Executive Summary

Over the next 20 years, Californians will spend tens of billions of dollars constructing new schools and modernizing old ones. Combined, these schools constitute a public works project of historic magnitude, and an opportunity to improve the lives of all Californians.

In some communities, these schools will be sited, designed, built and maintained in ways that provide lasting value. But many school districts do not have the expertise to oversee these projects. Many administrators, struggling with the challenges of public education, are at best distracted by and at worst unqualified to manage the construction process. Similarly, well-intended school boards often get drawn into controversies that they are ill-equipped to resolve.

The problems are fundamental and long-standing. Policy-makers in the last two years have made significant improvements. But much more can be done to make sure that public funds are used wisely. Specifically:

- SB 50 and Proposition 1A provided a down payment on the construction tab and standardized the allocation process. But the State and local communities still do not have adequate and reliable ways to finance school construction and to ensure that state money is fairly distributed.

- The State's regulatory approval process has been streamlined. But in an effort to improve oversight, the trend is for still more state agencies to become involved in reviewing and approving individual projects. While multidisciplinary oversight is needed, the State should move more quickly toward a single point of contact for local school districts.

- And most importantly, while state policy-makers have affirmed local control of individual construction projects, little has been done to help districts develop the expertise and the procedures that are needed to avoid financial disasters and to ensure that facilities are efficiently designed, built and maintained.

The visible and expensive mistakes of the Los Angeles Unified School District are only the most telling and sorry example of ineffective state oversight and local incompetence. The Little Hoover Commission found LAUSD to be a disturbingly dysfunctional organization – too large to

serve its students, until very recently governed by a narrow-minded school board and staffed by an overgrown and inbred bureaucracy. While community leaders have taken steps to improve the district, the State should intervene to help bring about the fundamental reforms necessary to provide safe and nurturing schools for children in California's largest city.

But there also is much to be gained by helping the hundreds of other districts that will be building schools to learn from each other – to administer contracts more effectively and to rely on proven designs that will reduce long-term operational and maintenance costs. Some well-run school districts have learned how to recruit and train competent staff, manage projects, minimize costs, work with other public agencies, and open new schools on time and within budget. Every community deserves this level of expertise.

Given the scarcity of resources, the enormity of need and the long-term investment that schools represent, the State should take a leadership role to ensure that value is built into each of these facilities as they become cornerstones of neighborhoods.

Toward that end, the Commission offers the following findings and recommendations:

Explore Alternatives

Finding 1: In some communities, school districts may not be the best organization to build and maintain school buildings.

The fundamental assets of school districts are the students, the teachers and the facilities. The priority is the quality of education – which involves primarily the students and teachers. But every school district also is required to manage facilities. The 1,000 school districts in California are very diverse, and as a result have different needs and capacities related to facilities. However, they all are expected to rely on the same organizational structure for building and maintaining facilities. A number of other organizational structures might be more appropriate depending on the circumstances: separate public agencies, other local government entities, joint powers authorities, public benefit corporations or private firms under contract. At the very least, the State should explore the alternatives that might yield better outcomes in different communities.

Recommendation 1: The Governor and the Legislature should explore, allow and encourage local school districts to develop organizational alternatives for building and maintaining schools. Policy-makers should:

- ***Rely on a multi-disciplinary team of experts***. Under the auspices of a joint legislative committee, the State should empanel respected school officials, architects and engineers, financial and management experts to explore the options and provide a detailed feasibility report to policy-makers.

- ***Allow for alternative structures and encourage innovation.*** The team should recommend statutory and regulatory changes necessary for districts to pursue the alternatives identified. The State should provide technical assistance and prudent financial incentives to districts that want to adopt different organizational structures for facility management.

Building Competence Through Leadership

Finding 2: The success of the State's school facility program rests on the ability of school districts to manage construction programs, but the degree of competence varies greatly among districts.

