



**REPORT OF
THE
STATE AUDITOR**

**Public School Capital Construction Program
Colorado Department of Education**

**Performance Audit
May 2003**

**LEGISLATIVE AUDIT COMMITTEE
2003 MEMBERS**

Senator Ron Tupa
Chairman

Representative Tambor Williams
Vice-Chairman

Senator Norma Anderson
Representative Fran Coleman
Representative Pamela Rhodes
Senator Stephanie Takis
Senator Jack Taylor
Representative Val Vigil

Office of the State Auditor Staff

Joanne Hill
State Auditor

Sally Symanski
Deputy State Auditor

Sandy Ronayne
Greg Fugate
Monica Protz
Legislative Auditors



STATE OF COLORADO

JOANNE HILL, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
(303) 869-2800
FAX(303) 869-3060

Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

May 19, 2003

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Public School Capital Construction Grant Program, Colorado Department of Education. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Education.

TABLE OF CONTENTS

	PAGE
REPORT SUMMARY	1
Recommendation Locator	5
OVERVIEW	7
FINDINGS AND RECOMMENDATIONS	
CHAPTER 1. CONSTRUCTION NEEDS	
AND STRATEGIC PLANNING	
Recent Grant Awards	17
Construction Needs	20
Strategic Planning	23
Evaluation of State Grants	31
CHAPTER 2. GRANT APPLICATION REVIEW AND APPROVAL ...	37
Ranking Projects	38
Matching Fund Waiver Requests	40
CHAPTER 3. PROJECT ASSISTANCE AND MONITORING	47
Technical Assistance	48
Contracts for Grant Awards	50
Project Monitoring	53
Reimbursement Process	55
APPENDIX A - Grant Program Funding Cycles	A-1
APPENDIX B - Construction Needs Survey Results	B-1



**STATE OF COLORADO
OFFICE OF THE STATE AUDITOR**

REPORT SUMMARY

**JOANNE HILL, CPA
State Auditor**

**Public School Capital Construction Grant Program
Department of Education
Performance Audit
May 2003**

Authority, Purpose, and Scope

This audit of Colorado's Public School Capital Construction Grant Program (Program) was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct performance audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with generally accepted government auditing standards. Audit work was performed from August 2002 through February 2003.

To evaluate the Program, we gathered information through interviews, data analysis, document review, survey of school districts, and site visits to observe construction projects. Our review did not include charter school construction funding or public school construction conducted as a result of bond elections, school district capital reserve funds, or any other source of funding not included in the Program.

We would like to acknowledge the efforts and assistance extended by management and staff from the Colorado Department of Education, school districts, and individual schools.

Public School Capital Construction Grant Program

The Program includes grants funded through (1) the School Capital Construction Expenditures Reserve, (2) the School Construction and Renovation Fund, (3) the Contingency Reserve, (4) the Federal Fund and (5) loans through the State Public School Permanent Fund. The Colorado Department of Education created the Program in Fiscal Year 2000 in response to settlement of *Giardino versus the State Board of Education*. The Settlement Agreement required that the General Assembly appropriate \$190 million over 11 years (Fiscal Years 2001 through 2011) to address the most serious public school construction needs.

The State Board of Education established the Capital Construction Advisory Committee to make recommendations regarding financial assistance to school districts. As of February 2003, more than \$36 million in state grants had been awarded to 106 school districts. In addition, districts have received about \$8.5 million in federal grants for public school construction through awards by the Department.

For further information on this report, contact the Office of the State Auditor at (303) 869-2800.

Key Findings

Planning

- The Department's approach to the Program has been largely short-term and reactive. The Department lacks statewide data on public school construction needs necessary to develop a strategic plan. A plan will ensure that grant moneys are allocated efficiently and effectively to the projects with the most serious needs.
- The Department does not assist school districts in obtaining other sources of funding for capital construction. The Department should identify and evaluate state and federal programs that might be available for school construction and provide this information to the districts.

Grant Application Process

- The two state-funded construction grant programs—the School Capital Construction Expenditures Reserve and the School Construction and Renovation Fund—have different criteria and approval processes. We found that this has resulted in confusion among the school districts involving the criteria for the two programs. Additionally, administering these two funding sources within the Program has become challenging for the Department. The Department should evaluate options for improving and streamlining the Public School Construction Grant Program, including proposing statutory changes and/or making administrative improvements.
- The Department has designed a scoring method to rank district applications, but we found that the Advisory Committee is inconsistent in using it. As a result, 30 projects that had rankings indicating a high priority were not granted awards while 19 that were not ranked among the most needy received grants. The Department needs to ensure consistent use of the project ranking system.
- The Department has not fully documented the Advisory Committee's reasons for decisions on grant applications. Further, the Department has not ensured that minutes are recorded for all of the Advisory Committee's meetings. The Department needs to comply with the Open Meetings Law by recording minutes and making them available to the public. It should also include the reasons for funding decisions in letters sent to districts.

