



257 North Street, Harrisburg, PA 17101 tel 717.234.2310 fax 717.234.2522 info@preservationpa.org www.preservationpa.org

The Case for Capital Maintenance Projects In School Construction Reimbursement in Pennsylvania

Introduction

The economic recession has left school districts across Pennsylvania scrambling to find enough funding for educational programs, teacher salaries and extracurricular activities while still trying to maintain their facilities. State budget cuts to education for the last four years have had a dramatic impact on school districts across the state, which means less funding allocated to maintaining existing school facilities. As needed repairs stack up, districts have to make tough choices about where to allocate their shrinking resources.

Too often small problems become big problems if they are not addressed early. For example, small leaks can lead to significant water damage and skipped routine maintenance of equipment can lead to major breakdowns. Waiting until the problem can no longer be ignored to take action often costs more money in the end; it also leads to districts having to allocate capital funds under urgent circumstances, which may further decrease the funds available for maintenance in a given year.

School Districts need funding assistance for large capital repairs and maintenance at a time when less funding is available each year. As the Commonwealth and the Department of Education begin the process of re-evaluating school construction reimbursement policies, it makes good sense to consider the proposal to offer reimbursement for some capital maintenance projects. This has the potential to allow school districts to extend the life of historic, older and existing school buildings while needing less funding than is required for the construction of a new facility.

Background on School Reimbursement

With the establishment of the Pennsylvania Common School System Act of 1834, all decisions relating to school facilities are at the discretion of the individual school districts. Pennsylvania's Department of Education (PDE) offers reimbursement assistance to districts for both rehabilitation and construction projects. The PDE reviews all rehabilitation plans in second, third, and fourth-class districts.

Over the years, the guidelines have been misinterpreted where it is thought that historic schools cannot meet current construction codes or educational regulations. However, school construction projects involving historic buildings have successfully received reimbursement from the Commonwealth through a process known as PlanCon. PlanCon, an acronym for Planning and Construction Workbook, is a set of forms and procedures used to apply for Commonwealth reimbursement.

Through the PlanCon process, school districts are required to submit a project justification that takes into consideration "buildings, structures, site conditions or site features [that] are more than 50 years old..." Furthermore, PlanCon's "Part A: Project Description" states that "School districts should take all reasonable efforts to preserve and protect school buildings that are on or eligible for local or national

historic registers. If for safety, educational, economic, or other reasons, it is not feasible to renovate an existing school building; school districts are encouraged to develop an adaptive reuse plan for the building that incorporates a historic easement or covenant to avoid the building's abandonment or demolition."

The PDE does not favor new construction over renovations of existing buildings; in fact, over 80% of school construction projects that are reimbursed by the PDE involve work on existing buildings. Districts are reimbursed for a portion of projects up to a certain limit and cannot receive reimbursement for multiple projects on the same building within 20 years, often called the 20-year rule. This regulation tries to encourage school districts to think in terms of long-range facilities planning. An encouraging fact for historic school buildings is that the Commonwealth provides the same level of base reimbursement for renovations or alterations as for new buildings. Additional funding is available for certain types of projects. However, because renovations or alterations to an existing building are usually less expensive than new construction, the proportion of reimbursement is usually greater for work on existing buildings than for new buildings.

Additionally, many school districts are not able to perform all needed maintenance projects because there is no reimbursement policy for the work and they don't always have sufficient funding available for large projects. Existing school buildings that are regularly maintained and upgraded can provide a long-term use as a school including state of the art educational standards at less cost than new construction. If a school district has been regularly maintaining their buildings, a major renovation, when needed, will be more feasible. Waiting until the building is in such bad condition that rehabilitation is difficult or too expensive results in the loss of many otherwise well-constructed, though poorly maintained, buildings.

A review of the PDE's Basic Education Circulars revealed school districts are often motivated to forfeit preventative maintenance and small-scale adaptive reuse renovations because of prohibitive costs. In addition, many technological and electrical upgrades, ADA/IDEA improvements, windows, roof repair and minor renovations are considered by the PDE as non-reimbursable projects. As a result, school district administrators may forgo non-reimbursable projects for the sizeable financial incentives offered for demolition, new site acquisition, and new construction.

In 2001, the Pennsylvania School Board Association asked school district administrators to rank the top reasons for choosing new construction over renovation. The top reasons for planned construction included: technology additions, age of existing facilities, inadequate instruction space in existing facilities, security and safety, and IDEA/ADA compliance. Planned construction certainly offers a costly solution to these administrative demands; however, preventative maintenance, classroom additions, and minor renovations to existing buildings (if funded by state reimbursements) provide a more cost-efficient and resource sensitive solution.

The Current Situation

Now the governor has proposed a moratorium on future school construction reimbursement and payments for the school districts that have begun, or in some cases, completed construction projects for which debt has been incurred.

Although the Commonwealth has a legal obligation to provide reimbursement to school districts for their school construction costs, the proposed 2012-13 budget appropriation for reimbursement will not be able to reduce the extreme backlog of submissions already approved. This backlog has been created by a reduction in the funding level of more than 11% over the last two fiscal years while additional changes to the School Code, such as including charter schools, have increased funding requirements.

With PDE approval, schools proceeded with projects under the reasonable expectation that the district would receive state reimbursement for a percentage of its costs. Now the PDE is changing the rules. To jeopardize or delay needed reimbursement to these districts, especially when they are facing economic challenges, is financially irresponsible and puts districts, students, staff, and taxpayers at risk. The many school districts that have assumed debt and started construction and are suddenly now not guaranteed reimbursement will be forced to make cuts to educational programs or increase local property taxes, to ensure that they do not default on their financing and contractual obligations. These school districts have significant financial obligations and do not have the liberty of simply delaying payment until state reimbursement is received. Instead, they will be forced to look into their budgets to cut educational staff or programs, undermining the quality of education they can provide, to borrow additional money, which may negatively impact their bond rating, or they may be forced to place an even greater share of the burden for the project on the local property taxpayer as the state's share of education funding continues to decrease.

