



G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

July 25, 2002

Dr. Paul Vance
Superintendent
District of Columbia Public Schools
825 North Capitol Street, N.E.
Suite 9026
Washington, D.C. 20002-1994

Subject: *District of Columbia: Planned Funding and Schedule for D.C. Public Schools' Modernization Program Are Unrealistic*

Dear Dr. Vance:

On April 25, 2002, we testified before the House Subcommittee on the District of Columbia, Committee on Appropriations, on the major challenges the school system faces in modernizing and renovating the District's schools.¹ As we noted, the District of Columbia school system, with the assistance of the U.S. Army Corps of Engineers (the Corps) under various support agreements, has made considerable progress in making emergency repairs over the past few years. However, the school system now faces the more complex task of modernizing—either through renovation or through new construction—virtually every public school in the District of Columbia. As a result, the school system must come to grips with a modernization program that will cost significantly more and take longer to accomplish than originally projected. In addition, the school system faces the challenge of ensuring that sufficient funds are budgeted for asbestos management activities.

This report makes recommendations concerning the modernization program and asbestos funding.

Modernization Projects Are Costing More and Taking Longer Than Planned

As stated in our testimony, we found that the estimated cost to execute the modernization effort has increased significantly since the facility master plan was approved in December 2000.² In addition, the schools are taking longer to build than planned. Our review of the school system's November 2001

¹ U.S. General Accounting Office, *District of Columbia: D.C. Public Schools' Modernization Program Faces Major Challenges*, GAO-02-628T (Washington, D.C.: Apr. 25, 2002). See enclosure I.

² The facility master plan, approved by the D.C. Board of Education, outlines an approach to modernize the schools during a 10- to 15-year period.

Report Documentation Page

Report Date 00Jul2002	Report Type N/A	Dates Covered (from... to) -
Title and Subtitle District of Columbia: Planned Funding and Schedule for D.C. Public Schools Modernization Program Are Unrealistic	Contract Number	
	Grant Number	
	Program Element Number	
Author(s)	Project Number	
	Task Number	
	Work Unit Number	
Performing Organization Name(s) and Address(es) U.S. General Accounting Office 441 G Street NW, Room LM Washington, D.C. 20548	Performing Organization Report Number GAO-02-815r	
Sponsoring/Monitoring Agency Name(s) and Address(es)	Sponsor/Monitor's Acronym(s)	
	Sponsor/Monitor's Report Number(s)	
Distribution/Availability Statement Approved for public release, distribution unlimited		
Supplementary Notes		
Abstract see report		
Subject Terms		
Report Classification unclassified	Classification of this page unclassified	
Classification of Abstract unclassified	Limitation of Abstract SAR	
Number of Pages 27		

revised spending plan shows that the school system estimated it would need \$848 million more than the available funding in the approved capital program for fiscal years 2002 through 2007.

The school system’s revised estimates were the result of significant cost increases in the modernization program. The \$848 million cost increase included (1) rising costs to modernize the schools found in the capital program; (2) costs for schools added to the revised spending plan; and (3) added costs attributable to such things as component repairs, mandates, and small capital projects. Table 1 illustrates the gap between the initial and revised funding needs.

Table 1: Comparison of the Revised Spending Plan and Original Budget

Dollars in thousands

	FY 02	FY 03	FY 04	FY 05	FY06	FY 07	Total
Revised	\$193,717	\$327,486	\$335,843	\$362,595	\$281,347	\$215,915	\$1,716,903
Original	174,163	183,461	168,406	172,626	148,722	21,115	868,493
Difference	(\$19,554)	(\$144,025)	(\$167,437)	(\$189,969)	(\$132,625)	(\$194,800)	(\$848,410)

These cost increases present a significant challenge. On March 22, 2002, the District’s Office of the Chief Financial Officer advised the school system that due to the District’s current debt position and limited borrowing capacity, it must meet its capital program within its currently approved budget. School officials are considering options to deal with the cost increases, such as reducing the scope and design of the projects, obtaining a greater share of the city’s capital budget, and taking advantage of alternative financing mechanisms, including public-private partnerships. However, such a huge increase will likely result in stretching out the modernization program.

In its capital program, approved June 2002, the District set aside an additional \$39 million for the school system’s fiscal year 2003 capital budget, increasing the original budget from \$183 million to \$222 million. Even with the additional funding, however, the school system still has \$105 million less than it estimated it would need in its revised spending plan. Furthermore, the school system faces a funding shortfall of \$167 million for 2004 and, as noted in table 1, shortfalls continue through the out-years.

Most of the first 22 schools in the school system’s modernization program will not meet the schedules established in the facility master plan. Generally, 3 to 4 years are required to plan, design the schools, and complete construction. The school system compressed these time frames to meet the master plan’s construction completion dates. However, in most cases, the compressed time frames have not been met. Currently, only 7 of the 22 schools are meeting their planned construction completion dates.

School System Has Not Budgeted Adequate Funds for Asbestos Management

Based on past experience and ongoing requirements, the school system’s current level of funding to meet asbestos management needs is insufficient. In September 1998, the Environmental Protection Agency (EPA) notified the District of Columbia of serious issues of noncompliance with federal asbestos law at the public schools. To deal with the issues raised by EPA, the school system sought assistance from the Corps in fiscal year 1999. As of February 2002, the Corps had spent \$60.5 million on asbestos management and abatement activities in the schools. However, the school system’s fiscal year 2002 through 2007 capital improvement plan included only \$1 million per year for asbestos

management. During fiscal year 2002, the school system identified an additional \$12 million to fund asbestos activities, which is barely sufficient to maintain ongoing contracts for asbestos management through the end of the fiscal year.

