

SCC TESTIFIES BEFORE JOINT COMMITTEE ON THE PUBLIC SCHOOLS

(February 6, 2007) –New Jersey Schools Construction Corporation Chairman Barry Zubrow and Chief Executive Officer Scott Weiner testified before the Joint Committee on the Public Schools. The SCC appeared before the Committee to provide the lawmakers with the status of reform efforts and to discuss the need for action on the authorization of new funding and changes to the school construction legislation.

[Chairman Zubrow's Opening Remarks](#)

[SCC Presentation](#)

CHAIRMAN BARRY L. ZUBROW
JOINT EDUCATION COMMITTEE
TUESDAY, FEBRUARY 6, 2007

Mr. Co-Chairmen, I want to thank you and the other Committee members for inviting us here today to share with you the continued progress we are making in bringing much needed reform to the schools construction program. We are proud of what we have done, but recognize that there is still more hard work ahead of us.

In a minute I will turn it over to my colleague Scott Weiner, who will walk you thru the specific accomplishments that have been achieved in restructuring the SCC, and discuss the implications for the program going forward. First, however, I want to put in context the Inter-Agency Working Group's recommendation for additional funding of \$3.25 billion for the State's school's facility program.

We recognize that such additional funding for school construction must be evaluated in the context of the state's overall fiscal health:

- Ongoing real structural budget deficit of the state;
- The efforts coming to fruition to fund real property tax relief;
- Implications of changes in the future to the school funding formula and the interaction of that with funding for facilities
- All of this balanced against the on-going acute needs in our communities for additional school facilities, and recognition that delay in the program only costs us all more money.

Some might suggest that this all adds up to a "fiscal conundrum". Perhaps so. But such conundrums can be addressed. But they can only be addressed in the context of an overall asset – liability plan for the state.

The old ways of financing schools construction may not be the best way:

- Remember, 6 years ago when \$8.6 billion of bonding was authorized for schools construction there was no specific revenue stream identified to pay the interest, let alone amortization, of the bonds;
- What will come to amount to over 25% of the state's outstanding debt obligations were just assumed could be covered thru the state's general budget;

Perhaps you and your colleagues in the legislature will conclude that borrowing continues to be an appropriate approach to such funding. However, it seems that before that conclusion is reached, we should all look at a comprehensive asset – liability plan for how the state might best match up the state's resources with the funding obligations we all recognize exist, not just for schools, but for other important and worthy initiatives. Excess value and capital may exist in certain assets of the state which can be redeployed for higher and better uses. This is not about magic. There are no silver bullets.

We have suggested a next tranche of funding of \$3.25 billion, now we collectively need to identify the best source of those funds as part of a comprehensive capital plan for the state. My colleagues and I look forward to working collaboratively in addressing this essential planning issue.

As we continue to address the issue of funding, we need to keep two points in mind:

- First, that there is a critical need now for legislative action which commits future funding to the program. Scott will discuss the implications of delaying such authorization.
- Second, there are amendments required to the current statutes to achieve the reforms and accountability that we all want for this program. Regardless of how the funding equation is resolved, these programmatic reforms are critical to strengthening the work that we have already begun.

We look forward to working with you and your colleagues as we continue to reform the program and agree on a path forward.