One of the most troubling aspects of the proposed moratorium is that it does not take into account the necessity of the project or focus on the state of the school facility. It pulls the rug out from even those projects in which there is an immediate need for repair or construction due to adverse health and safety concerns, such as asbestos removal and accessibility improvements.

This proposal will also have a chilling effect on jobs across the state at a time when Pennsylvania's economy is just beginning to get back on its feet. School districts across the state will delay projects until they are guaranteed that the Commonwealth will meet its obligations, jeopardizing thousands of jobs and dealing our economic recovery a significant blow.

The long-term impact of this situation could be devastating to school districts who struggle to fund facility needs. If school districts are forced to raise taxes to meet their financial obligations or default on bond payments, it will mean even less funding available for routine maintenance.

The encouraging outcome of this situation is that the Governor has stated that he would like a review of and make possible revisions to the reimbursement process. This would be an excellent time to introduce the proposed addition of capital maintenance projects for possible reimbursement. If it proves to be correct that this added reimbursement opportunity will result in the retention of more existing schools and, therefore the reduction of new construction, it should be viewed as a fiscally responsible approach to less funding.

The Proposal

Preservation Pennsylvania is advocating for a revision the existing School Construction Reimbursement Criteria to allow for certain capital maintenance projects to receive state reimbursement. This would require a change in policy that carefully defines the specific areas that would be eligible for reimbursement. This should not be used as a way to fund regular routine maintenance that every school district must undertake but should be designed as a way to help with a large expenditure (i.e. HVAC, technology upgrades) that has the potential to extend the life of an existing school. It should also include a provision to allow these capital maintenance reimbursements to occur within the twenty year normal cycle for reimbursement.

Current PDE reimbursement policies do allow rehabilitation. In 1998, a group of historic preservation organizations petitioned the PDE to amend the Basic Education Circulars to change the destructive regulation that required school districts to abandon older schools if the renovation costs were more than 60% of the replacement costs. This amendment resulted in a significant change that allowed rehabilitation to compete evenly with new construction for state reimbursement. Additional policy

changes made at that time eliminated the stipulation that “ordinary buildings” could not be renovated and established a regulation that encouraged school districts to use covenants to avoid the demolitions of historic neighborhood schools after they were no longer used as schools.

However, there are still a number of misconceptions regarding the reuse/rehabilitation of existing schools. There is a misconception that existing school buildings cannot be adequately rehabilitated to meet 21st century standards. Experience has shown that it is often less expensive to rehabilitate an existing school, and those schools can become state-of-the-art facilities for many years.

The Commonwealth will not reimburse school districts for alternation or renovation costs for any building that is less than twenty years old or for which a reimbursement project has been approved within the preceding twenty years. School districts do their planning based on this twenty year reimbursement rule. While this is a good standard for encouraging advance planning, it is a disincentive to regular maintenance. Some school districts may perform little to no maintenance during the twenty years between reimbursements virtually guaranteeing that the building is in terrible condition by the time each building is eligible. This “condition” is then cited as the reason the building must be replaced – it is too deteriorated to save. Therefore, if certain specified capital maintenance projects could be approved for reimbursement before the twenty year mark, it could extend the life of existing buildings and, perhaps, make the next major rehabilitation or new construction decision unnecessary or smaller in scope.

While there should not be reimbursement for routine maintenance items, the failure of a heating system or the need to upgrade technology could lead to the abandonment of a school building before it has exceeded its useful life. If there were some type of reimbursement available for larger system failure or system upgrades within the twenty year period, some school buildings would have a better chance of continued use.

Generally, the Commonwealth will not reimburse alteration or renovation costs of existing school buildings if the total cost is less than twenty percent (20%) of the replacement value of the entire building unless a request for a variance is approved. Current policy does allow for consideration of asbestos abatement, roof replacement and site development costs not greater than twenty percent (20%) of other approved alteration costs will be considered eligible for reimbursement as part of a project but this is not routinely approved.

Several superintendents interviewed regarding this proposal indicated that reimbursement for capital maintenance projects within the normal twenty year period is definitely needed would allow them to stretch their limited maintenance funding. Districts could then allocate some existing maintenance funding to facilities within the district that are not eligible for reimbursement, such as athletic facilities.

Conclusion

Considering the inclusion of capital maintenance projects into a revised School Construction Reimbursement policy makes good fiscal sense. Deferred maintenance of schools is a growing problem as school districts struggle to find sufficient funding to pay for all their needs, both facility and programmatic. As needed repairs stack up, districts need to be make tough choices about where to allocate their resources.

If the Commonwealth is seeking ways to reduce the amount of funds allocated to reimbursement, they should also be seek ways to reduce the need. Allowing for a good program of reimbursement for capital maintenance projects that would extend the useful life of existing buildings, it should reduce the need for larger projects over the long-term as deferred maintenance is brought under

control and districts find there is less need for new construction solely as a result of existing facilities that are in such bad condition, they cannot be rehabilitated.

Preservation Pennsylvania received funding from The National Trust for Historic Preservation, who launched the *Helping Johnny Walk to School: Sustaining Communities through Smart Policy* project in 2008 to encourage the retention and development of community-centered schools. Through a cooperative agreement with the U.S. Environmental Protection Agency and through the generous support from the Building Educational Success Together (BEST) collaborative, this project brings together leaders from different fields to find new ways states can encourage community-centered schools.