The June 2002 budget contains \$9.5 million for asbestos management in fiscal year 2003, but nothing is budgeted for asbestos for fiscal years 2004 through 2008. Corps officials estimate that about \$17 million per year is needed to (1) maintain compliance with federal requirements to keep asbestos management plans updated, (2) conduct assessments of asbestos areas before starting renovation work, and (3) manage asbestos abatements.

Conclusion

The current school system modernization program does not reflect the realities of a program that is costing significantly more and taking longer to accomplish than originally planned. Further, given the District's current debt position, there is no assurance that additional funding will be forthcoming. Starting to build new schools has provided the school system with valuable experience concerning its cost and schedule projections. The school system has an opportunity to use this experience to create plans that are more realistic and feasible. In addition, without an appropriate level of funding for asbestos management, the school system risks not being able to address asbestos hazards and not complying with federal law. The school system has taken a reactive approach to asbestos management by funding activities only in the short-term and not budgeting sufficiently for future asbestos management needs.

Recommendations for Executive Action

We recommend you ensure that (1) the school system's modernization program is revised to reflect cost, schedule, and budget realities and (2) all necessary asbestos management activities are adequately funded.

Agency Comments and Our Evaluation

The District's Chief Financial Officer and the Office of the Superintendent of the District of Columbia Public Schools (the school system) provided written comments on a draft of this report. The Corps of Engineers commented orally on the draft report and took no exception to our recommendations. We have revised the draft report as appropriate based on these comments.

The Chief Financial Officer generally agreed with the draft report. He stated that it is an unfortunate reality that the school modernization program will cost significantly more and take longer to accomplish than projected. He stated that his office has worked closely with the school system to revise and update its cost estimates and spending plans and will continue aggressively exploring different options to meet the school system's needs. He acknowledged that it was known when the school modernization began that the proposed financing of the facilities master plan was aggressive and in the out-years would present a challenge using traditional financing methods. The letter from the Chief Financial Officer appears in enclosure II.

The school system objected to our draft report, stating that our recommendations have already been implemented and that we ignore the many potentially productive solutions that are available to address the funding shortfalls. The school system seems to have misconstrued our report, which

recommends adjustments to the modernization program and asbestos funding to reflect realities. While it may have taken some actions in the short-term to address the immediate fiscal year 2003 shortfall, the school system has not addressed the looming shortfalls that will occur over the next several years. Accordingly, we continue to believe the school system should revise its modernization program to reflect the cost, schedule, and funding realities it faces. The school system's letter appears in enclosure III, along with our detailed evaluation.

Scope and Methodology

To assess the cost of the school system's modernization program, we compared the cost projections for fiscal years 2002 through 2007 in the June 2001 approved budget, which were based on the facility master plan, to the cost projections in the school system's November 2001 revised plan. Because the District's capital plans require 6-year budget projections, we focused our work on this period of time. To determine whether the pace of the program was on schedule, we compared the projected construction completion dates in the facility master plan for the first 22 schools with the current estimated completion dates from Corps and school system officials. Since our testimony given in April 2002, we have monitored the most significant events pertaining to the school system's modernization program, such as analyzing the capital budget that was approved in June 2002 and accounting for the increased funding of \$39 million provided to the school system's capital program by the city for fiscal year 2003.

To assess the funding provided for asbestos management activities, we analyzed the Corps's costs over the years to update asbestos management plans, assess asbestos problems and design possible solutions, and contain and remove the asbestos from the schools and facilities. We compared what the Corps had spent to what the school system planned to spend in the fiscal year 2002 through 2007 budget and the revised spending plan. In conducting these analyses, we focused our attention on asbestos funding needed for component repairs. We interviewed school system and Corps officials regarding their views on the funding needed for asbestos management activities. We also held discussions with officials from EPA's Region III.

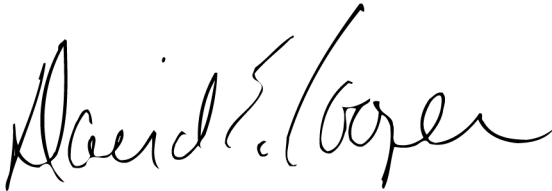
We performed our work from May to June 2002 in accordance with generally accepted government auditing standards.

- - - - -

We are sending copies of this report to the Chairman, House Committee on Appropriations, Subcommittee on the District of Columbia, as well as other interested congressional committees; the Mayor of the District of Columbia; the Chief Financial Officer, District of Columbia; the Chairman of the City Council; the President of the District of Columbia Board of Education; and the Commanding General and Chief of Engineers, U.S. Army Corps of Engineers. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me at (202) 512-4181 if you or your staff has questions regarding this report. An additional contact and other major contributors are listed in enclosure IV.

Sincerely yours,

A handwritten signature in black ink that reads "David E. Cooper". The signature is written in a cursive style with a large, sweeping initial "D".

David E. Cooper
Director
Acquisition and Sourcing Management

Enclosures

Enclosure I: Testimony

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on the District of Columbia,
Committee on Appropriations, House of
Representatives

For Release on Delivery
Expected at 10:00 a.m.,
Thursday, April 25, 2002

DISTRICT OF COLUMBIA

D.C. Public Schools' Modernization Program Faces Major Challenges

Statement of David E. Cooper, Director, Acquisition and
Sourcing Management



GAO-02-628T

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to participate in today's hearing. At your request, we have been evaluating the District of Columbia's plans to modernize and renovate its public schools. In the past few years, the school system, with the assistance of the U.S. Army Corps of Engineers (the Corps), has made considerable progress in fixing roofs, replacing windows, repairing bathrooms, and addressing maintenance projects that had been neglected for years.