School Construction Update

JOINT COMMITTEE ON THE PUBLIC SCHOOLS

February 6, 2007

Barry Zubrow, Chairman, NJSCC Board of Directors

Scott A. Weiner, CEO, NJSCC

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

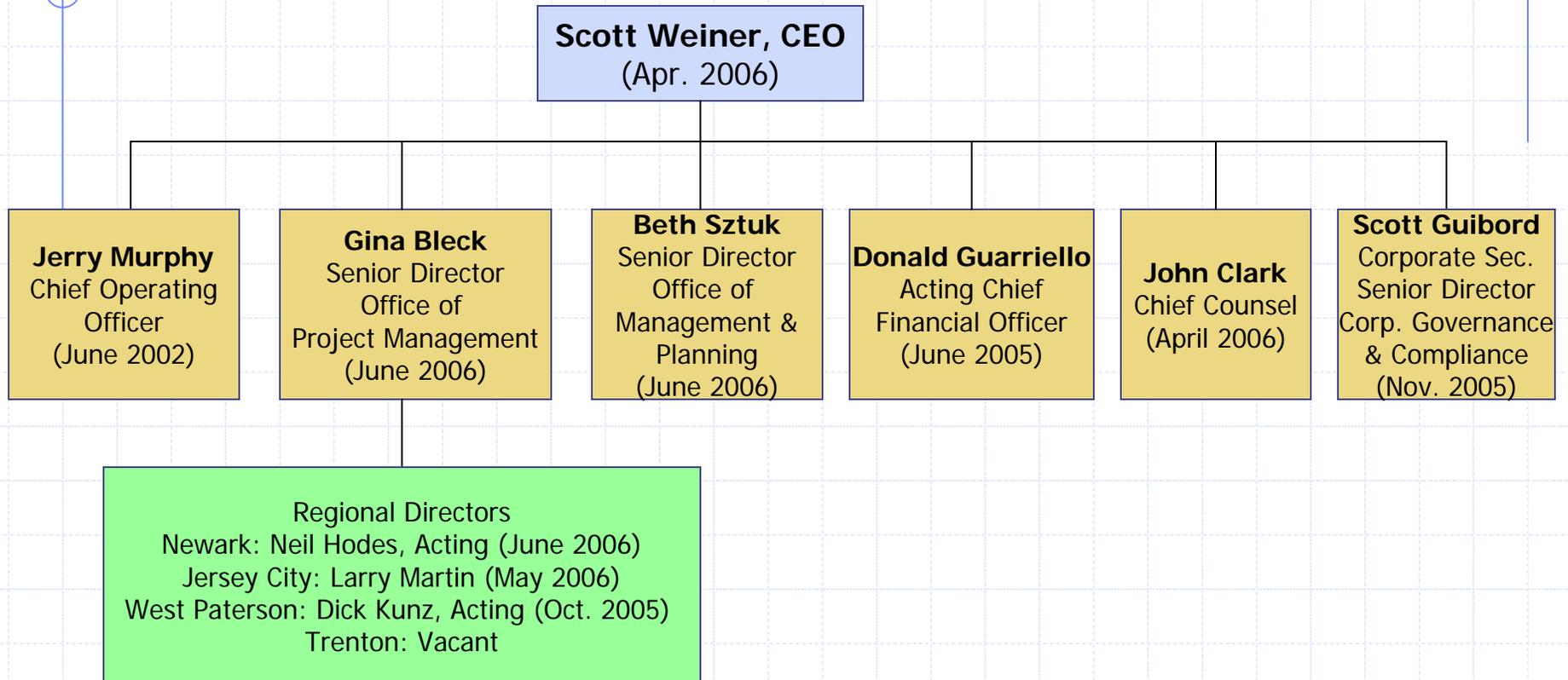
- Utilizing prioritization methodology to sequence projects based on educational factors
- Created Division of Management & Planning to develop strategic and capital plans
- Established process for project forecasting, including inflation factors
- Established holistic project budgets
- Preventing institutionalized 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

