MASTER PLAN AND ACADEMIC FACILITIES PARTNERSHIP PROGRAM RECOMMENDATIONS

Recommendation #1 - *Approved*

Facilities planning should transition from the current school district-led plan to a systematic statewide plan focused on prioritizing and addressing aggregate statewide needs. Such an approach would be consistent with existing statutory language in ACA § 6-21-806(a)(2) referencing a statewide facility needs priority list to be developed by the State. Beginning with the 2021-2023 Partnership Program project funding cycle and the 2020 Master Plan, the Division of Public School Academic Facilities and Transportation *(Division*) will develop statewide needs priority lists to initiate the school districts' planning process.

The Division will develop two Statewide Facility Needs Lists – for Space/Growth needs and for Warm, Safe, and Dry needs. The lists will be developed using the following parameters.

Warm, Safe, and Dry needs for all campuses (3 factors):

1) Campus value (from Division District Report as a composite of academic building values). Note: Building value is based on nominal 50-year life of building with 2% depreciation per year;
2) District value (computed as a composite of Campus values), and
3) Facility Condition Index *(FCI)* (computed as the ratio of system replacement costs to building replacement costs). Data from school districts' Master Plans will be used to determine system replacement costs in Years 0-5 and Years 6-10.

Space/Growth needs for all school districts (4 factors):

1) Actual enrollment growth % - last 10 years;
2) Projected 5-year enrollment (%);
3) Projected 5-year enrollment (students); and
4) Nominal school district suitability (estimated school district suitability versus existing academic space).

Recommendation #2 - *Approved*

The three project categories of Warm, Safe, and Dry (System Replacement); Warm, Safe, and Dry (Space Replacement); and Space/Growth should be replaced with two categories of Warm, Safe, and Dry and Space/Growth. Project definitions should be refined to focus the Partnership Program (See Recommendation #3) and project funding for each category should be revised (See Recommendation #9).

Recommendation #3 - *Approved*

Project definitions should be refined as follows to focus the Partnership Program to address the most critical facility needs.

Space/Growth and Warm, Safe, and Dry (Space Replacement)

Project Definition. Space/Growth projects and Warm, Safe, and Dry (Space Replacement) projects should be limited to the following based on demonstrated suitability per the Partnership Program rules.

- New schools. Phased approach with 5-year enrollment projections for academic core and 10-year projections for single purpose spaces: student dining, media center, PE, and performing arts. (May use 10-year projections with justification and Division approval);

- Additions of only spaces required by the Program of Requirements *(POR)* with funding for support spaces limited to new school % - 10% for elementary and 15% for middle and high schools; and
- No <u>stand-alone</u> additions of less than 10,000 square feet, for safety and security purposes. Smaller additions may be approved when final configuration of existing building and addition are under one roof. (Open-air breezeways are not considered under-roof for purposes of this requirement.) The Division may grant waivers when site conditions do not allow attached additions.

Warm, Safe, and Dry (System Replacements)

Project definition. Warm, Safe, and Dry (System Replacement) projects should be limited to the following:

- Eligible systems include roofs, plumbing, electrical, fire and life safety, structural, and security;
- Minimum project costs should be $150,000 or $300 per student. The Division may grant waivers of this minimum for life safety or security projects; and
- HVAC projects should be part of an energy savings contract with performance of a comprehensive energy savings plan. Partial HVAC system replacement projects may be requested by school districts and approved by the division provided they meet minimum project cost threshold and represent a prudent and resourceful use of funds. (The Division should explore other similar funding opportunities for roof systems.)

Recommendation #4 - *Approved*

The Division should establish a Facilities Maintenance Composite Assessment Program to evaluate Arkansas school facilities conditions, appearances and, determine and verify the implementation of an effective maintenance management program. The program should consist of multiple weighted components including, but not limited to the following: preventative maintenance plan (in CMMS), corrective action work order completion (in CMMS), state mandated inspections compliance, and maintenance personnel professional development.

Recommendation #5 - *Approved*

Model #4 (developed by BLR on behalf of Sen. Blake Johnson and Rep. Charlotte Douglas using greatest 10 year enrollment) is recommended for revision of the Academic Facilities Wealth Index during the 2019 Session. The adjusted wealth index should become effective for the 2021-2023 project funding cycle.

Recommendation #6 - *Approved*

The Division has the authority pursuant to Master Plan rules to require additional information in the Master Plan narrative (Tab 6). The Division may wish to consider requiring schools to list their respective building fund balances in their Master Plans filed with the state.