In recent years the State has reduced its regulatory oversight of school construction in favor of local control. Some districts have demonstrated their capacity to manage these projects – including Clovis, Elk Grove, Long Beach, Santa Ana and San Diego unified school districts. Many other school districts, however, simply do not have the capacity to manage construction programs and to be smart consumers of professional services. Moreover, with each district operating independently, mistakes are repeated and innovation is isolated. The State should create a mechanism – such as an institute – for developing sound designs, construction techniques and decision-making. In addition, the institute could provide reliable reviews of troubled districts and projects – just as the Proposition BB Citizens' Oversight Committee has scrutinized LAUSD's school facility program.

Recommendation 2: The Governor and the Legislature should establish an institute to provide leadership on school facility issues, training for local school staff, and technical assistance, advice and consulting services. The institute should:

- ***Be governed by industry leaders***. A board comprised of leaders in architecture, engineering, urban planning, construction and public facility finance should govern the institute – making it a clear and trusted voice for excellence and innovation.

- ***Be an independent, quasi-public organization.*** The institute could be constituted as a public, nonprofit organization drawing expertise from state, county, university and private sector sources. While the State could provide start-up funding, the institute should seek grant funding and develop fee-for-service programs – linking its continuing existence on the quality of services that it provides.

- ***Be focused on building competence.*** A primary focus of the institute should be to help district staff develop the skills needed to manage effective construction, operation and maintenance programs – including how to negotiate and manage contracts. The institute also should certify individuals and districts that master these competencies.

- ***Provide technical assistance and consulting services***. All districts could benefit from a clearinghouse for best practices. For districts with unique problems or episodic facility management needs, the institute should provide technical assistance and consulting services.

Unifying State Oversight

Finding 3: The State's multiple interests in safe and efficient school facilities are not optimally served by a divided oversight structure.

While the State has streamlined the regulatory process, multiple agencies are still involved in approving facilities: principally, the Department of Education, the Division of State Architect, the Office of Public School Construction and the State Allocation Board. Recent reforms also increase the role of the Department of Toxic Substances Control, and as a result other environmental agencies are likely to get involved. Still, the State can create the functional equivalent of a single state agency. Districts should have a single point of contact. That entity would be responsible for drawing together the various disciplines required to review and approve projects. The experts should resolve conflicts, close gaps, eliminate overlaps and further reduce the time it takes to scrutinize projects. While some reviewers may need to be physically located in the same place, an electronic process could provide simultaneous or seamless review without the experts being stationed together.

Recommendation 3: The State should unify its oversight of school facility projects and concentrate compliance efforts on low-performing school districts. Specifically:

- ***Districts should have one point of contact for approval.*** The Office of Public School Construction should be responsible for engineering and managing a seamless review and approval process. OPSC should be responsible for ensuring that the State's review is as

comprehensive as necessary and as efficient as possible. OPSC should assume the clearinghouse responsibilities for CEQA documents assessing school facilities.

- ***State reviews should be multi-disciplinary and tailored as necessary.*** Most applications are routine and involve the same reviewers, who could be in the same office or participate in a simultaneous and electronic review process. For applications requiring special consideration, teams comprised of all necessary expertise should be assembled to provide thorough but efficient review.

- ***The State Allocation Board should consider regulatory relief for well-performing districts***. Districts whose staff and business practices are periodically certified by the school facility institute should be allowed to declare their compliance with applicable state education and construction standards.

- ***Poor performing districts should be subject to intervention.*** The State Allocation Board should develop a range of graduated options for intervening in districts with poor-performing facility programs. The options could range from technical assistance provided by state agencies, professional organizations or the school facilities institute, to the creation of a state authority similar to the federal Resolution Trust Corp. for managing the affairs of incompetent districts.

- ***Districts should certify that construction techniques meet minimum standards.*** Districts that complete projects for substantially less than provided for in the State formula should document that the savings did not result from construction methods or materials that will shorten the facilities' life before they are allowed to keep the savings.

Life Cycle Investing

Finding 4: While the State has taken steps to hold down construction costs, it has no mechanisms or incentives to encourage and assist local school districts to design, build, operate, maintain and renovate buildings to maximize value over the life of the facilities.