- The Department does not currently have formal contracts with school districts receiving construction grants. As a result, the Department does not have recourse for districts' noncompliance with grant requirements. The Department needs to work with the Office of the State Controller to develop approved contracts for the Program.
- The Department does not have a comprehensive process for monitoring construction projects funded through the Program. As a result, the Department may not become aware of problems or provide as much oversight as it could. We believe the Department could improve monitoring by creating a risk-based oversight system and holding payments from the grant until it receives a completed annual or final report.

A summary of the recommendations and the Department's responses can be found in the Recommendation Locator on the following page.' Our complete audit findings and recommendations and the responses of the Department of Education can be found in the body of the audit report.

RECOMMENDATION LOCATOR
Agency Addressed: Colorado Department of Education

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	26	Improve the Public School Capital Construction Grant Program (Program) by (a) developing a statewide needs assessment and (b) formulating a strategic plan.	Partially Agree	Ongoing
2	29	Assist school districts in obtaining funding from other state and federal grant programs by identifying and evaluate such programs that might be available for public school construction, repair, and renovation..	Agree	June 2003
3	31	Incorporate into the grant application the requirement for districts to assess areas of their facilities that could adversely impact the proposed project.	Agree	June 2003
4	35	Evaluate alternatives for streamlining the Program.	Agree	Implemented
5	39	Work with the Capital Construction Advisory Committee to ensure consistent use of the project scoring system, and document the basis for the Committee's funding decision.	Agree	July 2003
6	42	Improve the management of the Program by (a) promulgating rules regarding matches for all types of grants and (b) establishing criteria for waiving the match requirement.	Agree	July 2003
7	45	Improve the information and feedback provided to districts by (a) maintaining meeting minutes and (b) including the reason for funding decisions in letters sent to the districts.	Agree	Implemented

RECOMMENDATION LOCATOR
Agency Addressed: Colorado Department of Education

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
8	50	Improve technical assistance by (a) including information on construction management in the Program Handbook and (b) ensuring that districts receive information on statutory requirements.	Agree	July 2003
9	52	Develop an approved contract for the Program.	Agree	August 2003
10	54	Develop a more timely and efficient monitoring process by (a) creating a risk-based oversight system, (b) requiring districts provide project status reports earlier, and (c) holding payments until districts provide an annual and/or final status report.	Agree	August 2003
11	56	Enhance the reimbursement process by (a) improving the documentation of corrections made to district reimbursement forms and (b) providing additional guidance on the use of the reimbursement form.	Agree	Implemented

Overview of Colorado's Public School Capital Construction Grant Program

Background

The purpose of this audit was to evaluate the Public School Capital Construction Grant Program (Program). The Program includes grants funded through (1) the School Capital Construction Expenditures Reserve, (2) the School Construction and Renovation Fund, (3) the Contingency Reserve, (4) the Federal Fund and (5) loans through the State Public School Permanent Fund. As discussed below, the Colorado Department of Education established the Program in response to settlement of a lawsuit in Fiscal Year 2000.

The physical condition of public schools has become a nationwide concern since the 1990s. The U.S. General Accounting Office (GAO) has issued numerous reports on the condition of public school facilities. One report estimated one-third of the nation's schools needed extensive repair or replacement, with an estimated cost of \$112 billion to bring all school facilities in the country to good overall condition. Concerns with school facilities include old mechanical and electrical systems, damage from leaking roofs, warped and buckling floors, classrooms with poor ventilation, condemned and crumbling buildings, and the presence of hazardous materials in school buildings.

During the last half of the twentieth century, states began assuming a larger financial role in constructing and renovating public school buildings. School construction costs have historically been the responsibility of local government. Until the 1940s only 12 states provided any support for school construction. The need for more classroom space during the baby boom years along with surplus revenues brought increased state financial support for school construction. In addition, litigation across the country in the past 10 years has focused attention on economic inequalities of rich and poor school districts, including the condition of the districts' educational facilities. While state involvement in public school facilities varies widely, nearly all states now have some role in school construction, renovation, and major maintenance.