Recommendation #7 - *Approved*

The Division should publish actual cost factors based on the annual updates required by ACA § 6-20-2509. Partnership Program maximum cost factors for each of the 13 regions should be the lesser of the actual cost factors or $200 per square foot.

Recommendation #8 - *Approved*

State Partnership Program funding should be an annual budgeted amount of about $90 million. ($102 million of historic yearly funding minus $2 million for removal of HVAC project costs, minus $5 million in efficiencies with revised project scopes, and minus $5 million due to adjusted wealth index values.) This recommendation would require an increase in Revenue Stabilization funds or annual budgeted GIF funds of about $30 million.

Recommendation #9 - *Approved*

Partnership Program funds should be split into two "pots" – one "pot" for Space/Growth projects and a second "pot" for Warm, Safe, and Dry projects. Partnership Program funds should be distributed equally between the two "pots". Processes should be established for carryover and/or redistribution of funds if all funds in one category are not used during one funding cycle.

Recommendation #10 - *Approved*

Space/Growth projects and Warm, Safe, and Dry projects will be prioritized in two lists using three ranking factors:

- Statewide Facility Needs Lists,
- Academic Facilities Wealth Index, and
- Facilities Maintenance Composite Assessment.

Projects on the two lists will be funded in priority order using funds available for that category.

Recommendation #11 - *Approved*

The Division will establish Master Plan and Partnership Program project application timelines to ensure that all project applications receive an "early" review to ensure completeness and compliance and to ensure that the Master Plan remains the foundation of the State's and school districts' facilities programs. With processes to ensure "early" review of all Partnership Program project applications, Act 864 of 2017 can be repealed.

Recommendation #12 - *Approved*

All changes and recommendations should be enacted in the appropriate statute and/or rules to become effective with the 2021-2023 Partnership Program project funding cycle and the 2020 Master Plan.

Recommendation #13 - *Approved*

The Division should investigate opportunities for Partnership Program efficiencies in statewide procurement for design and construction services.

Recommendation #14 – *Recommendation Tabled*

ACA § 6-20-2514, Academic Facilities Extraordinary Circumstances, should be repealed in the 2019 Legislative Session.

Recommendation #15 - *Approved*

The Division needs to bring its capacity for collecting and using data up to best practice standards. Such capacity building will be a crucial part of the implementation of any policy that could significantly improve the Division's effectiveness in support of an adequate education for students while limiting the fiscal burden to the taxpayer.

MASTER PLAN AND ACADEMIC FACILITIES PARTNERSHIP PROGRAM
SUMMARY OF DISCUSSIONS AND RECOMMENDATIONS

1. PROCESSES

1.1 Statewide Facility Needs Lists

Discussion - The key to the State's academic facilities program is the Master Plan. All school districts are required to submit six-year Master Plans by February 1 of each even-numbered year. The school district's Master Plan should review short and long-term needs in the school district and provide strategies for addressing those needs. Partnership Program projects must be contained on the school district's Master Plan. School districts are required to submit a Master Plan report by February 1 of each odd-numbered year to update information in the Master Plan and indicate if any projects have been completed. School districts are also required to submit a Preliminary Master Plan that forms the basis for a consultation meeting with the Division to review the school district's Master Plan and discuss Master Plan requirements and strategies for success.

Currently, each school district prepares its Master Plan to address school district-specific facility wants and needs. However, both statute (ACA § 6-21-806 (a)(2)) and rule (Master Plan Rule 4.02.2.2) require that school district Master Plans be developed "on priorities established by the division statewide facility needs priority list…." But, the Division does not currently develop a statewide priority list to guide the school district's Master Plan preparations. As a result, the State finds itself reacting to the school districts' Master Plans, rather than leading school districts' Master Plan development in accordance with State priorities.

Recommendation #1 - *Approved*

Facilities planning should transition from the current school district-led plan to a systematic statewide plan focused on prioritizing and addressing aggregate statewide needs. Such an approach would be consistent with existing statutory language in ACA § 6-21-806(a)(2) referencing a statewide facility needs priority list to be developed by the State. Beginning with the 2021-2023 Partnership Program project funding cycle and the 2020 Master Plan, the Division will develop statewide facility needs priority lists to initiate the school districts' planning process.

The Division will develop Statewide Facility Needs Lists – for Space/Growth needs and for Warm, Safe, and Dry needs. The lists will be developed using the following parameters.