SB 50 caps the State's share of facility projects, and allows districts to keep state money not used during construction. While that encourages districts to hold down initial costs, it could discourage districts from building schools with lower operational costs and greater lasting value. The result may be false economies – buildings that should last 30 years may need to be renovated sooner. With several hundred new schools to be built in the coming years, relatively minor savings gleaned through

optimal design, construction, operation and maintenance standards could significantly reduce the initial investment and ongoing expenses. At the very least, the State – through the school facility institute – could be a catalyst for good decision-making. The institute could assess, model, innovate and share best practices in design, construction, operation and maintenance. The goal should be to hold down the long-term costs of building, operating and maintaining school facilities – not just limiting initial building expenses.

Recommendation 4: The school facility institute should develop protocols for life cycle engineering of facilities, develop cost-effective plans for use by school districts, and recommend financial incentives for districts that incorporate life cycle facility management. The institute should:

- ***Provide cost-effective plans.*** The program should produce and make available building plans that incorporate life cycle engineering. The institute should recommend to the Governor and the Legislature financial incentives that should be offered to districts that use those plans.

- ***Define best practices.*** The program should assess and promote the best available technologies for constructing and operating school facilities over their useful life.

- ***Consolidate buying power.*** The program should facilitate the creation of a consortium of school districts for bulk purchasing of common equipment parts and other repair items.

Determining Need

Finding 5: While the State is an equal partner in developing school facilities, it does not have an inventory of buildings, a methodical way to project and plan for future needs or to assess progress toward meeting those needs.

The State has invested billions of dollars in K-12 school facilities, yet it does not have an inventory detailing when schools were built, their attributes, or their condition. Without such an inventory, the State is unable to accurately forecast the demand for new facilities or the costs of maintaining and renovating existing facilities. Similarly, policy-makers do not have the information to know how state funds are allocated. While SB 50 streamlined the allocation process, the new formula will undoubtedly favor some districts over others. Policy-makers should be provided the information necessary to ensure that the highest priorities are being met and state funds are fairly distributed.

Recommendation 5: The Governor and the Legislature should enact legislation directing the Office of Public School Construction, in partnership with local school districts, to develop and maintain an inventory of facilities, project long-term facility needs, and assess the allocation of state funds. Specifically:

- ***The inventory should capture essential information.*** The inventory should include the essential characteristics of all buildings – age, size, capacity, condition, available technology, environmental equipment. It should specifically identify closed or under-used school facilities that could be used by neighboring school districts. Local officials should be required to routinely validate and update the inventory.

- ***District plans should be developed.*** District plans should be prepared based on the inventory, student population forecasts provided by the state Department of Finance and a public hearing process. The plans should identify deficiencies in existing facilities and future needs, and be used to periodically develop a statewide facility plan that could be used by the Legislature to establish priorities and explore options for meeting needs.

- ***The allocation of state funds should be reported annually.*** The Office of Public School Construction should report to the Legislature annually on the applications received for funding, on the allocations that were made, and on needs that were unmet.

Adequate Investment

Finding 6: While voters have supported statewide bond efforts, local school districts do not as a whole have reliable and efficient mechanisms for financing facility needs.

For the last 20 years the State has staggered from funding crisis to funding crisis, each time patching together a funding plan to respond to the greatest demands for local school facilities. While Proposition 1A makes a significant amount of money available, it is still considered a short-term fix to a long-term problem. Moreover, while recent reforms expect local districts to pay for a larger share of school facilities, they limit the ability of districts to raise that money through developer fees. The State needs to make sure local agencies have a reasonable opportunity to pay their share, and that the overall funding mechanism is adequate to meet the most basic needs at the lowest cost.

Recommendation 6: The Governor and the Legislature should develop a reliable long-term plan that defines the State's financial contribution toward school facilities and provides local districts with the tools to fund their share of projects. The plan should:

- ***Incorporate the state infrastructure bank.*** The Governor and the Legislature should use future surpluses of state funds to further capitalize the infrastructure bank, and allow school districts to use the bank to help finance school facilities.

- ***Reduce deficiencies.*** Based on the district and state assessments, the State should provide funding for building minimum essential facilities at existing schools.