Funding of Colorado Public School Capital Construction Projects

Capital construction for K-12 public schools in Colorado has historically been considered a local school district issue. Prior to 1988 Colorado's school finance legislation authorized districts to impose a mill levy (up to four mills) for capital construction needs. Since 1988 Colorado public schools have been funded through the Public School Finance Act, which was established to provide equitable funding for both operating and construction needs across all school districts for public education in the State. The Act defines the funding formula used to identify the amount each school district is to spend per student for the school year. This amount is referred to as the "per pupil operating revenue" (PPOR). Districts have different amounts of required per pupil operating revenue under the Act because the funding formula reflects cost factors unique to each district, such as cost of living. The Act also outlines the process for determining how much the State and local school districts will each contribute to generate the required per pupil operating revenue. The State's share varies based on each district's ability to raise revenues from its tax base.

The Public School Finance Act also includes a minimum fixed funding allocation (currently \$262 per pupil per year) for capital improvements and/or insurance needs. According to the Department, as part of the PPOR formula, districts may budget the minimum allocation to their capital reserve funds and/or insurance reserve funds. Section 22-54-105(2)(d), C.R.S., specifies that school districts may only use the moneys in their capital reserve funds for long-range capital expenditures. Districts may incur bonded indebtedness for acquiring buildings or grounds, constructing or improving school buildings, equipping or furnishing buildings in relation to a construction project, and improving school grounds. In November 2002 alone, voters approved bonded debt totaling almost \$817 million for capital improvements. In Fiscal Year 2002 school districts sold more than \$405 million in bonds approved as a result of bond elections.

Legislation

Between 1996 and 1998 the General Assembly took several actions to provide state assistance to districts for public school capital construction. For example, in 1996 the General Assembly created the Interim Committee on K-12 Capital Construction Finance to study the issues involved in financing capital construction projects. Over the years, various bills were introduced to provide funding for public school construction. In 1998 House Bill 98-1231 was enacted. This bill created the School Construction and Renovation Fund to be used to make matching grants to school districts for capital construction projects. The Fund was to consist of excess state revenues transferred

pursuant to House Bill 98-1256. House Bill 98-1256 referred a measure to the voters which, if approved, would have allowed the State to retain up to \$200 million of state revenues in excess of the Taxpayer Bill of Rights (TABOR) requirements for five years for the “purpose of funding school district capital construction projects, state and local transportation needs, and capital construction projects of state colleges and universities.”

However, the referred measure was rejected by the voters in November 1998. Thus, although a program had been established by House Bill 98-1231 to provide state assistance for capital construction projects, it lacked a funding mechanism and was not implemented.

Giardino Versus the State Board of Education

On January 13, 1998, a class action complaint relating to school capital construction expenditures, *Giardino versus the State Board of Education*, was filed in Denver District Court on behalf of students in 10 school districts. The complaint alleged that the State had not fulfilled its constitutional responsibility to provide for the establishment and maintenance of a thorough and uniform system of free public schools as a result of the poor conditions existing in schools, including condemned portions of buildings, leaking and failing roofs, overcrowded facilities, substandard plumbing and wiring, asbestos-containing materials requiring abatement, inadequate access for the disabled, inadequate technology infrastructure, and inadequate heating and cooling equipment.

On April 26, 2000, the parties agreed to settle the action. The Settlement Agreement was contingent on the General Assembly’s adopting legislation that would provide a mechanism for funding capital construction, repair, and maintenance in public schools and furnish \$190 million in general funds over 11 years to address the **most serious needs** [emphasis added]. The General Assembly subsequently adopted and the Governor signed Senate Bill 00-181, which included provisions that implemented the terms of the Settlement Agreement. Pursuant to Senate Bill 00-181, the \$190 million is to be split between the newly created School Capital Construction Expenditures Reserve (\$105 million) and the existing School Construction and Renovation Fund (\$85 million) according to an annual schedule.

Senate Bill 00-181 does not require any general fund appropriation in a fiscal year in which general fund revenues do not exceed certain annual obligations by more than \$80 million. However, the Settlement Agreement allows the case to be reopened if the General Assembly does not appropriate funds in accordance with the funding schedule. State reserves have fallen under the \$80 million threshold during Fiscal Years 2002 and 2003; as a result, other funding sources have been utilized. For example, rather than general

funds, the State Education Fund and Lottery moneys (discussed below) have been used to meet the State's Giardino commitment for these two years.

In November 2000 Colorado voters passed two measures that provided state funding for schools. Amendment 23 created the State Education Fund to be financed from state income taxes. Among other things, the moneys in this Fund can be used to support public school construction.