Now that many of the emergency repairs have been completed, the school system is turning its attention to the more complex task of modernizing—either through renovation or through new construction—virtually every public school in the District of Columbia. In fact, several new school construction projects are underway. My remarks will focus on challenges the school system faces in this formidable task. Specifically, I will address

- increases in the cost of modernizing the schools,
- delays in completing the schools,
- quality inspection problems, and
- concerns about managing asbestos hazards.

Background

In April 1998, the school system entered into a memorandum of agreement with the Corps for engineering, procurement, and technical assistance to ensure that construction contracts were awarded and managed so that the schools could open that year. Under the Fiscal Year 1999 District of Columbia Appropriations Act, Congress expanded the Corps' role by authorizing it to provide the school system with engineering, construction, and related services. Through the years, the school system has renewed its working relationship with the Corps by signing yearly updates to the support agreement.

To modernize the schools, the school system generally plans to build a new school and demolish the old one or to completely renovate an entire school. The Corps and the school system each have responsibility for managing a certain number of new school modernization projects. Because all of the schools are not modernized at the same time, component replacements are needed to replace major building systems—such as boilers, chillers, roofs, and windows—that have reached the end of their useful lives. The Corps has taken responsibility for the majority of these projects. In the past, the school system used an areawide utility contract with the Washington Gas Light Company to perform some types

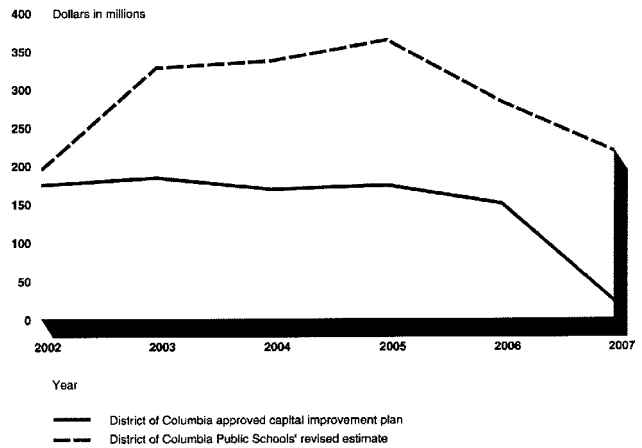
of repairs, such as electrical, heating, and air conditioning work, painting, and carpeting. We reported in September 2001 that the school system had improperly used this contract.¹ The school system is no longer using Washington Gas and has taken steps to implement new contracting mechanisms for this work.

Modernization Projects Are Costing More Than Planned

In December 2000, the District of Columbia Board of Education approved a facility master plan to rebuild and update the District's public schools. It is an ambitious plan calling for the modernization of 10 schools annually over a 10- to 15-year period. Based on this plan, a \$1.3 billion capital budget to modernize the public schools was approved in June 2001. However, in November 2001, the school system revised its spending plan. Because the District's capital plans require 6-year budget projections, we evaluated the fiscal year 2002 through 2007 projections in the approved budget and in the revised plan. We found that the cost to execute the modernization effort has increased significantly—about \$848 million in the 6-year period. Figure 1 shows how the costs have increased over the period.

¹ U.S. General Accounting Office, *District of Columbia: D.C. Public Schools Inappropriately Used Gas Utility Contract for Renovations*, GAO-01-96 (Washington, D.C.: Sept. 28, 2001) and U.S. General Accounting Office, *GSA's Guidance and Oversight Concerning Area-wide Utility Contracts*, GAO-02-56R (Washington, D.C.: Dec. 17, 2001).

Figure 1: Comparison of the School System's Approved Budget and Revised Plan



Source: GAO analysis.

According to school system officials, costs increased for a number of reasons, including the following:

- historically significant buildings cannot be razed and have to be redesigned at higher costs,
- experience to date shows that construction costs are running significantly higher than the estimates used in the facility master plan, and
- the scope has been expanded for some projects to recognize community needs for special facilities.

As an indication of how costs are increasing, we reviewed the cost estimates in the facility master plan and the revised estimates for the first 22 schools to be modernized.² These schools are currently in the planning, design, or construction phase. We found that the costs for these schools

²Oyster elementary school, funded through a public-private partnership, opened in September 2001.

have increased by about \$170 million. Appendix I lists the original and revised estimates for the 22 schools.

These cost increases present a significant challenge. On March 22, 2002, the District's Office of the Chief Financial Officer advised the school system that due to the District's current debt position and limited borrowing capacity, it must meet its capital improvement needs within its currently approved budget. School system officials are considering options to deal with the cost increases. However, such a huge increase will likely result in stretching out the modernization program. If that happens, some schools will have to be maintained longer than currently planned, which will add costs to a program that is already over budget.

Modernization Efforts Are Taking Longer Than Planned

The facility master plan approved by the Board of Education set ambitious completion dates for modernizing the schools. Generally, 3 to 4 years are required to conduct feasibility studies,³ design the schools, and complete construction. To meet the master plan's construction completion dates, time frames were compressed. However, most of the first 22 schools to be modernized will not be completed on time. Recognizing that the schedule in the facility master plan cannot be achieved, school system and Corps officials are developing more realistic schedules for some of the schools. Appendix II contains a list of the first 22 schools with facility master plan and current completion dates. It shows that

- 10 schools are experiencing delays ranging from 3 to 15 months,
- 1 is ahead of schedule,
- 3 are on time, and
- the schedules for 5 schools are being revised.