Warm, Safe, and Dry needs for all campuses (3 factors):

1) Campus value (from Division District Report as a composite of academic building values). Note: Building value is based on nominal 50-year life of building with 2% depreciation per year;
2) District value (computed as a composite of Campus values), and
3) Facility Condition Index *(FCI)* (computed as the ratio of system replacement costs to building replacement costs). Data from school districts' Master Plans will be used to determine system replacement costs in Years 0-5 and Years 6-10.

Space/Growth needs for all school districts (4 factors):

1) Actual enrollment growth % - last 10 years;
2) Projected 5-year enrollment (%);
3) Projected 5-year enrollment (students); and
4) Nominal school district suitability (estimated school district suitability versus existing academic space).

1.2 Project Categories

Discussion - The Partnership Program statute, ACA § 6-20-2507, provides in general terms the requirement for the State to provide “cash payments to a school district for eligible new construction projects.” Although the statute does not define “new construction projects,” project categories are contained in Section 5.05 of the Partnership Program rules that discuss prioritization of approved projects. The three project categories are as follows:

1) Warm, Safe, and Dry (System Replacement);
2) Warm, Safe, and Dry (Space Replacement); and
3) Space/Growth.

Recommendation #2 - *Approved*

The three project categories of Warm, Safe, and Dry (System Replacement); Warm, Safe, and Dry (Space Replacement); and Space/Growth should be replaced with two categories of Warm, Safe, and Dry and Space/Growth. Project definitions should be refined to focus the Partnership Program (See Recommendation #3) and project funding for each category should be revised (See Recommendation #9).

1.3 Project Definitions

Discussion - Warm, Safe, and Dry (System Replacement) projects are defined in Section 3.36.1 of the Partnership Program rules. These projects must be total system replacements for only the following six systems: fire and safety, HVAC, roofing, electrical, plumbing, and structural. There are some issues with the current process for Warm, Safe, and Dry (System Replacement) projects:

- HVAC system projects have received the largest amount of Partnership Program systems funding – about $54 million ($5 million per year). However, many times the stand-alone HVAC Partnership Program projects are not efficient. Replacement of an HVAC system should be part of a comprehensive energy management review of a building that may also include lighting, insulation, replacement of windows, and energy management controls. The Division's Rule Governing Acquisition of Energy Savings Measures for Public Schools provides for "Energy Savings Contracts" that pay for conservation measures through energy savings. Removing HVAC projects from Partnership Program funding could reduce funding requirements by about $5 million per year.

- School districts may replace systems whose lives could be extended with enhanced maintenance and could replace entire systems when only a portion of the system needs to be replaced or repaired.

- Security projects are not eligible for Partnership Program state financial participation.

- There may be other funding opportunities for roofs, the system receiving the second largest amounts of state financial participation. Removing roofing projects from Partnership Program funding could reduce funding requirements by about $3 million per year.

Space/Growth projects are requested because of the need for additional space. This space need is known as suitability. Suitability needs may occur because of actual or projected enrollment growth, or because an existing campus does not contain the amount of space required in Partnership Program rules for a new school campus. Computation of suitability based on 10-year enrollment projections. Warm, Safe, and Dry (Space Replacement) projects replace buildings or campuses in two situations: when the building or campus is no longer sufficient to provide an adequate education, or when it is a more prudent expenditure of State and school district funds to replace space rather than renovate. All space projects must comply with spaces included in the Program of Requirements *(POR).*

Issues with space projects include the following:

- There are uncertainties in enrollment projections, particularly for 10 years into the future;

- School districts may request inefficient additions of space in small stand-alone buildings that create campus safety and security issues.

- School districts may use suitability to add new support spaces not required in the POR. Additions of non-required spaces can increase State financial requirements in the Partnership Program.

Recommendation #3 - ***Approved***

Project definitions should be refined as follows to focus the Partnership Program to address the most critical facility needs.

Space/Growth and Warm, Safe, and Dry (Space Replacement)

Project Definition. Space/Growth projects and Warm, Safe, and Dry (Space Replacement) projects should be limited to the following based on demonstrated suitability per the Partnership Program rules.