The second measure approved in November 2000 was Referendum E, which authorized the Colorado State Lottery Commission to enter into agreements for a multi-state lottery (i.e., Powerball). Referendum E requires that all net Lottery proceeds that would have been transferred to the General Fund instead be transferred to the Contingency Reserve (described below) beginning in the first quarter of Fiscal Year 2002. As required, \$4.1 million was transferred to the Contingency Reserve in Fiscal Year 2002. However, the \$4.1 million was not used to provide additional funding for school construction. Instead, the money was appropriated to the School Construction and Renovation Fund to help meet the State's Giardino settlement commitment. In Fiscal Year 2003, \$4.4 million in Lottery moneys was transferred to the Contingency Reserve, but the State Board of Education had not awarded any grants from the moneys as of May 2003.

During the 2001 Session the General Assembly passed Senate Bill 01-129, which created a new program to contribute State Education Fund moneys to charter schools for capital construction. Specifically, Senate Bill 01-129 provided that charter schools will receive a flat amount of funding per pupil for capital construction expenditures based on a formula specified in statute (\$322 per pupil in Fiscal Year 2002). This formula was subsequently amended through House Bill 02-1349. As a result, state funding for charter school capital construction will increase each year based solely on the rate of inflation for the previous calendar year. Senate Bill 01-129 also required the General Assembly to annually appropriate to the School Capital Construction Expenditures Reserve for school district capital construction an amount equal to the amount appropriated for charter school capital construction. Such additional funding was to come from the State Education Fund beginning in Fiscal Year 2002. About \$6.5 million each, or a total of about \$13 million, was provided from the State Education Fund to both charter schools and school districts under this provision in Fiscal Year 2002.

In Fiscal Year 2003 the General Assembly used funds from the State Education Fund (including the \$7.8 million charter school match) to meet the minimum annual Giardino funding. The charter school matching funds were not used as additional funding beyond the Giardino requirements for the Program in Fiscal Year 2003.

Current Methods of Providing Assistance to Schools for Capital Construction

As discussed earlier, the Department developed the Public School Capital Construction Grant Program (Program) to administer the various construction grant and loan programs including those established in response to the Giardino settlement in Fiscal Year 2000. The State Board established the Capital Construction Advisory Committee to make recommendations regarding financial assistance to school districts. The Committee meets two to three times per year to review the applications from districts for state and federal assistance.

Today the State has four methods by which it may provide financial assistance to local school districts for capital improvements. While the relevant criteria and procedures differ for each funding mechanism, all four are administered by the State Board of Education. The state-funded sources of public school construction are:

- **School Capital Construction Expenditures Reserve**(Sections 22-54-117 and 24-75-201.1(4), C.R.S.) is established within the State Public School Fund. Grants from the School Capital Construction Expenditures Reserve do not by statute require matching funds, though the Department believes that if a district makes a match, there will be more of a commitment by the district to maintain the project after completion. Senate Bill 00-181 requires that any moneys in the School Capital Construction Expenditures Reserve that remain unexpended or unencumbered on March 15 of each fiscal year be transferred to the School Construction and Renovation Fund.
- **School Construction and Renovation Fund** (Sections 22-43.7-101, et seq. and 24-75-201.1(4), C.R.S.) provides matching grants to school districts for certain qualified construction projects.
- **The Contingency Reserve** (Section 22-54-117, C.R.S.) is established within the State Public School Permanent Fund. The State Board of Education is authorized to approve payments from the Contingency Reserve to assist school districts with certain emergency financial situations. As discussed previously, in November 2000 the voters of Colorado approved Referendum E, which requires that all net Lottery proceeds that would have been transferred to the General Fund be instead transferred to the Contingency Reserve for school construction.

- C Loans from the State Public School Permanent Fund** (Article IX, Sections 3 and 4 of the Colorado Constitution; Sections 22-41-104, 22-41-109 and 22-43.7-101 et seq., C.R.S.) consist of proceeds from lands that were granted to the State by the federal government for educational purposes. The Fund principal is to remain intact, but the interest or other income earned may be expended “in the maintenance of schools of the state.” Pursuant to a constitutional amendment adopted by the voters in 1996, the General Assembly may adopt laws authorizing the State Treasurer to use the Fund’s interest or other income to “assist public schools in the State in providing necessary buildings, land, and equipment.” The amendment allows the State Treasurer to invest in bonds of school districts, guarantee bonds issued by school districts, and make loans to school districts. The General Assembly subsequently adopted Senate Bill 97-206 and Senate Bill 00-181, authorizing each of the three uses of the State Public School Permanent Fund. To date, no districts have applied for construction loans under this process. These loans require voter approval.