In addition, three schools are ahead of the facility master plan schedule, but they have not met accelerated schedules established by the school system and Corps. The scheduled construction completion dates for four elementary schools—Key, Miner, Randle Highlands, and Barnard—were accelerated to show the community tangible results quickly. Accelerated completion of the schools involves a high-risk acquisition strategy. For example, in some cases, construction began before the designs were

³Feasibility studies are used to develop the initial design of a school, based on the educational specifications. These studies involve extensive input from the community.

complete. The accelerated schedule also required at least \$700,000 in additional costs. None of the 4 schools have met the accelerated schedule. The delays in meeting the accelerated schedules were caused by difficulties in obtaining required permits from other District agencies, incorrect assumptions about the time required to get materials, design changes, and a bid protest. At Key elementary, persistent contractor performance problems continue to delay completion of the project.

Our work also shows that delays have occurred with some repair projects. For example, completion dates for 9 boiler replacement projects slipped from October 2001 to March 2002 and 1 slipped to August 2002.⁴ Also, 17 of 22 bathroom renovation projects were delayed.⁵ Reasons for the delays in the boiler and bathroom projects included problems in obtaining required permits, time required for asbestos inspections and removal, and a contract award protest.

Concerns about Quality Inspections

In our September 2001 report to you, we raised a number of concerns about the school system's use of a Washington Gas Light Company contract, including concerns about quality inspections. In a follow-up to our report, we examined the gas company's records of quality inspections for the work it managed for the school system. From August 2000 through March 2001, the school system paid Washington Gas \$25 million for 609 repair projects. Based on the results of a random sample of projects, we estimate that 77 percent of all projects lacked evidence that quality inspections were performed.⁶ Without evidence of inspections, the school system has no assurance that the work was properly completed and its money was well-spent.

⁴According to Corps officials, temporary heating systems were available in the schools in October 2001 for 7 of the projects. Three of the projects were substantially completed in October 2001, but additional time was needed to finish remaining work.

⁵An additional three projects did not have scheduled completion dates due to an administrative error, so we could not assess timeliness of these projects. The basis for our analysis was the Corps' fiscal year 2001 project list, dated February 2001, and subsequent updates.

⁶Estimates were made using a 95-percent confidence level. We considered evidence of inspection to be the Washington Gas inspector's initials or signature on subcontractor invoices or proposals.

requirements to keep the asbestos management plans updated, (2) conduct assessments of asbestos areas before starting renovation work, and (3) manage asbestos abatements.

The school system identified an additional \$12 million from other sources to fund asbestos activities for this year. However, Corps officials told us they need an additional \$1.6 million by mid-May or they will have to curtail some of their asbestos activities. They also estimate that asbestos activities will require about \$17 million in fiscal year 2003.

Our review of asbestos activities also raises concerns about the Department of Health's role in taking enforcement action against contractors who failed to (1) follow the asbestos management plans in the schools before starting renovation work and (2) properly deal with asbestos-containing materials once the releases occurred. Department of Health officials told us that they did not pursue enforcement actions because the Department's inspectors had not collected adequate documentation.⁸ Specifically, inspection reports had not been prepared which would have included information on laboratory reports, the sequence of events and key players, a technical analysis of the information collected at the scene, and a record of witness interviews.

After our inquiries, Department of Health attorneys began looking into some of the 13 incidents where contractor errors caused the asbestos releases. After gathering additional documentation from the Corps, earlier this month the Department issued a notice of noncompliance and fined the contractors involved in one of the release incidents. The Department plans to issue additional notices soon. Department officials told us that noncompliance notices will be issued for such things as failures to

- notify the District and receive proper approval to start a renovation project involving asbestos materials,
- obtain and pay for an asbestos abatement license,
- show evidence of proper asbestos abatement training,
- provide protective clothing for employees engaged in asbestos abatement,
- display caution signs, and
- enclose work areas with airtight plastic sheeting.

⁸One enforcement action taken by the Department was to suspend a contractor's license for 30 days.

The Department of Health also plans to train its inspectors on the types of documentation they need to prepare, such as inspection reports, to enable contractor violations to be promptly pursued.

Our work also shows that communication between the Department of Health, the Corps, and the school system needs to be improved. In some cases, the Department of Health was unaware of asbestos releases in the schools. Department of Health officials told us that they are working to improve communications with the school system and the Corps and increase the Department's oversight of renovation work being done in the schools.

In summary, Mr. Chairman, the school system, with the Corps of Engineers' assistance, has accomplished much in the last few years. However, it must now come to grips with a modernization program that will cost significantly more and take longer to accomplish than originally projected. We believe the school system needs to revise its modernization plans to reflect these realities. We also believe the school system needs to fully fund asbestos management activities this year and ensure that sufficient funding is budgeted in future years.

Mr. Chairman, this concludes my prepared statement. I will be happy to respond to any questions you or other Members of the Subcommittee may have.

Contacts and Acknowledgments

For further information about our work or the issues discussed in this statement, please contact David E. Cooper at (202) 512-4841. We will make copies of this statement available to other interested parties upon request. This testimony is also available on GAO's Web site at www.gao.gov. This effort was conducted under the direction of Michele Mackin. Other individuals making key contributions were Charles D. Groves, John D. Heere, Gary L. Middleton, William Petrick, Jr., Russell R. Reiter, Rebecca L. Shea, and Adam Vodraska.

