

## Discussion Points

1. Prior to FY 2022, operating costs for the Schools Development Authority had generally been funded through the proceeds of bonds. The “Educational Facilities Construction and Financing Act” provided \$12.5 billion in bond proceeds, to be issued by the New Jersey Economic Development Authority, and transferred to the Schools Development Authority. Of that total, about \$648.2 million in unissued authorized bonding remains.

Starting in FY 2022, the authority has received funding from other sources to defer the exhaustion of its bond cap and fund school facilities projects and authority operations without having to issue additional bonds. The FY 2022 Appropriations Act included \$200.0 million out of the General Fund for the direct funding of Schools Development Authority school facilities projects.

For FY 2023 through FY 2029, P.L.2022, c.18 provided \$1.9 billion out of the off-budget New Jersey Debt Defeasance and Prevention Fund to the authority for school facilities projects. According to a Schools Development Authority response to an FY 2024 OLS Discussion Point, this \$1.9 billion plus its remaining nearly \$650.0 million in unissued authorized bonding would provide sufficient funding until sometime in FY 2032 or FY 2033.

Disbursement Schedule of \$1.9 Billion Debt Defeasance and Prevention Fund Allocation to Schools Development Authority	
FY 2024	\$250,000,000
FY 2025	\$350,000,000
FY 2026	\$350,000,000
FY 2027	\$350,000,000
FY 2028	\$350,000,000
FY 2029	\$250,000,000
<b>Total</b>	<b>\$1,900,000,000</b>

In FY 2024, the authority indicated that it would use \$250 million through funds from P.L.2022, c.18, in combination with other cash on hand, to support \$350 million in capital project expenditures. For FY 2025, Governor recommends adherence to the disbursement schedule, meaning that \$350 million out of the New Jersey Debt Defeasance and Prevention Fund appropriation would be used to fund authority projects and operations.

- Questions:** Please elaborate on the intended uses of the \$350 million proposed FY 2025 appropriation for Schools Development Authority facilities projects. Does the authority expect to use other available funds in FY 2025? If so, what is the source of the supplemental funding? Does the authority intend to advance projects that have been identified in the most recent Statewide Strategic Plan? For what specific projects is this funding intended to be used and how much of the proposed appropriation would be dedicated to each project? For each project, please provide the school district, the grades served, the project type, and estimates concerning each project’s completion date, the number of new seats, and new capacity.
- Please detail the uses to date of the funds appropriated to the authority under P.L.2022, c.18, as well as the progress and projected completion date of each project that has received funding to date. Have any projects that have been funded through P.L.2022, c.18 to date experienced delays, cost overruns, or any other construction challenges?

During FY 2025, the Authority expects to utilize funds remaining from the \$200 million allocated in FY 2022, as well as the \$250 million received in FY 2024 and the \$350 million proposed for FY 2025. These funds will be utilized on the following projects and programs:

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- 3 major capital projects from the 2012 Capital Plan

District	Project	Grade Alignment	FES Capacity	Max. Capacity	Total Estimated Cost (millions)	School Occupancy
Orange	Cleveland St. ES	PK-6	316	348	\$51.7	Sep-24
Perth Amboy	New High School	9-12	2,800	3,295	\$283.8	Sep-24
Union City	New Grade 7 to 9 School	7-9	827	936	\$93.7	Sep-25

These projects represent the last three projects from our prior capital plan.

- Projects identified in the 2022 Capital Plan

District	Project	Grade Alignment	FES Capacity	Max. Capacity	Total Estimated Cost (millions)
Bridgeton	HS Addition/Renovation	9-12	326	384	\$49.2
Elizabeth	New ES (Battin Replacement)	PK-8	973	1,068	\$96.2
Garfield	New ES (No. 5 Replacement)	PK-5	767	852	\$80.2
Paterson	New STEAM & STARS HS	9-12	1,200	1,532	\$160.3
Trenton	ES at Dunn MS	K-6	753	837	\$83.8
Pleasantville	New Decatur Ave ES	PK-5	601	658	\$65.8
Camden	New High School (East Side HS Replacement)	9 - 12	800	941	\$115.1
Newark	New University High School (Replacement)	9 - 12	920	1,082	\$129.2
Passaic City	New Passaic High School No. 12 (Replacement)	9-12	2,400	2,823	\$328.1
West New York	New Middle School	6 - 8	788	876	\$110.1

These projects represent 10 of the 19 projects identified in the Authority’s 2022 Capital Plan. With respect to anticipated completion dates, it is still early in the development process with the exception of the Bridgeton High School, Garfield New Elementary School, and Elizabeth New Elementary School, which are anticipated to be completed in 2027. The Authority has already delivered two projects from that plan through an alternative delivery method via acquisition of existing school buildings on behalf of our client school districts in Newark and New Brunswick. The remaining seven projects are either in the planning stages with active working group discussions on-going to finalize project scope details (Jersey City, New Brunswick, Perth Amboy, and Salem City) or are phased with the advancement of other

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projects (Bridgeton and Garfield). The status of our 2022 Capital Plan can be found as an attachment to this document.