Additionally, federal funds are available for public school construction projects through grants made from the federal School Renovation, IDEA (Individuals with Disabilities Education Act), and Technology Fund (Federal Fund). The Federal Fund is a one-time federal competitive grant program administered by the Department. The Omnibus Appropriations Act of Federal Fiscal Year 2001 provided \$1.2 billion for urgent school renovation, activities authorized under part B of the Individuals with Disabilities Education Act (for excess costs of providing special education and related services to children with disabilities), and technology activities related to school renovation. Colorado received about \$8.8 million of these federal funds. The grants are to be awarded to school districts on a competitive basis. All funds are to be awarded by September 30, 2003. However, funding for projects not completed by December 2003 may be extended until 2007.

School districts also use local sources of funding for capital improvements such as their capital reserve funds and bonded debt. The following table compares the different types of funding for public school construction.

Comparison of Public School Construction Funding

Funding Type	Source of Funding	Types of Projects	District Match Required?	Approval Process
School Capital Construction Expenditures Reserve (Grants)	General Fund per the Giardino Settlement and charter school matching funds from the State Education Fund	Projects to address immediate safety hazards or health concerns, excess operating costs, and building conditions which detract from an effective learning environment.	Yes	State Board of Education reviews a list of projects submitted by the Capital Construction Advisory Committee for approval.
School Construction and Renovation Fund (Grants)	General Fund per the Giardino Settlement and transfers from the School Capital Construction Expenditures Reserve	Projects in a district that: has a lower relative wealth; has reached 90 percent or more of its limit on bonded indebtedness; has a project addressing safety hazards or health concerns; has demonstrated efforts to allocate moneys to the district's capital reserve fund; or has a project to incorporate technology into the educational environment. All other capital construction projects.	Yes	State Board of Education reviews a list of projects submitted by the Capital Construction Advisory Committee. The State Board then develops a prioritized list of projects, which it submits to the legislative Capital Development Committee (CDC). CDC determines the projects on the list that may receive moneys from the Fund, but cannot change the prioritized list from the State Board. The CDC submits the list to the Joint Budget Committee to make an appropriation to the Department.
Contingency Reserve (Grants)	Lottery moneys	Projects to address immediate safety hazards or health concerns.	Yes	State Board of Education reviews a list of projects submitted by the Capital Construction Advisory Committee for approval.
State Public School Permanent Fund (Loans)	Interest or income earned on principal	Projects involving instructional facilities and associated administrative areas or the incorporation of technology into the educational environment.	Not Applicable	State Treasurer may make loans for construction projects which have been evaluated by the State Board of Education and included in its prioritized list. School districts must have voter approval for the debt.
Federal Funds (Grants)	One-time federal grant	Seventy-five percent of the funds are reserved for school renovation. High poverty and rural districts must receive, in aggregate, an amount proportional to their share of Title I funds. Twenty-five percent of the funds must be used for activities under Part B of the Individuals with Disabilities Education Act, technology activities associated with school renovation, or some combination thereof.	Yes	The Capital Construction Advisory Committee reviews and approves projects to receive federal funds. The State Board of Education is not required to approve the projects selected.
School District Capital Reserve Fund (District Funds)	Districts budget a minimum allocation to their capital reserve funds and/or insurance reserve funds	Long-range capital expenditures such as improvements to or construction of structures, acquisition of equipment or buses, installment purchases or lease agreements, and software licensing agreements.	Not Applicable	Expenditures must be authorized by a resolution adopted by the Board of Education of a school district. The local Board of Education must receive voter approval prior to entering into an installment purchase or lease agreement.
Debt	District issuance of bonds	Contingent upon terms of bond issuance. Typically used for acquiring buildings or grounds, constructing or improving buildings, equipping or furnishing buildings in relation to a construction project, and improving school grounds.	Not Applicable	Prior approval by the eligible voters of the district.

Source: Colorado Revised Statutes and Public Law 106-554.

Note: This audit did not include a review of construction projects conducted by charter schools or projects financed by school districts through their capital reserve fund or bonded indebtedness.

State and Federal Grant Awards

As mentioned earlier, the Department of Education established the Public School Capital Construction Grant Program to administer the various state-administered grant and loan programs shown in the table on the previous page. The State is in its third cycle of providing grants to public school districts for construction projects and has completed the approval process for all funds except the Contingency Reserve.

As of February 2003 the State Board had awarded more than \$36 million in state funds from the School Capital Construction Expenditures Reserve and the School Construction and Renovation Fund. In addition, districts have received about \$8.5 million in federal funds for public school construction through awards by the Department. We estimate that districts will also contribute approximately \$33.6 million in matching funds for projects funded through the Program in Fiscal Years 2001 through 2003. The following table shows the state and federal funding of the Program to date.