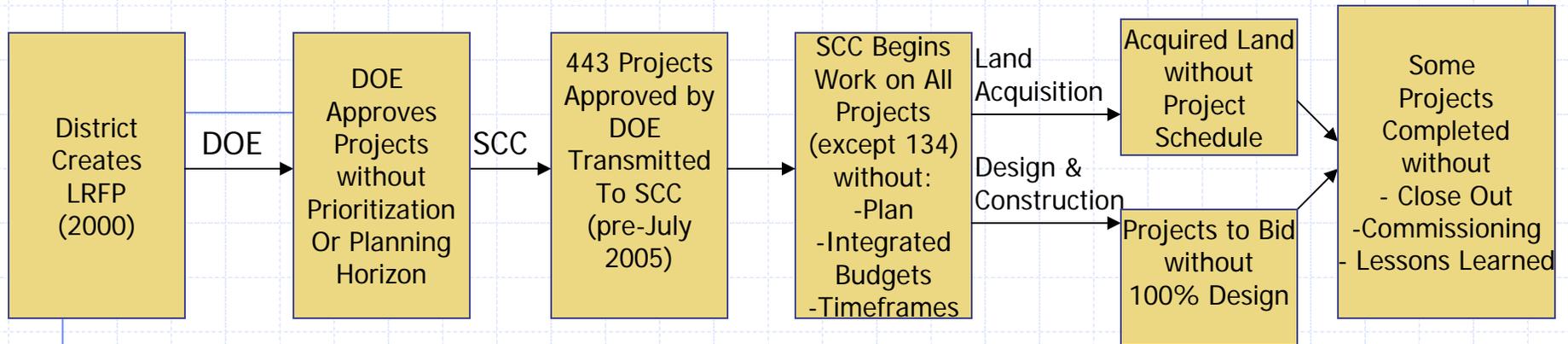
- SCC's senior management has undergone an almost complete turnover



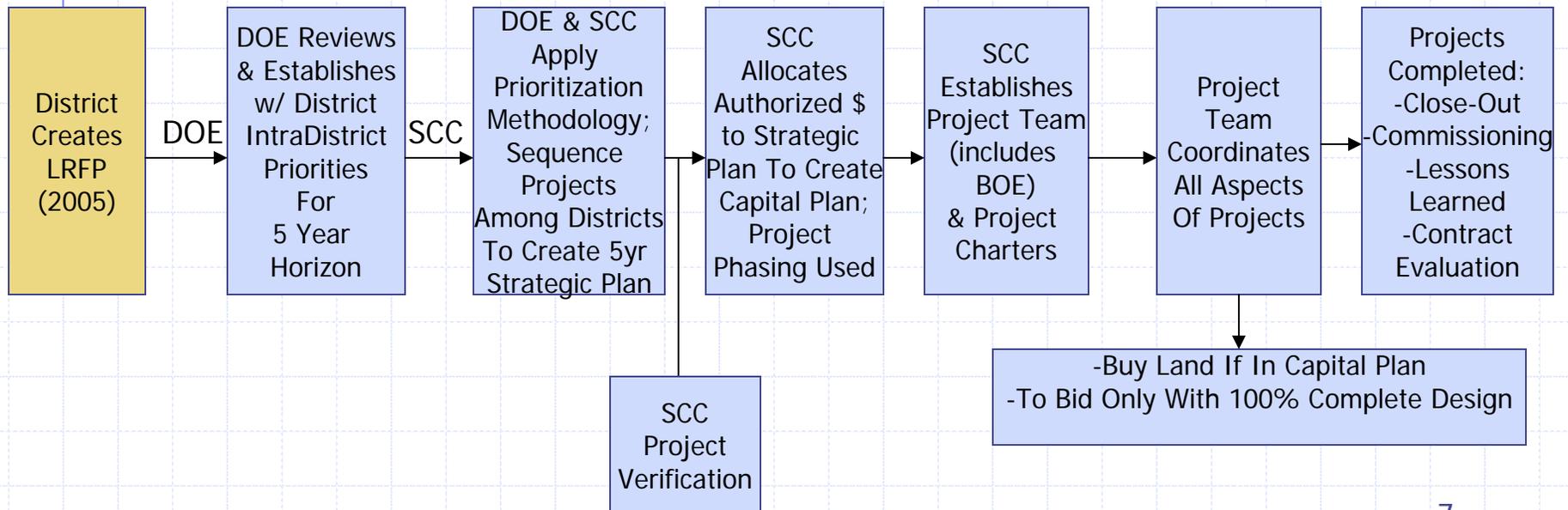
Cost Recovery Efforts

- **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.

