

**ARLINGTON COUNTY CIVIC FEDERATION SCHOOLS COMMITTEE REPORT
AND RECOMMENDATIONS ON THE 2009-2014 CAPITAL IMPROVEMENT PLAN**
May 20, 2008

The Civic Federation Schools Committee makes the following report and recommendations to the School Board and the Civic Federation regarding the proposed Capital Improvement Plan (CIP) for 2009-2014.

SUMMARY

1. The Committee commends the Superintendent and School Board for removing a total of \$8.3M of proposed short-term capital maintenance projects from the proposed bond referenda, since the projects would not have lasted for 20 years and therefore should be funded out of operating revenues or other short-term financing arrangements.
2. The Committee concurs with the Superintendent's original proposal to put design money for Wakefield High School in the 2010 bond and construction money in the 2012 bond, since the project cannot begin before 2013, due to debt service constraints. The School Board, by contrast, accelerated the proposal and plans to put design funds in the 2008 bond and construction funds in the 2010 bond, without accelerating the timetable for beginning the project. Arlington's experience with approving bond projects years before they will begin has been quite discouraging (e.g., Shirlington Library, Reed School/Westover Library, Cherrydale Fire Station and North Tract), and should not be repeated. The School Board should reconsider accelerating placement of Wakefield High School on the 2008 and 2010 bonds and return to the Superintendent's original proposal.
3. The Committee is very concerned about continuing changes in the scope of projects that are still causing increases to the cost of Yorktown High School, and the implications of this continuing pattern for the ultimate cost of Wakefield. Similarly, the cost of upcoming projects is so high, and the debt service they will incur is so great, that little will be left for pay adjustments for staff, addressing our OPEB liability or continuing the new initiatives that the Board has recently begun. The Committee urges the Board to act responsibly and exercise restraint so that, at the very least, the operating budget has sufficient resources to pay staff competitively and resolve our retiree health benefit liability.

BACKGROUND

The Superintendent's original proposal has been modified after two work sessions with the School Board. This report and the recommendations in it are based on the information from those two work sessions and the information posted on the School Board website as of May 19, 2008, which did not include an official, revised version of the CIP. The current proposal calls for bond referenda for the next three bond cycles as follows:

Year	Amt (in millions)	Purpose
2008	\$99.425M	Yorktown Phase 2: \$82.975 M (plus \$27M from 2004 & 2006 bonds) Wakefield design: \$11.1M Career Center Major Maintenance: \$5.35M
2010	\$156.68M	Wakefield construction: (will not begin until 2013)
2012	\$ 0	Wakefield construction begins in 2013, no other projects planned
TOTAL	\$ 256.105M	

Based on these plans, the proposed CIP contemplates spending in the next 8 years as follows:

Fiscal Year	Amt (in millions)	Purpose
2009 (2008 bond)	\$ 42.4M	Yorktown Phase 2: \$31.5 M* Wakefield Design: \$5.55 M ** Career Center Maintenance: \$5.35 M
2010	\$ 32.38M	Yorktown Phase 2: \$26.83 M Wakefield Design: \$5.55 M
2011	\$ 13.545M	Yorktown Phase 2
2012	\$ 11.1M	Yorktown Phase 2
2013	\$ 31.35M	Wakefield Construction
2014	\$ 31.35 M	Wakefield Construction
2015	\$ 62.675M	Wakefield Construction
2016	\$ 31.305 M	Wakefield Construction
TOTAL	\$ 256.105M	

* Total cost of Yorktown Phase 2 is projected to be \$110 M, to be completed in FY 2012

** Total cost of Wakefield (before any detailed design plans have been done) is projected to be \$11.1 M for design costs and \$157 M for construction, with construction to begin in FY 2013 and be completed in FY 2016.

This plan, created at the School Board's direction, assumes revenue growth at 4% per year (an appropriately conservative figure).

After debt service and maintaining the current level of projected operating services, this revised plan would leave only enough operating revenues for a 2.5% COLA for staff in 2010 and a 2.25% COLA in 2011 -- with no additional money left over for any other new initiatives or to address the school system's OPEB liability, unless other programs were curtailed and/or eliminated.

Under the revised plan, debt service climbs from \$ 27.7M in FY 2008 to \$ 33.4M in 2009 (already budgeted) to a projected \$38.3M in 2011 and \$45M in 2017.

RECOMMENDATIONS AND COMMENTS

1. An Appropriate Change Was Made to the 2008 and 2010 Bond Proposals.

After questions from the Civic Federation Schools Committee, the Superintendent wisely revised the initial CIP proposal by removing \$ 5.2M over the next two bond cycles for capital maintenance projects at Wakefield and Thomas Jefferson Middle School that would not have lasted 20 years. (\$2.85 M of proposed 2008 bond funding was removed, along with \$2.35M of proposed 2010 bond funding. This was in addition to \$3.1M from design funds from prior years that were to be used for maintenance projects, for a total of \$8.3M). APS and County guidance call for not using bond funds for projects that will have a short useful life. Such needs are normally funded from current operational funds or other short term financial arrangements. This way, the taxpayers are not obligated to pay interest on projects years after their useful life has expired. Changing the plan to adhere to those guidelines was a wise choice.