Public School Capital Construction Grant Program Appropriated Funding Fiscal Years 2001 – 2003				
	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Total
School Capital Construction Expenditures Reserve	\$5,000,000 ¹	\$16,471,052 ²	\$10,000,000 ³	\$31,471,052
School Construction and Renovation Fund	\$0	\$5,000,000 ⁴	\$0	\$5,000,000
Contingency Reserve	\$0	\$0	\$4,399,940 ⁵	\$4,399,940 ⁵
Loans From the State Public School Permanent Fund	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$8,625,538 ⁶	\$8,625,538
Total	\$5,000,000	\$21,471,052 ⁷	\$23,025,478 ⁸	\$49,496,530

Source: Office of the State Auditor analysis of Department of Education data.

Note: The figures in the table do not include matching funds from school districts or any capital construction funds allocated to charter schools.

¹ General funds.

² \$10 million from the General Fund and about \$6.5 million from the State Education Fund.

³ \$10 million from the State Education Fund.

⁴ \$4.1 million from Lottery funds plus \$900,000 from the State Education Fund. The Department has classified the School Construction and Renovation Fund moneys as Fiscal Year 2002, but the moneys were not available to school districts until Fiscal Year 2003.

⁵ As of February 2003 the State Board of Education had not approved any projects to receive funds from the Contingency Reserve in Fiscal Year 2003. The State Board planned to request legislative approval to use the funds in place of State Education Fund moneys already appropriated.

⁶ The Federal Funds figure does not include \$146,959 not awarded as of March 2003.

⁷ Includes \$79,042 used for Department of Education administrative costs.

⁸ Includes \$174,797 used for Department of Education administrative costs (\$87,072 in state funds and \$87,725 in federal funds).

The following table shows the number of projects and school districts funded during the first three funding cycles.

Public School Capital Construction Grant Program Projects Funding Fiscal Years 2001 – 2003				
	Fiscal Year 2001	Fiscal Year 2002¹	Fiscal Year 2003	Total
Projects Funded	40	96	106	242
Projects Proposed	150	134	292	576
Percent of Proposed Projects Funded	26.7%	71.6%	36.3%	42.0%
School Districts With at Least One Project Funded²	29	53	62	91
School Districts Applying²	58	61	89	107
Percent of School Districts Applying With at Least One Project Funded	50.0%	86.9%	69.7%	85.0%
Percent of School Districts Funded to Total Districts in State (178)	16.3%	29.8%	34.8%	51.1%
Source: Office of the State Auditor analysis of Department of Education data.				
¹ Projects funded from the School Construction and Renovation Fund are included in the Fiscal Year 2002 figures, although funds were not available to districts until Fiscal Year 2003.				
² Totals count a school district only once (i.e., if a district applied for multiple projects or in multiple years, it would only be counted once).				

Of the 106 projects funded in Fiscal Year 2003, 63 received federal grants. See Appendix A for a summarized list of projects and school districts.

Audit Scope and Methodology

We reviewed documentation and interviewed personnel in the Department of Education with respect to program policies and procedures for the Public School Capital Construction Grant Program. We examined the Department's process for reviewing and approving grant applications as well as its methods for providing assistance to school districts and monitoring projects. In addition, we visited 10 school districts to observe projects that received funding through the Program. We also performed detailed analysis

of Fiscal Year 2003 funding decisions. Our audit work included a survey of school districts to determine the overall need for construction and/or renovation of Colorado public schools. Our review did not include charter school construction funding or public school construction conducted as a result of bond elections, school district capital reserve funds, or any other source of funding not included in the Program.

Construction Needs and Strategic Planning

Chapter 1

Background

As discussed in the Overview section, the Department of Education established the Public School Capital Construction Grant Program (Program) to administer various grants that can be used to improve the conditions of the State's public schools. In particular, one of the primary purposes of the Program is to provide funding assistance to districts in high poverty areas for projects that address health and safety needs.

When designing the grant programs for public school construction, the General Assembly sought to ensure that the awards would go to projects with "the most serious needs." Specifically, state statutes require that the Department consider the relative wealth of the district as well as the type of project when reviewing applications from districts. Additionally, federal statutes require that states ensure that high poverty and rural districts receive priority for grants from the Federal Fund.

Recent Grant Awards

Legislation requires that the State Board of Education or its designee place the highest priority on projects funded from the School Construction and Renovation Fund on those that are in "a school district that has a lower relative wealth. . . . and address safety hazards or health concerns." The highest priorities for projects funded from the School Capital Construction Expenditures Reserve are those that "address immediately safety hazards or health concerns within existing school facilities." For the Federal Fund, the Department must ensure that high poverty and rural districts receive, in aggregate, an amount proportional to their share of Title I funds. Districts that meet the federal poverty criteria tend to have a per pupil assessed valuation (PPAV) below the state average. PPAV is explained later in this chapter.