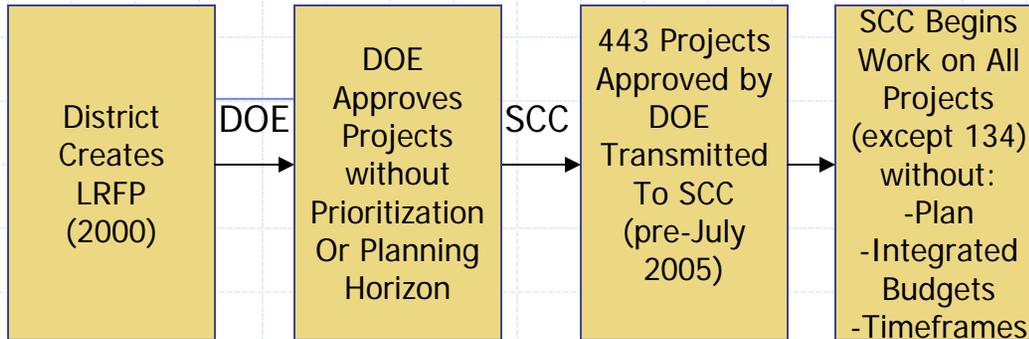
Project Life Cycle: Pre-2006



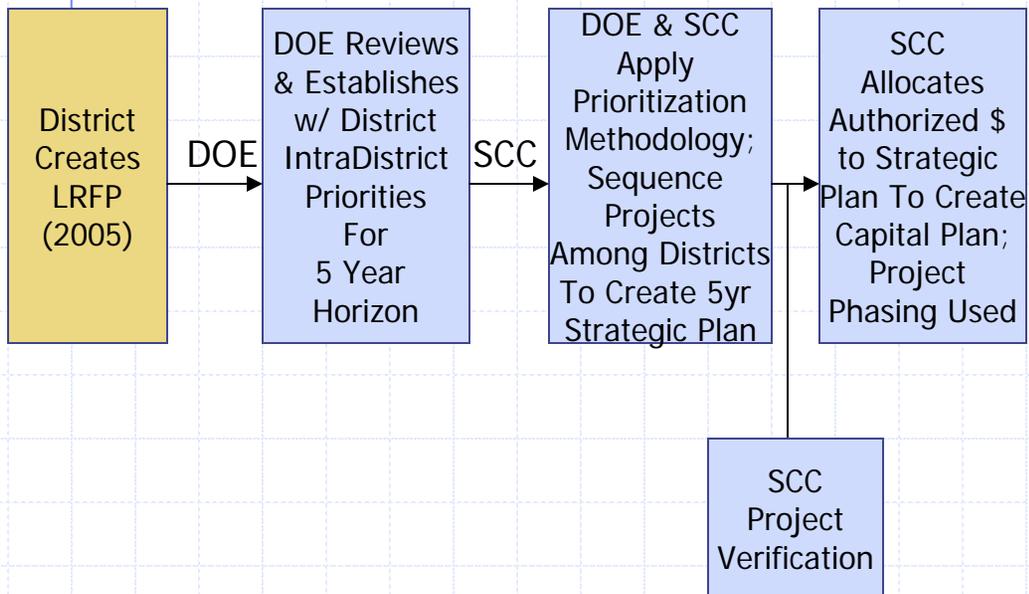
Project Life Cycle: Post-2006



Project Planning: Pre-2006



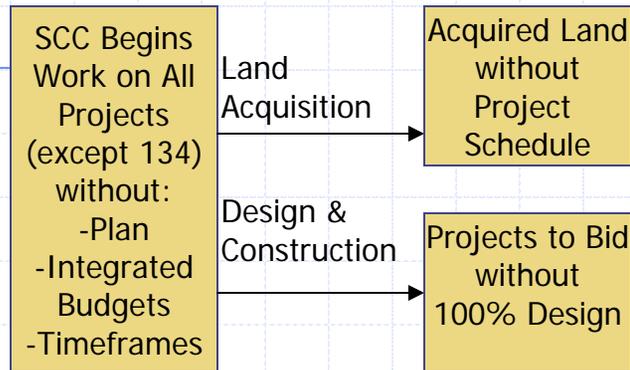
Project Planning: Post-2006



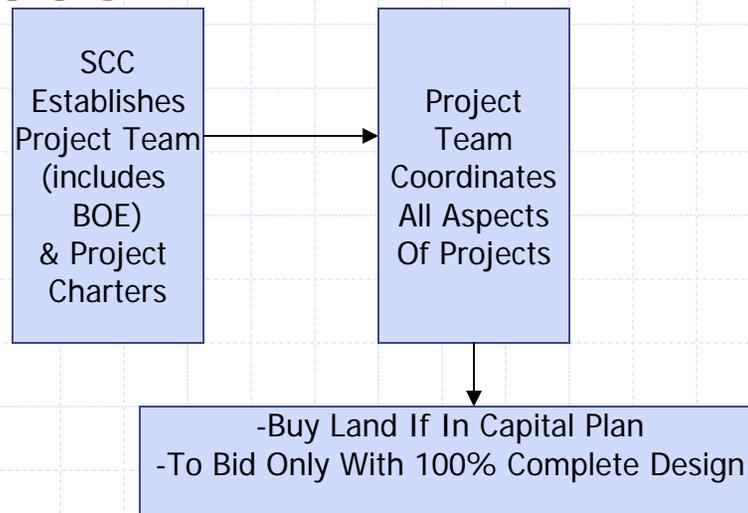