- **Advance projects in our Emergent Project Program**

District	School Name	Project Scope	Estimated Completion	Total Estimated Costs (millions)
Burlington	Samuel Smith	Windows Repair/Replacement Partial Roof Replacement	Q3 2024	\$ 3.9
Burlington	Captain James Lawrence	Window and Flooring Replacement	Q3 2024	\$ 2.0
Camden City	Veteran Memorial School	Exterior Masonry, Windows, Roofing & Site Work	Q4 2024	\$ 6.6
East Orange	Fresh Start Academy	Water Infiltration Roof, Masonry	Q4 2024	\$ 3.9
Irvington	Grove Street School	Boiler Replacement and HVAC Repairs	Q3 2024	\$ 4.0
Millville	Holly Heights ES	HVAC Renovations	Q4 2024	\$ 5.2
Newark	Branch Brook ES	Water infiltration - Exterior Masonry	Q3/Q4 2024	\$ 0.3
Newark	Cleveland	Boiler Room Vault Repairs	Q2 2024	\$ 1.7
Newark	Salome Urena (Old 1st)	Water infiltration - Exterior Masonry	Q3/Q4 2024	\$ 0.3
Newark	Technology HS	Structural Vault Repairs and Façade Repairs	Q3/Q4 2024	\$ 2.9
Newark	University HS	Partial Roof Replacement	Q3/Q4 2024	\$ 1.8
Trenton	Franklin ES	Water infiltration - Exterior Masonry Structural - Boiler Stack Repair	Q3/Q4 2024	\$ 0.5
Union City	Emerson MS	Water Infiltration - Roof Replacement Exterior Masonry and Stucco Repairs	Q4 2024	\$ 4.0
Union City	Union Hill MS	Water Infiltration - Roof Replacement Exterior Masonry and Stucco Repairs Structural Chimney repairs	Q4 2024	\$ 4.7

These projects advance the ROD grant program including 797 grant projects in 278 districts across the state representing \$1.1 billion in total project costs and State share of approximately \$500 million.

Additionally, funds from the Debt Defeasance and Prevention Fund will be used to continue to fund the operations of the Authority.

The Authority does not allocate a specific portion of the total project costs of a project to one specific funding source at the outset of a project. Instead, the Authority monitors its obligations and expenditures based upon the project category (SDA District, Regular Operating District, and Vocational School District) and based upon the statutorily established funding caps to ensure those established caps are not exceeded.

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- The Authority continues to advance school construction with funds appropriated under P.L.2022, c.18 and other funding as documented above. The projects funded through P.L.2022, c.18 have not experienced delays, cost overruns, or any other construction challenges to date.

2. Of the \$1.9 billion that P.L.2022, c.18 appropriated out of the off-budget New Jersey Debt Defeasance and Prevention Fund to the authority to fund school facilities projects through FY 2029, the law set aside \$350.0 million to school facilities projects in regular operating districts, which are school districts other than SDA (former Abbott) districts. Under the Regular Operating District grant program, school districts receive a minimum contribution of 40 percent of approved eligible project costs from the State. In September 2023, the Department of Education and the authority announced the awarding of \$450.0 million in funds to 261 school districts with \$100.0 million coming from previous non-P.L.2022, c.18 allocations to the authority. This round of funding only considered “Level 1” school facilities projects, which address the most critical operational building needs, including health and safety issues, and program mandates.

- **Questions:** Since the \$350.0 million New Jersey Debt Defeasance and Prevention Fund appropriation for school facilities projects in regular operating districts has been awarded, please indicate the amount of funding that is available through FY 2029 for additional school facilities projects in regular operating districts. Does the authority plan any additional funding round for such projects through FY 2029? Would funding come out of the \$648.2 million in unissued existing bonding authority?

The recent round of projects approved fully commits the amount authorized by the \$350 million appropriation. Additionally, it fully utilizes an additional approximately \$100 million made available due to the reduction in State share for projects approved in prior authorizations. These reductions are due to either projects being completed for less than the established eligible cost value or, in some instances, projects being cancelled by their respective school districts.

The \$648.2 million in unused existing bonding authority is already committed to the projects the Authority is advancing in its capital plans as well as the ROD grant program. It is anticipated that a portion of these bonds will need to be issued prior to FY 2029 to support the needs of the ROD grant program. There is currently approximately \$500 million in funding that is outstanding to ROD Districts based upon open pre-existing grants and the new offering.

