delay creates additional inflationary impact
- ✓ Neighborhood revitalization is further delayed
- ✓ Districts lack the authority to manage capital maintenance projects themselves
- ✓ Land acquisition costs are inflated due to lack of moratorium on development, like that at DOT
- ✓ Lose the opportunity for enhanced governance

Need for Legislative Action

Why authorization, not cash, is needed now

WITHOUT ADDITIONAL AUTHORIZATION

\$1.4 Billion Committed to Projects; Not Yet Spent*

Projects from List of 59
1,2,3,4.....59

WITH ADDITIONAL AUTHORIZATION

\$2.5 Billion in Additional Funding Authorized

Projects Emanating from LRFP Review
A,B,C,D...

PROJECT SEQUENCING AND STRATEGIC PLANNING ACHIEVED

\$1.4 Billion Committed to Projects; Not Yet Spent

\$2.5 Billion in Additional Funding Authorized

Prioritized Projects
1,2,A,3,B,C,
4,5,D.....59

*There is currently a shortfall for these projects

Project Deferment

- **SCC will need to defer projects without funding authorization**
 - ✓ Structural deficit when July 2005 Capital Plan was adopted
 - ✓ An estimated \$500 million shortfall existed due to a lack of accurate project cost data
 - ✓ Further exacerbated by inflation, project delays, contractor premiums and emergent projects
 - ✓ Deficit is now approximately \$600M
 - ✓ We must manage the deficit to ensure all projects in construction are completed
 - ✓ Approach and Timeframe: Advance as many projects as possible
 - ✓ If and when new funding is available projects will be ready to go into ground
 - ✓ Review options and scenarios in the spring
- **Does not mean the school construction program will be “shutting down”**

SCC 2007 Budget: Goals

- Earn public confidence through transparency, predictability and communication
- Enhance capabilities to manage public resources through improved project management and oversight
- Improve productivity through effective management, implementing project delivery options and increased stakeholder collaboration
- Enable development of strategic and capital plans
- Create an effective work environment through by recruiting/retaining employees

SCC 2007 Budget: Highlights

- Achieve Demonstrable Savings in Project Expenditures
 - ✓ Savings of \$24.1 million on school projects in 2007
 - ✓ Savings offsets the increase of \$10.6 million
- Improve Accountability and Productivity
 - ✓ Increased staff for project controls and project management
 - ✓ New staff to support new function areas i.e. In-source purchase of IT equipment for schools; Technical Services function
 - ✓ 2007 budget increases staff levels from 283 to 323
 - ✓ Total increase in operating budget - \$10.6M

SCC 2007 Budget: Real Savings

- Savings achieved by investing in human resources and enhancing management capabilities - \$24.1 million*

✓ Reduction of 1 month from project cycle	\$4.7M
✓ In-sourcing procurement of IT equipment	\$3.3M
✓ In-sourcing safety services	\$0.3M
✓ Claims mitigation/ mediation	\$12.0M
✓ Reduction of PMF fees (1/2 of 1%)	\$3.8M

TOTAL SAVINGS

\$24.1M

* To be monitored by Audit Committee