- New schools. Phased approach with 5-year enrollment projections for academic core and 10-year projections for single purpose spaces: student dining, media center, PE, and performing arts. (May use 10-year projections with justification and Division approval);
- Additions of only spaces required by the Program of Requirements *(POR)* with funding for support spaces limited to new school % - 10% for elementary and 15% for middle and high schools; and
- No stand-alone additions of less than 10,000 square feet, for safety and security purposes. Smaller additions may be approved when final configuration of existing building and addition are under one roof. (Open-air breezeways are not considered under-roof for purposes of this requirement.) The Division may grant waivers when site conditions do not allow attached additions.

Warm, Safe, and Dry (System Replacements)

Project definition. Warm, Safe, and Dry (System Replacement) projects should be limited to the following:

- Eligible systems include roofs, plumbing, electrical, fire and life safety, structural, and security;
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- HVAC projects should be part of an energy savings contract with performance of a comprehensive energy savings plan. Partial HVAC system replacement projects may be requested by school districts and approved by the division provided they meet minimum project cost threshold and represent a prudent and resourceful use of funds. (The Division should explore other similar funding opportunities for roof systems.)

1.4 Facilities Maintenance Composite Assessment

Discussion – Current Division rules and procedures do not adequately address the ongoing maintenance and upkeep required throughout the State's school districts. The State's approval and funding of public school construction projects is not currently contingent on any appreciable or objective measurement of how well school districts are maintaining their current facility assets. Pursuant to ACA § 6-21-808, school districts are required to participate in any state-level computerized maintenance management system *("CMMS")* designed to track work orders and preventative work established by the Division at no cost to the school district. And, under ACA § 6-21-813, the Division is tasked with conducting random unannounced on-site inspections of all academic facilities to ensure compliance with the school district's facilities master plan and, if applicable, the school district's facilities improvement plan, in order to preserve the integrity of and extend the useful life of the public school facility. But there is no deliberate use of maintenance data at the State-level to inform decisions on future project funding, and to effectively reward good maintenance and upkeep practices or, in the case of poor facilities maintenance practices, to curtail State investment in new facilities projects until these practices are improved by the local school district.

The objective of developing a statewide Facilities Maintenance Composite Assessment is to examine schools and to objectively score and rate maintenance management practices. The Division's existing staff (Maintenance and Operations section) would be re-tasked to better observe and report assessment of computerized maintenance management systems usage, existing physical conditions, review of building condition assessment data (in Tab 12 of the Master Plan), and the degree of variance from standards in the *"Public School Facilities, Maintenance, Repair, and Renovation Manual, (Custodial and Maintenance Manual)"* as well as "best practices".

The Facilities Maintenance Composite Assessment will:

1. Provide a statewide overview of Arkansas public school facilities conditions and maintenance operations performance.

2. Provide constructive feedback to each school district on its facilities maintenance program.

3. Gather and share "best practices" across the State.

4. Establish a baseline condition score of current facilities maintenance programs.

5. Identify school districts that require additional technical assistance from the Division.

6. Provide an additional ranking factor to be used in funding requested Academic Facilities Partnership Program projects.

Recommendation #4 - ***Approved***

The Division should establish a Facilities Maintenance Composite Assessment program to evaluate Arkansas school facilities conditions, appearances, and, determine and verify the implementation of an effective maintenance management program. The program should consist of multiple weighted components including, but not limited to the following: preventative maintenance plan (in CMMS), corrective action work order completion (in CMMS), state mandated inspections compliance, and maintenance personnel professional development.

2. ACADEMIC FACILITIES WEALTH INDEX

2.1 Review of Wealth Index Adjustments

Discussion - Funded Academic Facilities Partnership Program projects are cost-shared with the school districts, and school districts are required to provide a local-school district match of funds in conjunction with the State's financial participation. The Academic Facilities Wealth Index is the statutory (ACA § 6-20-2502 (1)) computation that determines the school district's percentage, known as the wealth index. The wealth index computations determine each school district's value of one mill of assessment per student, then compares that value to the value of the school district at the 95th percentile. A wealth index of 0.48 would indicate that the school district's percentage share of the project would be 48% and the State's share would be 52% of the qualified project cost.

The Bureau of Legislative Research *(BLR)* completed a Research Report dated November 29, 2017, entitled *"Academic Facilities Funding, Expenditures, and Distress".* Pages 18-21 of that report addressed the Academic Facilities Wealth Index and presented several issues with the current calculations of wealth index. Since many school districts require a debt service millage increase to provide the local-school district funding match, a favorable wealth index is often critical to the school district's ability to successfully pass a millage increase and execute needed projects.