- **For each of the projects that received funding under the most recent round of the Regular Operating District Grant Program, please provide the school district constructing the project, the grant amount received, the grades served, the project type, and estimates concerning each project’s completion date, construction costs, the number of new seats, new capacity, or other identified critical needs. After review of project applications, what school facilities issues appeared to be most prevalent throughout the State?**

We are unable to provide estimates regarding project completion, as that is under the purview of each individual district, but our grant agreements require receiving districts to complete the project within 18 months of execution of the grant agreement. None of the projects will

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generate new seats or capacity. Attached is a list of all the grant projects that we expect to advance with this round of funding.

The majority of approved projects will address issues related to heating, ventilation, and cooling; roof repairs; and window replacements.

- **How many school districts were denied funding? For what reasons were the districts denied and what other opportunities do these districts have to secure funding to support their school facilities projects?**

Generally speaking, there was not enough funding available to address all the project requests. Projects were based upon the rubric articulated in the grant offering and established a cut-off based upon the available funding. If districts are able to obtain voter approval to issue bonds to support their facilities projects, they may seek debt service aid directly through the DOE.

3. P.L.2023, c.311 newly requires the Schools Development Authority to promulgate a model school design program that would establish uniform standards for the exterior and interior design of school facilities projects. All SDA (former Abbott) school district facilities projects will be required to conform to these standards. The program is to be established by May 16, 2024.

- **Questions: Please provide an update on the authority's progress in developing and establishing the model school design program. Will the program be established by May 16, 2024? If not, what reasons cause the delay?**

The SDA has uniform standards in place that are in line with P.L.2023, c.311. These standards are periodically updated through issuance of bulletins to remain in line with advancements in the construction industry and safety guidelines. The law provides another opportunity to further examine these standards and SDA is currently in the process of reviewing and updating our standards.

- **To what extent has the authority already established standards that contain the principles of the model school design program, as laid out in P.L.2023, c.311? Please describe the standards that the authority already employs in SDA district school facilities projects. How effective are the standards in building high-quality, safe schools at costs that ensure the efficient use of public funds? In what ways will the model school design program build upon any existing standards?**

The current Model Schools Program strives to balance the benefits of standardization with the recognition that each school district and project is unique. SDA has developed a series of prototypical Model Programs, which define the typical number, type, and size of spaces required for school facilities of varying sizes and grade alignments. We utilize a "Kit of Parts" approach to conceptual design, which allows for quicker development and evaluation of alternative arrangements of the educational program on the project site during the Program-Concept Phase of in-house design.

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SDA has found our standards to be effective at providing greater consistency in school facility projects within and across all SDA districts while responding to varying site conditions and educational program requirements. The standards help to ensure parity across the districts, providing only the spaces educationally necessary to support the DOE approved educational program. Materials standards reduce excess costs and ensure that building materials, systems, and technology are modern, current, and efficient.

4. P.L.2023, c.311 provides that certain administrative, non-project insurance, operating, and other expenses of the Schools Development Authority are to be funded through State appropriations, rather than through the proceeds of bonds issued for school construction purposes. State appropriations would presumably not be needed pursuant to the law until after FY 2029, which is the final year in which the development authority will be funded by New Jersey Debt Defeasance and Prevention Fund moneys pursuant to P.L.2022, c.18. The authority’s administrative and general expenses, including employee salary and benefit costs charged back to school facilities projects, decreased significantly between calendar years 2018 and 2022.

Schools Development Authority Administrative and General Expenses, CY 2018 to CY 2022	
2018	\$30,425,726
2019	\$30,413,520
2020	\$26,625,593
2021	\$25,005,838
2022	\$22,886,435

The authority’s Financial Statement for Calendar Year 2022 indicates that the authority deployed PM Web, a new project management software, which increased administrative expenses.

- **Questions:** For what reasons did the authority’s administrative and general expenses decrease from \$30.4 million in calendar year 2018 to \$22.9 million in calendar year 2022? Are there any particular factors that drove decreases over this time?

The Authority’s operating expenses have decreased over 25 percent, or \$7.5M during this time, from calendar year 2018 to calendar year 2022. The two main factors driving this decrease are lower salary and benefit costs (\$7.1M) and general office and facilities expenses (\$0.4M). Employee headcount at the end of 2018 was 222, whereas the current headcount is 129.

- Please discuss trends that the authority projects for its administrative expenditures in calendar years 2024 and 2025. Are there any particular factors that are expected to alter the authority’s administrative expenditures in calendar years 2024 and 2025?