2. Accelerating Wakefield to the 2008 and 2010 Bond Cycles is Unwise

At the School Board's direction, the Superintendent added \$11.1 million to the proposed 2008 bond for design money for Wakefield. The Committee does not believe this is appropriate, since the project is not scheduled to begin until at least FY2013, due to current debt service constraints. If the building is designed too many years in advance of when it is built, code, educational specifications, and potentially, the student population being served may change, creating additional costs in design changes.

Similarly, it is the School Board's intention to place the Wakefield construction costs in the 2010 bond, even though construction will not begin until at least two years later. Again, we believe this is unwise. Voters expect that when they approve a bond, the project will begin soon afterwards. Arlington's experience with approving projects far in advance of when they will be built has been most disappointing (e.g., the Reed School/Westover Library, the Cherrydale Fire Station, Shirlington Library and North Tract); the projects were delayed for years and cost far more than what the voters approved in the bond referenda. The School Board should wait to put the construction costs for the project on the ballot until it is ready to be built. With the cost of construction materials increasing at such a fast rate, new construction methods and new materials may become available within the next few years. Scheduling the design closer to the planned construction period would allow the designer to incorporate any new material or design approaches to mitigate the costs. In the meantime, the School Board should negotiate with the County Board to obtain a commitment that necessary funding will be available for Wakefield in the 2012 bond, or when the School Board is ready to build it.

3. Yorktown Funds in the 2008 Bond

The CIP states that the total cost of Phase 2 of Yorktown will be \$110M (voters will be asked to approve \$83M for the project on the 2008 bond; \$27M will be funded from the 2004 and 2006 bonds). In October 2007, the School Board approved the Yorktown final design with a projected cost of \$103.197M. In early April, APS decided to delay beginning Phase 2 until after the 2008 referendum to make sure all funds necessary for the project would be approved. The school

system announced at that time that the delay (of 7 months) would add \$3.4 M to the projected cost of the project. Annualized, that is almost a 7% increase, exceeding the 5% annual escalation factor APS normally plans on. Staff has provided no explanation for why a delay of 7 months should be so costly. However, staff has identified another \$3.38M in *additional* costs that are now included in the project. These include a variety of changes to the design, such as redesign of the auditorium floor, an additional curtain wall at the pool, undergrounding a utility pole at Greenbrier Park. They also include \$1M for providing off-site parking for construction workers and a shuttle bus to bring them to and from the site.

Given the expense of the projects in the pipeline, it might be wise for the School Board to prohibit any further “project creep” after the final design for a project has been approved, and perhaps even to consider revising some of the architectural features of the designs for both Yorktown and Wakefield so that costs can be contained while still meeting all of our educational specifications, though perhaps not all of our aesthetic or architectural desires.

4. Escalating Project Costs.

The Schools Committee is very concerned about the accelerating cost of building a high school in Arlington County. Two years ago, Washington-Lee was expected to cost \$88M (2007-2012 CIP, p. 13); this year’s CIP puts its cost at \$99M (proposed 2009-2014 CIP, p. 22). Yorktown’s Phase 2 is now projected to cost \$110M (proposed 2009-2014 CIP, p. 23). When the cost of Yorktown’s Phase 1 is considered, the high school will cost \$120M. Wakefield is already projected to cost \$168M. The Committee is concerned that, when the designs are prepared for Wakefield, its projected cost will be even higher. An APS study found that, on average, “actual project costs were *46% greater than the initial project estimates . . .*” and that the bulk of the increase occurred *before the completion of the design studies*. (Superintendent’s Proposed FY 2007 – FY 2012 Capital Improvement Plan, p. 8, emphasis added.) If this pattern holds true for Wakefield, its cost by the time its plans are complete could be approximately \$220M.

The only assurance staff offered to address this concern was to say, “the Design and Construction staff will be tracking costs against the budget very closely and do not expect creep in the budget.” Nothing about this answer suggests that anything different will be done to restrain project creep or other costs than was done with Yorktown or Washington-Lee. \$220M may simply be more than Arlington can afford for a high school, despite our historic and continued support of our schools. The Committee urges the School Board and staff to act responsibly and exercise restraint as necessary to keep the costs of Wakefield, Yorktown and all construction projects within reasonable bounds

5. Amount of Operating Funds for COLAs, OPEB and New Initiatives Is Dangerously Low

The Schools Committee is also very concerned that the current CIP plan will incur so much debt service that, at projected revenue growth rates, APS will have only enough operating revenues for a 2.5% COLA for staff in FY 2010 and a 2.25% COLA in FY2011, after maintaining current services, with no funds left over for *any other* new initiatives or to address the school system’s OPEB liability for retiree health benefits. Difficult decisions may have to be made either regarding programs or design specifications. The Committee recommends that, however those

decisions are made, the school system meet it OPEB obligations and remain competitive in terms of staff compensation to protect against losing high quality teachers and support staff.

Respectfully submitted,

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