- Declining enrollment and high growth impact. The wealth index computations indicate a school district becomes wealthier when it gains in assessed value and becomes poorer when it loses assessed valuation. However, the computations also treat school districts as "poorer" when they gain students and "wealthier" when they lose students. Wealthy school districts gaining in students can see their wealth index decrease and receive an increase in State partnership funding, lending credence to the statement that "the rich get richer" and "the poor get poorer." Meanwhile, several school districts in the Delta have had a wealth index increase (and State partnership funding decrease) since the beginning of the facilities program in 2005, with the "increase" attributable not to gains in assessed value, but rather loss of students.
- Property wealth may not be true measure of wealth of a school district. The report notes that there may not be a correlation between property wealth and median income in a school district.
- Some school districts mill values (assessments) may be too small for the school district to participate in the Partnership Program with the current wealth index.

The Advisory Committee on Public School Academic Facilities *(Advisory Committee)* reviewed five Models that adjusted the facilities wealth index.

1) A revised Academic Facilities Wealth Index proposed by Representative Mark Lowery created by amending ACA § 6-20-2502(1) to include three indices consisting of the existing wealth index, plus two additional components accounting for year-end net legal balance per student and year-end building fund balance per student. The existing wealth index value of one (1) mill per student would be multiplied by four (4), the net legal balance per student would be multiplied by two (2), and the building fund balance per student would be multiplied by one (1) , effectively making a revised wealth index that would assign weighting factors of four-sevenths (4/7), two-sevenths (2/7), and one-seventh (1/7) to the prior wealth index, net legal balance, and building fund balance, respectively.

   The proposed wealth index would give consideration to "excess" funds in each school districts' operating account which are already being addressed with the passage of Act 1105 of 2017. Under the Act, school districts must reduce their net legal balances to no more than twenty percent (20%) of the current year net legal balance revenues or risk losing subsequent State funding.

In addition, the proposed wealth index building fund balance component seems punitive for school districts that are saving for needed construction, renovation, or repair projects, if data used in determining funds available do not exclude each school district's construction projects that are planned, committed, or already underway.

2) Use the existing Academic Facilities Wealth Index established by ACA § 6-20-2502 (1)(A) and for state financial participation for approved and funded Partnership Program projects, use a computed wealth index value equal to the lesser of:
    a) A 10-year average of the last 10 years of wealth index values; or
    b) The school district's wealth index in 2005.

   This process adjusted the wealth index for enrollment changes but did not consider poverty or mill values. The adjusted wealth index values appeared to reduce State financial participation by about 5%.

3) Adjust the existing Academic Facilities Wealth Index by the process described in Model #2 above for school districts with enrollment changes over 10 years of +/- 20%. The wealth index was further adjusted for poverty by a reduction of 10% for school districts in the lowest quartile and by 5% for school districts in the second quartile. A reduction of 10% was also used for school districts in the first quartile of low mill value. Although this Model considered significant enrollment changes, poverty, and low mill value, the adjusted wealth index values appeared to increase State financial participation by about 2%.

4) The Bureau of Legislative Research developed a Model at the request of Senator Blake Johnson and Representative Charlotte Douglas. This Model adjusted the existing mill value per student by the median income in the school district to account for poverty. At the request of the Advisory Committee, the Model was adjusted to use the greatest enrollment of the last 10 years to adjust for significant enrollment changes. The adjusted wealth index values appeared to reduce State financial participation by about 5%.

5) A Model that considered each school district's "ability to pay" used five weighted factors: disposable income per population, assessment per population, average teacher salary, net legal balances per number of students, and per pupil expenditures. This Model appeared to reduce State financial participation requirements by about 40%.

Since the Academic Facilities Wealth Index is contained in ACA § 6-20-2502 (1), any changes must be made through the Legislative process. It is important to select a Model that can obtain Legislative support to lower State financial participation requirements while providing more equitable distribution of State funds.

Recommendation #5 - *Approved*

Model #4 (developed by BLR on behalf of Sen. Blake Johnson and Rep. Charlotte Douglas using greatest 10 year enrollment) is recommended for revision of the Academic Facilities Wealth Index during the 2019 Session. The adjusted wealth index should become effective for the 2021-2023 project funding cycle.