To determine how well the Department has targeted the critical needs of Colorado's public schools, we analyzed the relative wealth of districts receiving awards from the most recent

year, known as Cycle 3, and the types of projects (e.g., health and safety) that were approved for these grants. Eighty-nine school districts submitted applications for 292 projects. About \$18.5 million in state and federal funds was awarded for 106 grants in 62 districts. Grants ranged from \$3,000 to \$2 million. The average grant was about \$174,000, and the median grant award was about \$63,000.

Overall, we concluded that the grants were generally awarded to projects that (1) were in “poorer,” rural districts with relatively few students and (2) addressed health and safety issues in schools. At the same time, we found that the Department could improve the allocation of state construction resources as discussed below. The following summarizes our analysis of the Fiscal Year 2003 grant awards by district wealth factors and project type.

District Wealth

All grant programs that are part of the Public School Capital Construction Grant Program require an assessment of the district’s wealth as part of the award process. According to Section 22-43.7-105, C.R.S., applications for grants from the School Construction and Renovation Fund must be prioritized on the following criteria, in descending order of importance:

- Projects in a school district that has a lower relative wealth compared with other school districts in the State based on the per pupil assessed valuation within the district.
- Projects in a school district that has reached 90 percent or more of its limit on bonded indebtedness under Section 22-42-104, C.R.S.
- Projects that will address safety hazards or health concerns at existing school facilities, considering the age of the facilities and any previous renovation work or controlled maintenance that has been performed at the facilities if such projects could not qualify for funding or were not approved for funding from the School Capital Construction Expenditures Reserve.
- Projects in a school district that has previously demonstrated consistent efforts to allocate moneys to the district’s Capital Reserve Fund in excess of the minimum amounts required.
- Projects that are designed to incorporate technology into the educational environment.
- All other types of projects.

The School Capital Construction Expenditures Reserve statutes, Section 22-54-117(1.5), C.R.S., require that the grants from this source be used to:

- Address immediate safety hazards or health concerns within existing school facilities.
- Relieve excessive building operating costs created by insufficient maintenance or construction spending that are currently required to be expended by the district.
- Relieve building construction conditions that detract from an effective learning environment.

Neither the School Construction and Renovation Fund statutes nor the School Capital Construction Expenditures Reserve statutes require that projects from poorer districts be funded before projects from more wealthy districts. However, for the state-funded programs, the Department uses the per pupil assessed valuation (PPAV) as the initial factor in evaluating all applications. PPAV is a measure of a district's property and utility wealth. Each county assessor determines the valuation of all property located within a school district's boundaries (e.g., residential, commercial, agricultural, oil, and gas). The State is responsible for determining the valuation of public utilities within district boundaries. Assessed valuation is based on a percentage of the property's actual value as determined under state law. For example, in Fiscal Year 2003 residential property has an assessed valuation equal to 9.15 percent of its actual value. The PPAV consists of the totals of the district's assessed property and utility valuations divided by the number of students in the district, thus making the measure comparable across school districts. A district's PPAV may change each year. The state average PPAV for Fiscal Year 2003 was \$80,036. District PPAVs ranged from \$11,489 (Sanford) to \$1.2 million (Aspen).

In general, we found that state and federal awards in the most recent grant allocation were for projects in poorer districts as measured by PPAV, district setting, and district size, as described below:

- **PPAV.** Of the 106 projects receiving grants in Fiscal Year 2003, 89 (84 percent) were from 48 districts with a PPAV below the state average. These districts received grants totaling \$16.1 million, or 88 percent of the total amount awarded. The average grant awarded to these projects was \$181,000, and the median grant was \$63,300.
- **District setting.** District setting refers to the type of area in which the district is located. The Department has categorized the five settings as Rural, Outlying Town (e.g., Buena Vista), Outlying City (e.g., Alamosa), Urban-Suburban, or

Denver-Metro. Our analysis also showed that the majority of grants were awarded to Rural or Outlying Town districts, which tend to be poorer (e.g., lower PPAVs) than the other three settings. Out of the 62 districts that received funds, 52 (84 percent) were in Rural and Outlying Town areas and received about \$13 million in grants, or 70.6 percent of the total awarded. Statewide, 136 (76 percent) of Colorado's 178 school districts are located in Rural and Outlying Town areas.

Districts in the Rural and Outlying Town areas have significant construction needs: 67 districts located in Rural and Outlying Town areas submitted about 63 percent of the latest round of applications. In addition, our results from a statewide survey of school districts showed that about 75 percent of the school districts reporting a need for at least one capital construction project are located in Rural and Outlying Town areas.