Authority operating expenses are anticipated to begin trending upward throughout 2024 and 2025 as project rollout continues and the demand for additional staff to support those projects increases. A major challenge for the foreseeable future is the potential for large numbers of staff retirements, as 30% of SDA staff are retirement-eligible.

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Currently, the Authority is not aware of any other particular factors that are expected to significantly alter the Authority's administrative expenditures in calendar years 2024 and 2025.

- **Please discuss the extent to which the authority experiences difficulties in filling vacant positions. To the extent that the authority encounters any difficulties, what job titles are especially hard to fill and for what reasons? How many vacant positions, by job title, does the authority currently have and in what divisions and offices?**

The SDA is currently in the process of hiring additional staff, including four job vacancies for which we are currently accepting applications. This includes two in our Design Studio, one in Construction Operations, and one in Internal Audit. The SDA has encountered difficulties with filling positions in our Construction Operations and Design Studio divisions. We believe this is the result of a tight labor market and lower salary range compared to private organizations. In addition to the positions that are currently posted for hire, and two additional positions that will be posted soon, there remain 16 vacant budgeted positions. As the SDA continues to ramp up hiring this calendar year to meet our staffing needs, SDA executive staff will provide the Audit Committee and Board of Directors with updated staffing needs that detail the titles/divisions of those positions. Staffing needs are analyzed and reviewed by the Board of Directors on a quarterly basis to validate which positions are needed in order to deliver the current and upcoming project workload. We anticipate a majority of these positions to be in the Construction and Design Studio divisions.

- **Please discuss the implementation of PM Web, including any challenges the authority has experienced in implementing the software. For what reasons did the authority decide to deploy PM Web? For what specific purposes is the software used? What efficiencies have resulted from the implementation of the software?**

The SDA implemented the use of the PM Web software in 2021. The deployment of PM Web was necessary as the prior software was approaching the end of its useful life and no longer supported by Oracle, risking the possible loss of project data and a shutdown of projects. The only challenge experienced was in the deployment schedule because of delays encountered due to COVID. However, this delay did not affect SDA project activities, as the SDA initiated this replacement process prior to the end of the previous product's useful life. The purpose of the PM Web software is to track project management, project accounting (i.e., schedule of values apportioning of the contract sum for accurate invoicing) and project scheduling. For project management, the system is utilized for filing project documents, tracking construction progress, and tracking payments along with communications. One of the efficiencies provided with this product is the flexibility with document access and storage. This product allows the SDA to store project-related documents in the document manager that can be separate from those that can be accessed by the contractor.

5. The FY 2025 Governor's Budget recommends an appropriation of \$50.0 million for SDA Capital Maintenance and Emergent Projects, representing a \$25 million reduction from the \$75 million budgeted annually since FY 2022. The funding would be made available to offset district costs

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associated with emergent and capital maintenance projects and ensuring students have safe and healthy learning environments.

- **Questions:** Please explain the rationale for the recommendation of a \$25 million reduction in the SDA Capital Maintenance and Emergent Projects appropriation. Has funding in previous years been sufficient to address emergent conditions in schools? If available, please share the amount each school district may receive in FY 2025.

The reduction in the recommended appropriation between FY 2024 and FY 2025 is part of a broad-based reduction in discretionary grant programs across the State budget meant to reflect the State's capacity for spending in a tighter fiscal environment. The expectation is that \$50 million would be made available to the SDA Districts and the allocation of those funds would be substantially consistent with the allocation of the funds from the FY 2024 budget.

- **To what extent has funding provided for SDA Capital Maintenance and Emergent Projects since FY 2022 helped to remediate unsafe learning environments for students? What oversight does the authority, or the Department of Education, exercise to ensure that funds disbursed under this program are being used efficiently and in a timely fashion, in order to create safer and healthier learning environments?**

We feel the funding has provided districts with another tool with which they can alleviate their building conditions needs. Based upon the submissions received, the majority of the money is being utilized to ensure students are able to inhabit safe, dry, and warm learning environments. Most of the work being advanced is intended to address conditions related to heating, ventilation, and cooling systems; roof and masonry repairs to address water infiltration; and security upgrades.

The process for the administration of the funds calls for certification by each district as to how it will utilize the funds. Those certifications include a list of projects for which the district intends to use the funds, which is reviewed by SDA staff as part of the approval process to ensure districts meet the requirements of the funding. Annual audits are conducted on a representative sample of districts to ensure proper use of funds and to identify any areas of concern. The first audit was completed last year and did not uncover any major concerns. However, it did lead to improvements to the form of certification to provide requirements for how quickly the funds should be utilized and how any change in the planned use of funds should be communicated to the Authority.

Additionally, school districts are subject to an annual financial audit and the use of these funds should be accounted as part of that audit.