2.2 Fund Balances

Discussion – Act 1105 of 2017 limits the amount of fund balances a school district may maintain, and requires the Arkansas Department of Education to withhold subsequent state funding if fund balances detailed in the law are not achieved. There have been similar discussions whether legal and building fund balances should be considered when computing the Partnership Program wealth index. However, school districts normally manage and plan building fund balances to provide the district's match of Partnership Program state financial participation. Considering building fund balances in the computation of wealth index for a district that has planned and managed building fund savings, appears to discourage districts from financial planning for district cost shares of Partnership Program projects. But, it is important for districts to report on building fund balances management and allow Division review of the balances.

Recommendation #6 - *Approved*

The Division has the authority pursuant to Master Plan rules to require additional information in the Master Plan narrative (Tab 6). The Division may wish to consider requiring schools to list their respective building fund balances in their Master Plans filed with the state.

3. FUNDING

3.1 Cost Factors

Discussion - The State's percentage share as calculated by the wealth index is based on the project qualifying cost as determined by the Division. Partnership Program rules limit the project cost factor to $175 per square foot, when actual construction costs in 2018 can often exceed $200 per square foot for new construction. The $175 per square foot maximum was established in Partnership Program rules revisions in 2008. The Division annually reviews actual cost data and computes projected building costs per square foot for 13 regions of the State. However, the Division does not publish on its website any cost factors greater than the maximum value of $175 per square foot. The constrained cost factors often confuse school administrators and school boards, and the reduced State financial participation based on the constrained cost factor results in a penalty for the school districts.

Recommendation #7 - *Approved*

The Division should publish actual cost factors based on the annual updates required by ACA § 6-20-2509. Partnership Program maximum cost factors for each of the 13 regions should be the lesser of the actual cost factors or $200 per square foot.

3.2 Yearly Budget

Discussion - The current school district-led Master Plan and Partnership Program application process does not allow the State to make forecasts of required Partnership Program funding for each project funding cycle. The Division does not know the number of Partnership Program project applications and the requested funding amounts until school districts submit applications by March 1 of each even-numbered year. The Division then must review the applications for completeness and understanding of scope to determine if the project application is approved or disapproved. The Division then estimates a qualifying project cost for each approved application. State financial participation amounts for each approved project are computed at the beginning of each odd-numbered year using updated values of the Academic Facilities Wealth Index.

This process places the State in a reactive mode regarding required funding for the Partnership Program, leading to large fluctuations in required funding for the various project funding cycles and fluctuations between Year-One and Year-Two of each funding cycle. State financial participation amounts have averaged $102 million per year, but have varied from high amounts of $ 261.2 million dollars in the two-year funding cycle for 2007-2009 to a low amount of $ 98.8 million in the 2009-2011 project funding cycle. Partnership Program funding for Year-One of the 2017-2019 project funding cycle was about $209 million. Within each two-year funding cycle, Year-One funding requirements have been approximately 75% of the total two-year funding requirement.

State funding for the Partnership Program is made up of several budget components. Revenue Stabilization funds are about 41.8 million per year, and Bonded Debt Assistance funds are about $17.1 million per year, for a nominal annual budget of about $58 million per year. Additional funding requirements are generally made from General Improvement Funds (GIF). For Year-One of the 2017-2019 project funding cycle, about $90 million funds above budget ($60 million GIF funds and $30 million Public School Fund Transfer) were required for the total $209 million state financial participation. $66.7 million of carry forward funds reduced the additional funds required.

In his opening remarks to the Advisory Committee, Arkansas Governor Asa Hutchinson encouraged the Advisory Committee to pursue changes and efficiencies that would meet school district needs while lowering the state financial participation. He noted that the $100 million per year of additional funding required for Year-One of the 2017-2019 project funding cycle was not sustainable.

By shifting to a State-directed Master Plan and Partnership Program process as contained in Recommendation #1, the State can lead rather than react to the required funding amounts to address facility needs in the State. The State can then budget for uniform funding amounts for each fiscal year. This process would allow the State to comply with the State Master Plan language contained in ACA § 6-21-807(b)(3) that requires “a four-year rolling forecast of planned new construction projects related to public school academic facilities.”

Recommendation #8 - *Approved*

State Partnership Program funding should be an annual budgeted amount of about $90 million. ($102 million of historic yearly funding minus $2 million for removal of HVAC project costs, minus $5 million in efficiencies with revised project scopes, and minus $5 million due to adjusted wealth index values.) This recommendation would require an increase in Revenue Stabilization funds or annual budgeted GIF funds of about $30 million.