Appendix I: Original and Current Cost Estimates for First 22 Schools to be Modernized

(dollars in millions)

School	Cost in facility master plan ^a	Current estimate ^b	Increase
Key Elementary	\$8.7	\$11.9	\$3.2
Randle Highlands Elementary	14.2	20.8	6.6
Barnard Elementary	12.8	23.9	11.1
Miner Elementary	15.3	22.0	6.7
Kelly-Miller Middle	20.6	25.2	4.6
Patterson Elementary	14.0	18.3	4.3
Noyes Elementary	10.2	16.5	6.3
Cleveland Elementary	9.1	12.2	3.1
McKinley Technology High	44.7	52.0	7.3
Thomson Elementary	10.6	17.3	6.7
Bell/Lincoln High	40.0	63.0	23.0
Phelps High ^c	0.0	26.0	26.0
Birney Elementary	11.3	21.2	9.9
Thomas Elementary	10.8	15.6	4.8
Walker Jones Elementary	16.4	22.3	5.9
Wheatley Elementary	9.9	18.0	8.1
Luke Moore High	10.9	15.1	4.2
Woodson High	42.7	50.2	7.5
Brightwood Elementary	10.9	18.5	7.6
Cooke Elementary	14.0	19.3	5.3
Hardy Middle	20.6	24.9	4.3
Sousa Middle	17.1	20.1	3.0
Total	\$364.8	\$534.3	\$169.5

^aCost reported in the facility master plan dated December 20, 2000.

^bEstimates reported in the fiscal year 2003-2008 capital spending plan dated November 30, 2001.

^cPhelps High School was not listed in the December 2000 facility master plan as a planned renovation.

Appendix II: Original and Current Schedules for First 22 Schools to be Modernized

School	Facility master plan completion date ^a	Current completion date ^b	Delay (months)
Key Elementary ^c	September 2002	December 2002	3
Randle-Highlands Elementary ^c	April 2003	August 2002	8 months early
Barnard Elementary ^c	April 2003	November 2002	5 months early
Miner Elementary ^c	April 2003	December 2002	4 months early
Kelly-Miller Middle	April 2003	July 2003	3
Patterson Elementary	July 2003	July 2003	0
Noyes Elementary	July 2003	July 2003	0
Cleveland Elementary	July 2003	July 2003	0
McKinley Technology High	September 2003	May 2004	8
Thomson Elementary	July 2003	December 2003	5
Bell/Lincoln High	September 2003	July 2004	10
Phelps High	^d	Unknown	Not applicable
Birney Elementary	September 2003	December 2004	15
Thomas Elementary	September 2003	July 2004	10
Walker Jones Elementary	September 2003	July 2004	10
Wheatley Elementary	September 2003	July 2004	10
Luke Moore High	September 2004	July 2004	2 months early
Woodson High	September 2005	December 2005	3
Brightwood Elementary ^e	September 2003	Unknown	Unknown
Cooke Elementary ^e	September 2003	Unknown	Unknown
Hardy Middle ^e	September 2004	Unknown	Unknown
Sousa Middle ^e	September 2004	Unknown	Unknown

^aCompletion dates reported in the facility master plan dated December 20, 2000.

^bCompletion dates in Army Corps of Engineers status reports as of April 11, 2002.

^cAt the request of the school system, the schedules for these schools were fast tracked for completion by July 2002.

^dPhelps was not included in the original facility master plan.

^eCurrent completion estimates are under review.

Enclosure II: Comments from the Office of the Chief Financial Officer

**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

July 9, 2002

Mr. David E. Cooper
Director
Acquisition and Sourcing Management
United States General Accounting Office
Washington, DC 20548

Dear Mr. Cooper:

I am writing this letter to provide my comments about the draft report entitled "District of Columbia - Planned Funding and Schedule for D.C. Public Schools' Modernization Program Are Unrealistic." We are generally in agreement with your draft report. I will briefly discuss the FY 2003 budget development process relative to the Capital Improvements Program, followed by a discussion about the challenges we face in funding the District of Columbia Public Schools (DCPS) modernization program.

The Office of the Chief Financial Officer, in partnership with the Executive Office of the Mayor and the Council of the District of Columbia, recently completed the District's FY 2003 Proposed Budget and Financial Plan and the FY 2003 – FY 2008 Capital budget. In light of the events of September 11, the FY 2003 budget development process was extremely challenging because many financial indicators are down and the outlook for the local economy is weak. Our analysis indicated that any further capital borrowing to finance new capital projects is not fiscally prudent. Therefore, we were forced to scale back the capital program. Agencies prioritized their programs/projects and were required to identify areas to absorb an overall 15.5 percent budget cut in capital funding. The cost savings generated from the reductions were used to finance the most critical ongoing projects. Having recognized the progress and momentum already achieved, DCPS was not affected by the budget reduction.

When the Facilities Master Plan was developed and adopted by the school board, the Mayor was committed to fully funding the program. Today, that commitment is unchanged. Because the District, in past years, lacked the financial resources to maintain its overall infrastructure, many of its facilities, including DCPS, are in dire need of renovations and/or modernization.

At the beginning of the modernization effort, we knew that the proposed financing of the facilities master plan was aggressive and in the out-years would present a challenge using traditional financing methods. In spite of that, the chart below clearly shows that DCPS receives the largest percentage of capital dollars with the exception of the Department of Public Works, which includes the Federal Highway Trust program.

1350 Pennsylvania Avenue, N.W., Suite 209, Washington, DC 20004 (202) 727-2476
www.dccfo.com

**Enclosure II: Comments from the Office of
the Chief Financial Officer**

Planned Funding and Schedule for D.C. Public Schools'
July 9, 2002
Page 2

Table 1. Percentage of Capital Dollar allocated by Agency (%)


Agencies	FY 2000	FY 2001	FY 2002	FY 2003
Property Management	7	1	2	3
WMATA	9	7	6	6
Chief Technology Officer	5	3	10	14
Mental Health	6	3	5	4
MPD	9	3	4	4
DC Public Schools	41	24	16	35
Chief Financial Officer	0	1	2	5
Parks and Recreation	5	4	6	5
Department of Housing	0	0	2	3
Public Works – Federal Highway	0	45	34	6*
Other	18	9	13	15

*The FY 2003 Public Works allocation represents the new Department of Transportation and does not include the Federal Highway Trust

The fact that the modernization program will cost significantly more and take longer to accomplish than originally projected is an unfortunate reality. My staff, however, has worked very closely with DCPS to revise and update their cost estimates and spending plans. In addition, we provided technical assistance outlining the policies and procedures on redirections, reprogrammings and reallocations. Moreover, we will continue aggressively exploring different options to meet DCPS needs.