IMPLICATIONS AND CONSEQUENCES

- 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



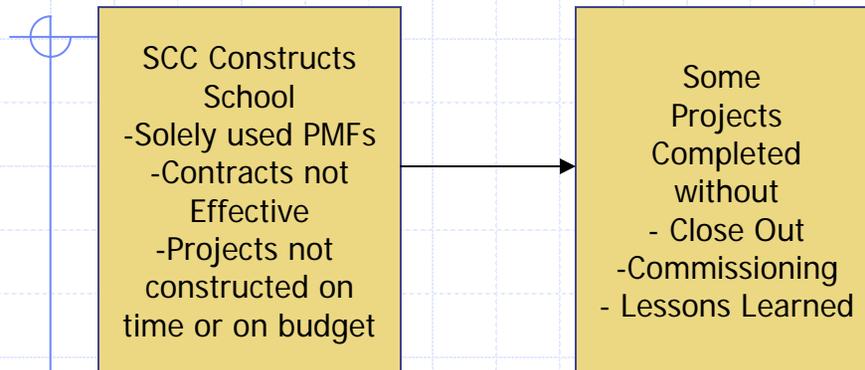
Design-Pre-Construction: Post-2006



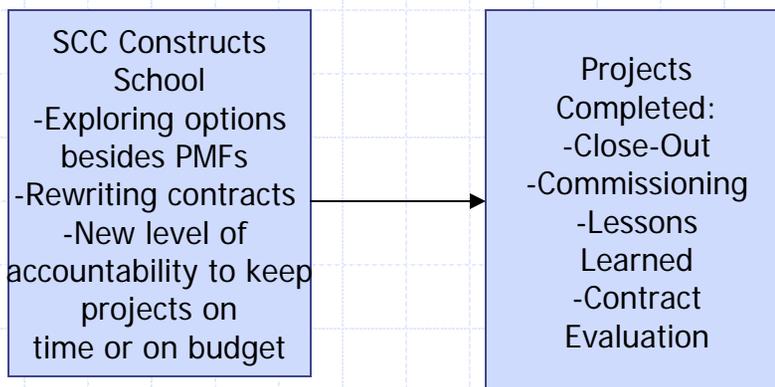
IMPLICATIONS AND CONSEQUENCES

- 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