3.3 Project Funding by Project Category

Discussion – Currently, Partnership Program project funds are contained in one funding “pot”, and Partnership Program rules establish a prioritization for distribution of those funds to approved projects in the three funding categories: Space/Growth; Warm, Safe, and Dry (Space Replacement); and Warm, Safe, and Dry (System Replacement). For project funding cycles beginning in the 2019-2021 biennium, it is likely that Partnership Program funds will not be sufficient to fund projects in all three current categories.

Recommendation #9 - *Approved*

Partnership Program funds should be split into two “pots” – one “pot” for Space/Growth projects and a second “pot” for Warm, Safe, and Dry projects. Partnership Program funds should be distributed equally between the two “pots”. Processes should be established for carryover and/or redistribution of funds if all funds in one category are not used during one funding cycle.

3.4 Prioritization of Approved Projects

Discussion – Currently, Partnership Program rules establish a prioritization for distribution of Partnership Program funds to approved projects in the three funding categories: Space/Growth; Warm, Safe, and Dry (Space Replacement); and Warm, Safe, and Dry (System Replacement). For project funding cycles beginning in the 2019-2021 biennium, Space/Growth projects are of highest priority followed by Warm, Safe, and Dry (Space Replacement) projects. Warm, Safe, and Dry (System Replacement) projects are the third funding priority. All approved projects in the Space/Growth category are funded before Warm, Safe, and Dry (Space Replacement) projects are funded. The prioritization parameters include historic growth, school district ability to pay measured by wealth index, student population of the school district measured by ADM, and building value.

There is not a prioritization factor that includes the school district's process to maintain existing or new facilities, although it is generally accepted that Partnership Program funds should go to school districts who maintain their facilities. Some states such as New Mexico compute a maintenance process factor for each school district. The Division plans to adopt a similar process to assess and rank the maintenance processes of each Arkansas school district. (See Recommendation #4).

Recommendation #10 - *Approved*

Space/Growth projects and Warm, Safe, and Dry projects will be prioritized in two lists using three ranking factors:

- Statewide Facility Needs Lists,
- Academic Facilities Wealth Index, and
- Facilities Maintenance Composite Assessment.

Projects on the two lists will be funded in priority order using funds available for that category.

4. Timing

4.1 Master Plans and Partnership Program Project Applications

Discussion – Partnership Program funding is an integral component of facilities funding for many school districts. Therefore, it is imperative that school districts have ample opportunities to participate in the Partnership Program and receive State financial participation for approved projects to support the school districts' Master Plans. For program equity, all Partnership Program project applications must be complete and comply with all application requirements. During the 2015-2017 project funding cycle, about 50% of the project applications were disapproved due to omissions or errors with technical requirements of the applications. Such high disapproval rates of project applications stopped or delayed until future funding cycles much needed facilities projects.

Act 962 of 2015 and Act 864 of 2017 allowed school districts to submit "early" applications ahead of the March 1 deadline for Division review to ensure that the applications were complete and thus eligible for needed Partnership Program funding. For the 2017-2019 project funding cycle, use of Act 864 of 2017 for many project applications was successful in greatly reducing the application disapproval rate. However, the timing of Act 864 of 2017 that required districts to submit "early" applications 120 days before the March 1 deadline placed the project applications before the submission of the Master Plans due on February 1. This "backwards" timing meant the Division had to review and approve project applications without knowing the overall facilities plan for the school district.

It will be important for future project funding cycles to ensure that the Master Plan remains the foundation of the State's facilities program, and the Division reviews Partnership Program project applications in conjunction with the Master Plan. It is also important that all project applications receive an early review to ensure compliance with the technical requirements of the Partnership Program.

Recommendation #11 - *Approved*

The Division will establish Master Plan and Partnership Program project application timelines to ensure that all project applications receive an "early" review to ensure completeness and compliance and to ensure that the Master Plan remains the foundation of the State's and school districts' facilities programs. With processes to ensure "early" review of all Partnership Program project applications, Act 864 of 2017 can be repealed.

4.2 Adoption of Recommendations

Discussion - Most of the Advisory Committee recommendations can be implemented with changes in Master Plan and Partnership Program rules. However, some recommendations such as the Academic Facilities Wealth Index and repealing Act 864 of 2017, must be done in statute, hopefully in the 2019 Legislative Session. The Advisory Committee believes that all changes must have ample time for public review and comment.

Recommendation #12 - *Approved*

All changes and recommendations should be enacted in the appropriate statute and/or rules to become effective with the 2021-2023 Partnership Program project funding cycle and the 2020 Master Plan.