The citizens of the District of Columbia deserve and expect first class facilities conducive for learning. My office, under the leadership of the Mayor, is committed to making that a reality. I would like to thank you for this opportunity to share my comments, and if further clarification is required, please do not hesitate to contact Dallas Allen at 727-6234 or Ben Lorigo on 442-6433.

Sincerely,


 Natwar M. Gandhi
 Chief Financial Officer

- cc: Bert Molina, Deputy Chief Financial Officer for Budget and Planning
 Michele Mackin, Assistant Director for Acquisition and Sourcing Management
 Dr. Paul L. Vance, Superintendent, District of Columbia Public Schools
 Robert A. Morales, Chief Financial Officer, District of Columbia Public Schools
 Dallas Allen, Director, Capital Improvements Program
 Peggy Cooper Cafritz, President, District of Columbia Board of Education

Enclosure III: Comments from the Superintendent, District of Columbia Public Schools

NOTE: GAO comments supplementing those in the report text appear at the end of this enclosure.



DISTRICT OF COLUMBIA PUBLIC SCHOOLS

OFFICE OF THE SUPERINTENDENT
825 North Capitol Street, NE, 9th Floor
Washington, D.C., 20002-1994
(202) 442-5885 – fax: (202) 442-5026

July 9, 2002

David E. Cooper, Director
Acquisition and Sourcing Management
United States General Accounting Office
Washington, DC 20548

Dear Mr. Cooper:

Thank you for the efforts of your office in reviewing our capital modernization program and highlighting areas of concern and interest to the General Accounting Office. We have worked closely with your staff to provide all requested information and know how hard they have worked on this important project. We have reviewed the document and appreciate having this opportunity to respond.

See comment 1.

While we are in agreement with some aspects of the report, we find that some of the same mischaracterizations and errors made during the GAO's April 2002 testimony to the U.S. House Appropriations Subcommittee on the District of Columbia persist in the current report. The report also does not account fully for activities between April, when the hearing occurred, and today. We outlined some of our concerns about the original testimony in the attached memo to our Board of Education and summarize these concerns below.

See comment 2.

The GAO is correct in pointing out that full funding for the modernization of 143 school buildings has not been identified to date. Full funding remains a significant challenge. However, the School Board, the Mayor and the Council are committed to the modernization program. Evidence of the city's commitment is found in the additional \$38 million in capital funding identified for school construction in FY 2003. These funds and those already committed to the initiative bring the total capital budget for next year to a record \$222 million. The additional funding was identified not by taking on additional debt, but rather by reallocating funds within the city's capital budget, effectively making school modernization a higher priority for the city. This reprioritization has not yet been applied to the out-years of the plan, and sustained funding does remain a key concern of everyone involved. However, it is important to note that the city's capital budget fully funds those school modernization projects now on the drawing board.

See comment 3.

The GAO report is puzzling because it recommends actions that have already been completed and ignores many potentially productive solutions that remain open to DCPS and the city. Budgets and schedules have already been revised for this year. Additional revisions will be submitted for formal approval by the Board of Education for next year's annual revision of the master plan. The gap between the FY 03 budget request and the recommended funding level is already past history. The June GAO report states: "Even with additional funding, however, the school system still has \$105 million less than it now estimates it will need in fiscal year 2003 to carry out its planned modernization program." This statement ignores the May 2002 Board of Education action approving a revised capital budget at the \$222 million level. This Board-approved revised spending plan keeps the modernization program on schedule through FY 2003.

Enclosure III: Comments from the Superintendent, District of Columbia Public Schools

GAO/DCPS Modernization Program
7/9/2002
Page 2

See comment 4.

See comment 5.

See comment 6.

See comment 7.

The GAO persists in repeating the error that the District of Columbia's FY 2002-2007 approved budget was developed to meet the needs of the modernization program as defined by the 2001 Master Plan and that the difference between the FY 2002-2007 CIP and the FY 2003-2008 request was simply an issue of rising costs. *This is not an accurate depiction. The Master Plan is not a budget document.* It only delineates expenditures for the first 48 of a proposed 143 school projects. The \$848 million cost listed in the implementation section of the plan properly excludes the 13 projects that were underway prior to master plan approval. It also excludes the 82 sites to be modernized following Tier 5 several years into the future. Again, the \$848 million figure was never intended as the total cost of the plan and there is even a footnote to that effect (see page IV-13). Therefore, *the comparison of aggregate master plan costs and the more comprehensive DCPS capital budget request is simply not valid.*

The issue of funding for asbestos abatement is also oversimplified in this document. The DCPS program undertakes asbestos management on several fronts: "management in place" under AHERA requirements, small abatement actions, and large capital abatement projects. Portions of the \$17 million aggregate figure budgeted in past years by DCPS for abatement are now included within individual project costs, i.e. projects that may have significant abatement costs associated with them, but are not solely asbestos projects. The asbestos program is managed in close cooperation with the District of Columbia Department of Health and the US Environmental Protection Agency. We have ensured that adequate resources are directed toward the asbestos program.