- ***Assess and, if necessary, modify the ability of local districts to raise revenue.*** The State needs to better understand how local districts raise their share of funds, including the use of certificates of participation. If as part of a statewide infrastructure plan, a greater burden for financing school facilities shifts to local districts, then the districts may need additional ways to raise those funds. One way to accomplish this would be to lower the local bonding threshold to a simple majority, as proposed by Proposition 26 on the March 26, 2000 ballot. Alternatively, the threshold could be lowered to less than the current two-thirds majority but greater than a simple majority.

- ***Monitor and report expenditures.*** While policy-makers have consciously decided to reduce state regulation, the Office of Public School Construction should monitor, evaluate and report how much districts spend on a project-by-project basis.

Helping the Children of Los Angeles

Finding 7: Another generation of children in Los Angeles has been doomed to overcrowded, uninspiring and unhealthy schools because of persistent incompetence by the Los Angeles Unified School District.

The facility-related problems in California's largest school district are so pervasive and persistent that the State should take specific and drastic action. The district's personnel practices have failed to ensure that high-caliber professionals fill key positions. The organizational structure divides responsibility in ways that thwart accountability. The school board has not provided the competency-based leadership needed to guide a large public organization. Similar problems plagued the district when the Commission reviewed its facility program in 1980 and the district's failings have been further documented by a recent internal audit. The problems are endemic and systematic. Given the large share

of educational resources consumed by the district, the State Allocation Board should not give the district any additional resources until the appropriate reforms have been put in place. And given the 700,000 children involved, State policy-makers should not accept empty promises, but demand documented performance.

Although as of the June 1999 election the board now has a new majority, which states that the board will change, the Commission cannot envision the district fixing itself. No matter how dedicated the new board majority, the Commission does not believe it can overcome the acts of its predecessor in a reasonable time. To quickly advance the most far-reaching alternatives recommended by the Commission, the Governor and the Legislature could establish a task force involving the most respected leaders of labor, business and academia to explore the best way to implement the necessary changes. But policy-makers also could act on some of the alternatives immediately – in order to protect the State's interests and advance the well-being of the children of Los Angeles.

In the last nine months alone, the State has given the district nearly $89 million in facility construction money and the district is in line for another $278 million. Overall, the district will spend more than $6.5 billion in the coming fiscal year – more than 15 percent of California's total K-12 spending. To encourage more responsible management of these resources, the Commission commits to review the district's efforts again in the coming year.

Recommendation 7: On behalf of the children of Los Angeles, the Governor and the Legislature should intervene to fundamentally reform the Los Angeles Unified School District. Specifically, the State should consider the following structural and administrative solutions:

- ***Break up LAUSD into smaller school districts.*** The district's inability to operate an effective facility program is one more example of how LAUSD has grown too large to meet the needs of its students. The sheer size of the district, its student body and its facilities are beyond the ability of the school board and administrators to manage. A joint facility authority could be created to manage the real property needs of the new districts.

- ***Create an independent authority to develop school facilities in Los Angeles.*** A locally governed authority or public, non-profit agency could be charged with the task of developing, modernizing and maintaining the district's facilities. While the school board would define the district's needs, the entity would have the independence to fill those needs in a business-like manner. The entity would be held

accountable to the public through a board appointed by state and local elected officials.

- ***Expand oversight by Proposition BB Blue Ribbon Citizens' Oversight Committee***. As a condition of receiving state facility funds, the district should agree to have all projects with any state funding reviewed by the oversight committee, including projects financed out of the district's general fund.

- ***Scrutinize organizational structure, personnel practices and site selection procedures.*** The Proposition BB committee – drawing on whatever additional expertise is necessary – should review and recommend changes to the district's facility-related organizational structure and personnel procedures. At a minimum, the committee should provide for a competent and at-will management team, as well as an organizational structure that focuses accountability for projects.

- ***Expand the LAUSD school board to include ex officio members.*** To build competence into the policy-making and oversight ability of the school board, trustees could be added representing statewide interests and particular expertise. Among the options would be to add civic, university, or state leaders to augment the democratic values brought by district-based trustees.