5. Statewide Procurement Opportunities

Discussion - For funded Partnership Program projects and for self-funded new construction projects, school districts follow state procurement laws for design and construction. Those laws and rules govern the advertising and selection processes for professional services such as architects, engineers, and construction managers, and for construction processes of plan review and approval and bidding of individual contract packages. The advertising and procurement processes add time and increased cost to the design and construction processes. The state has authority under existing law to procure and negotiate statewide contracts for use by school districts, or to encourage cooperative purchasing by school districts, to leverage savings and efficiencies for design and construction of major school new construction projects. An expanded use of long-term, statewide contracts could also help school districts avoid the risk of cyclical swings in construction material costs, such as those encountered after natural disasters.

New construction projects must follow standards contained in the School Facility Manual and local and state building codes, but there is no requirement for consistency in specifications for projects across the state. Likewise, most new construction projects have unique designs developed by the architects and engineers for each project. Although site conditions often dictate required designs, there may be opportunities for use of a statewide prototype design and guide specifications for new schools and additions.

As discussed in Section 1.3, there may be opportunities for a statewide roofing contract to repair, replace, and maintain school district roofs, similar to energy performance contracts for HVAC systems.

Recommendation #13 - *Approved*

The Division should investigate opportunities for Partnership Program efficiencies in statewide procurement for design and construction services.

6. Academic Facilities Extraordinary Circumstances

Discussion - ACA § 6-20-2514 established processes for the Division to provide funds to eligible school districts without necessary local funds for participation in the Partnership Program. School district eligibility requirements could include declining or rapidly increasing enrollment, insufficient bonding capacity, low assessed valuation, wealth index above the 95^{th} percentile value, and any other circumstances. In 2006 Legislative hearings, no school district came forward to state that they did not have sufficient funds to repair, renovate, or construct school facilities. Final rules were never promulgated, and the Extraordinary Circumstances Program was never funded. If the Extraordinary Circumstances law is not repealed, it would result in conflicts between existing statute and revised rules under which the Division would be required to administer funding through the Partnership Program.

Recommendation #14 – *Recommendation Tabled*

ACA § 6-20-2514, Academic Facilities Extraordinary Circumstances, should be repealed in the 2019 Legislative Session.

7. Better Quality Data

Discussion - The Advisory Committee is considering a recommendation to the Commission to centralize facilities investment decision-making by developing "statewide priority needs lists" that will be the basis for school districts' Master Plans. This recommendation, if adopted as policy, increases the urgency for the Division of obtaining high quality data about the current condition of the schools, in a format amenable to analysis. The Advisory Committee's deliberations highlighted substantial room for improvement in the Division's practices of collecting and managing data about the State's school facilities, resulting in limitations in the Division's ability to discern where investment is most needed. If the foregoing recommendations pass out of committee, the Division will need better data in order to compile a statewide priority needs list in a manner that ensures adequate educational facilities for all students while economizing State resources to the extent possible.

While the Division currently has a substantial amount of data about school facilities, the formats in which some of the data is stored do not permit them to be merged or statistically summarized at all, while other data elements can be displayed in certain standard reports but not systematically analyzed. Other data elements are self-reported by school districts and not checked for consistency of standards across school districts. In general, the Division's data about the current condition of school facilities falls short of what was known in 2004, after the statewide assessment that was conducted at that time. More detailed data would be desirable for decision-making, but currently the Division would lack the capacity to process and make full use of additional data if it were available. This presents an interesting conundrum for the Advisory Committee at this juncture, as the implementation of some recommendations that the Advisory Committee is considering would require more current, reliable, and/or detailed data than the Division currently collects, analyzes, and disseminates. While formulating its recommendations, the Advisory Committee is therefore taking an interest in the Division's efforts to upgrade its capacities to collect and manage data.

One potential project to improve the overall data quality would be to undertake and audit of the Division's current data assets, map them and create a database structure, and develop and implement recommendations about how the Division can gain better intelligence and decision support regarding school facilities in Arkansas. Improved data is also going to be crucial to informing the decisions of key policymakers including the Arkansas Governor's Office, the Legislature, and the Commission.

Recommendation #15 - *Approved*

The Division needs to bring its capacity for collecting and using data up to best practice standards. Such capacity building will be a crucial part of the implementation of any policy that could significantly improve the Division's effectiveness in support of an adequate education for students while limiting the fiscal burden to the taxpayer.