A substantial amount of abatement now occurs within the modernization framework under specific project budgets rather than under the asbestos management project heading. For example, the U.S. Army Corps of Engineers had previously identified a major abatement project to take place at Lincoln Middle School this summer. Lincoln is slated to be demolished and replaced with a new building to be opened in 2004. The removal of all asbestos-containing materials will be accomplished under the Lincoln modernization line item rather than under the asbestos program budget. This method of addressing asbestos is less costly in the long run and provides an asbestos-free environment in many cases. Schools such as Cleveland, Noyes, McKinley, Patterson, Kelly Miller, and Key were all scheduled for asbestos response actions and all were abated under their respective modernization budgets. In addition, Lincoln, Thomson, Randle Highlands, Barnard, Miner, and Bell Schools will be abated in future phases starting this summer.

See comment 8.

Regarding full funding of the Facilities Master Plan, DCPS and other city agencies are working to develop alternative approaches to fully funding the Facilities Master Plan. These alternatives include:

- DCPS receiving a greater share of the city's capital funding through revised prioritization and additional prudent borrowing in future years;
- Increased emphasis on frugality in project scope and design;
- Alternative financing mechanisms, including public-private partnerships and other means of generating revenue;
- Partnerships with other agencies on capital projects to provide efficiencies for the city and the school system;
- Continued use of grant funding where available; and
- Identification of federal or other non-local revenue sources.

We believe that the District of Columbia, as a community, must seriously consider the costs of rebuilding our schools. Like school buildings in many cities, many of our facilities are old and in less than ideal condition. These unacceptable learning conditions are consistent with data reported by the GAO¹ in 1996. In that

**Enclosure III: Comments from the Superintendent, District
of Columbia Public Schools**

See comment 9.

GAO/DCPS Modernization Program
7/9/2002
Page 3

report, the GAO found that school systems with a high proportion of minority students, students who qualify for free or reduced price lunches, and students who attend schools in urban communities are much more likely than students in the nation as a whole to attend school in facilities with unsatisfactory environmental conditions. Our goal is to provide our students with schools that are safe, sound and educationally appropriate. It is not reasonable, at this early stage in the modernization program, to return to the "band-aid" repairs of past decades, especially when the need is recognized and support for comprehensive improvements is extremely high. We believe that the question of funding will best be answered through a public deliberation process that is just beginning in earnest. Increased support from the Mayor and Council for FY 2003 provides a period of opportunity to work through these challenging issues to develop a sustainable financing plan.

I trust that this information clarifies issues raised in the GAO's report. If you have any questions about these issues, please feel free to contact Mr. Louis Erste, DCPS Chief Operating Officer, at 202/442-5885.

Respectfully,


Paul L. Vance
Superintendent

Attachment

cc: Louis Erste

¹ School Facilities: America's Schools report Differing Conditions, General Accounting Office, GAO/HEHS-96-103 (Washington, D.C.: June 1996).



DISTRICT OF COLUMBIA PUBLIC SCHOOLS

OFFICE OF THE SUPERINTENDENT
825 North Capitol Street, NE, 9th Floor
Washington, D.C., 20002-1994
(202) 442-5885 – fax: (202) 442-5026

MEMORANDUM

To: Peggy Cooper Cafritz, President of the Board
Members of the Board of Education

From: Paul L. Vance
Superintendent

Handwritten signature of Paul L. Vance in cursive.

Date: April 25, 2002

RE: Response to GAO Testimony on DCPS's Modernization Program

The General Accounting Office (GAO) today delivered the attached testimony on DCPS's Modernization Program before the U.S. House of Representatives Committee on Appropriations, Subcommittee on the District of Columbia. This memo describes *several problems* with the GAO testimony.

Inadequate Funding for the Modernization Program

The GAO testimony makes it appear that our capital budget for the current six-year period adequately funded the Facilities Master Plan, but that cost has gone up substantially thereby causing a gap in funding. *This is not an accurate depiction of the situation.*

The capital budget we were granted by the City for implementing our Facilities Master Plan is *not adequate* to fund the modernization program. The GAO cites our FY 2002-2007 level of funding at \$1.3 billion. *This is incorrect.* The FY 2002-2007 budget provides instead \$694,330,000 over six years of the plan, far short of the \$1.2 billion called for in the Facilities Master Plan to complete those six years of school construction.

This difference between the funding level required to stay on schedule and the amount approved by the Mayor and Council will hit us hard in FY 2003 because so many of our major projects will start into construction. This distinction is important because, as we have testified before the Board of Education, *the level of funding committed to DCPS is not adequate for the modernization program to proceed at the rate of ten schools per year.* If Council approves for FY 2003 the lower level of capital funding that was again recommended by the Mayor this year, we would have to consider some combination of slowing down the modernization program and working with the community to locate additional funding sources (including federal funding) and devising creative financing strategies. As discussed with the Board's Finance and Facilities Committee, we have already been working on developing alternative approaches to fully funding the Facilities Master Plan.

Facilities Master Plan cost estimates were only preliminary estimates and are appropriately reviewed and revised during the normal budget process as we implement each year of the Plan. The estimates were

See comment 10.

Enclosure III: Comments from the Superintendent, District of Columbia Public Schools

derived from the experiences of surrounding jurisdictions, and are not adequate to address the costs of construction in the District of Columbia because of such factors such as historic preservation, hazardous

materials abatement, and small and complex urban sites. In addition, we have increased slightly the square-footage per high school student and are adding special education capacity to the schools being built early in the program. We have therefore revised upward modestly our estimate of school costs since the approval of the Facilities Master Plan. These changes are clearly presented in the FY 2003-2008 Capital Budget approved by the Board of Education and submitted to the Mayor last fall.

In addition, due to budget pressures on our operating budget and new flexibility granted by the District CFO, we are now able to transfer some costs previously covered in the operating budget onto the capital budget, including furniture, fixtures and equipment for the new buildings. This factor alone constitutes an 8% increase to each school's cost. It is important to note that since our new team has come on board, the construction costs of modernization *are actually going down* on a square-foot basis because of increased oversight and adherence to approved budgets.

Asbestos Funding Levels

The GAO testimony is also misleading in its assertion that we budgeted only \$1 million per year for asbestos abatement in our FY 2002-2007 Capital Budget. The Board of Education, in the FY 2002 Revised Capital Spending Plan, calls for the expenditure of \$29 million on asbestos abatement over the next six years.

**FY 2002 Revised Budget and FY 2003-2008 Request
Approved by the Board of Education on November 30, 2001**

Fiscal Year	2002	2003	2004	2005	2006	2007	2008
Capital	\$8,500,000	\$8,500,000	\$4,000,000	\$3,500,000	\$2,500,000	\$1,000,000	\$1,000,000

Additional capital funding for asbestos abatement occurs within specific projects. For example, the abatement costs for modernization projects are included within the modernization project budget. Additional funding also comes from the operating budget. The asbestos program is managed in close cooperation with the Department of Health and the Environmental Protection Agency. We have ensured that adequate resources are directed toward the asbestos program.

I trust that this information clarifies issues raised in the GAO's testimony. If you have any questions about these issues, please feel free to call Mr. Louis Erste at 202-442-5618.

PLV:ije

cc: Ms. Paula Perelman

See comment 11.

The following are GAO's comments on the school system's letter dated July 9, 2002.

1. Even though the school system agreed with some aspects of the report, it states that our report mischaracterizes the situation, contains errors, and does not fully reflect recent activities. As reflected in our specific comments, the school system's characterizations of our report are not accurate.
2. Contrary to the school system's statement, we do not address full funding for the entire program. Rather, we focused on a 6-year period because the capital budget addresses that time frame.
3. The school system states that our recommendations have already been completed. To support its position, the school system states that "the city's capital budget fully funds those school modernization projects now on the drawing board." It also states that the revised capital budget of \$222 million "keeps the modernization program on schedule through fiscal year 2003." These statements are misleading. The program was revised in fiscal year 2003-to reflect budget realities-by slipping the scheduled completion dates of several schools and reducing the component repair budget. These steps were needed because the fiscal year 2003 budget fell \$105 million short of the school system's revised spending plan estimate, as stated on page 2 of our report.

Although the school system states that the recommendations have already been completed, it contradicts itself by stating that "reprioritization has not yet been applied to the out-years of the plan, and sustained funding does remain a key concern of everyone involved." We agree and remain concerned that the school system has not taken steps to revise the modernization program to reflect cost, schedule, and budget realities over the life of the program. We are particularly concerned that the school system faces a significant shortfall of about \$600 million for the school modernization program covering the period from fiscal year 2004 to 2007.

4. The school system states "GAO persists in repeating the error" that the master plan is a budget document. We agree with the Superintendent's statement that the facility master plan is not a budget document, and we do not state that it is a budget document. However, there is a wealth of evidence showing that the master plan does, in fact, form the basis for the school system's capital budgets. For example, in the November 2001 revised plan, the school system states that the Board of Education adopted a facility master plan that proposes the modernization of "nearly every District school during the next ten years." Further, the revised plan notes that the capital budget is the implementation tool for the facility master plan—identifying the funding

requirements, clarifying the scope and schedules, and reaffirming the goals of the program.

5. The school system mistakenly suggests that we evaluated the \$848 million cost of the schools indicated in the facility master plan. It is a coincidence that the \$848 million noted in the facility master plan happens to equal the \$848 million shortfall we found when comparing the original budget approved June 2001 to the school system's November 2001 revised plan.
6. This assertion is incorrect. We did not compare the aggregate master plan costs with the school system's capital budget. Rather, we focused our analysis on a 6-year period, as clearly discussed on pages 2 and 4 of this report and in our April 25, 2002, testimony.
7. The school system says that it has "ensured that adequate resources are directed to the asbestos program." While it may be true that "portions" of the \$17 million budgeted in past years for asbestos are now included in individual project costs, there is still a need to fund other asbestos requirements, and the school system's budget request is clearly not doing this after fiscal year 2003. No funding is budgeted for asbestos for fiscal years 2004 through 2008.
8. The school system states that it is working to develop alternative approaches to fully fund the master facility plan. We revised our report to reflect this point.
9. The school system states that "it is not reasonable, at this early stage in the modernization program, to return to the 'band aid' repairs of past decades." We agree, and in fact our recommendation is intended to move the school system toward a balanced program that funds modernization projects and component repairs. However, the school system has focused on funding the modernization program at the expense of the component repair program. The budget for component repairs was reduced from \$70.7 million to \$37.7 million for fiscal year 2003 and was zeroed out for fiscal year 2004 and beyond.
10. The school system erroneously links our \$1.3 billion figure to the fiscal year 2002 through 2007 funding level. Our testimony states that, based on the facility master plan, a \$1.3 billion capital budget to modernize the public schools was approved in June 2001. This figure includes \$378 million that was budgeted and expended through fiscal year 2001, as well as \$868 million budgeted over the 6-year period covering fiscal years 2002 to 2007. In addition, we included federal funds amounting to \$55 million that had also been spent on the modernization program.

The school system states that the fiscal year 2002-2007 budget provides \$694,330,000 over six years of the plan. This is incorrect. It is the fiscal year 2003-2008 capital budget, prepared in March 2002, that provides for this amount of funding.

11. See comment 7.

Enclosure IV: GAO Contacts and Staff Acknowledgements

GAO Contact

Michele Mackin, 202-512-4309

Acknowledgements

In addition to the individual named above, Charles D. Groves, John D. Heere, Gary L. Middleton, William Petrick, Jr., and Russell R. Reiter made key contributions to this report.