- **District size.** Districts with few students tend to be poorer (e.g., lower PPAV) than larger districts. Our analysis showed that, in general, smaller districts received more awards. Forty-eight districts with 1,200 or fewer students received about \$11.3 million, or 61 percent of the total amount awarded, and represented 77 percent of the districts receiving funds.

Type of Project

The third highest priority for grants from the School Construction and Renovation Fund is for projects to improve health and safety conditions in public schools. One of the three criteria for School Capital Construction Expenditures Reserve also involves health and safety. Thus, type of project is a critical factor in the Department's evaluation of applications. For state-funded grants, the Department categorizes projects as (1) Health and Safety, (2) Maintenance, (3) Improve the Learning Environment, or (4) some combination of those. Projects that are related to health and safety needs are considered most important. In Fiscal Year 2003, Health and Safety-related projects received about 67 percent of the grant dollars.

Construction Needs

The following table shows the distribution of grants for Fiscal Years 2001 through 2003 by educational region. Only 42 percent of the proposed projects have been awarded Program grants, and about 29 percent of the requested funding has been granted. Applications and awards have varied by region.

Distribution of Public School Construction Grants Among Educational Regions Fiscal Years 2001 – 2003						
	Grant Awards			Proposed Projects		
Region	Amount Requested	Amount Awarded	Percent	Number Requested	Number Awarded	Percent
Metropolitan	\$16,100,184	\$3,678,043	23%	71	13	18%
North Central	\$13,069,623	\$1,858,339	14%	43	9	21%
Northeast	\$7,138,631	\$3,825,598	54%	58	30	52%
Northwest	\$3,587,218	\$1,991,782	56%	44	14	32%
Pikes Peak	\$27,442,938	\$7,513,374	27%	93	39	42%
Southeast	\$39,352,856	\$15,672,059	40%	71	38	54%
Southwest	\$40,883,014	\$9,144,265	22%	162	86	53%
West Central	\$8,407,120	\$1,159,291	14%	34	13	38%
Total	\$155,981,584	\$44,842,751	29%	576	242	42%
Source: Office of the State Auditor analysis of Public School Construction Grant Program applications and awards.						

Because not every school district in the State has applied for Program funds, the awards ultimately reflect the needs of the districts in the applicant pool rather than statewide needs. Therefore, to gain a better sense of the statewide need for public school construction, we surveyed all 178 Colorado school districts. We received responses from 174 districts for a 98 percent response rate. See Appendix B for a summary of the survey results.

We asked districts to estimate the total cost of all repairs and renovations that would be required to put their buildings and facilities in good overall physical condition. As shown in the table below, the 173 districts that responded to this question varied widely in their estimates. The total estimate was about \$4.7 billion.

Districts' Cost Estimates to Renovate School Facilities to "Good" Condition		
	Number of Districts	Percentage of Districts
Less than \$1 million	52	30.0%
\$1 million to \$4.9 million	58	33.5%
\$5 million to \$9.9 million	20	11.6%
\$10 million to \$19.9 million	15	8.7%
\$20 million to \$49.9 million	13	7.5%
At least \$50 million	15	8.7%

Source: Office of the State Auditor analysis of district survey responses, December 2002.
Note: 173 out of the 174 districts responding to our survey answered this question.

We found that the cost estimates provided by districts on our survey are generally consistent with the district characteristics. For example, districts with a larger number of buildings and higher enrollment figures tended to report higher cost estimates in our survey. School districts in more rural areas of the State tended to report lower total cost estimates than did school districts in more urban areas because they have fewer buildings.

Part of the purpose of our survey was to determine specific areas where Colorado's school districts have the most need for capital construction. We provided a list of different types of capital construction projects and asked respondents to mark all that applied to current needs in their district. The table below summarizes the top five responses.

Greatest Areas of Need Reported by School Districts		
Area of Need	Number of Districts	Percentage of Districts
Repairs and/or replacement of heating, ventilation, and air conditioning systems	121	69.5%
Roof repairs and/or roof replacement	114	65.5%
Temperature and ventilation control (e.g., thermostat)	111	63.8%
Window and door replacement	109	62.6%
Improve classroom technology	105	60.3%
Source: Office of the State Auditor analysis of district survey responses, December 2002. Note: Districts could identify as many "areas of need" as they believed existed. A total of 174 districts responded to this question.		

There were 153 school districts responding to our survey (88 percent) that reported at least one specific capital construction need related to health and safety issues. For these districts, the average estimated cost of all repairs necessary to put buildings and facilities in good overall condition was \$30.5 million. The median cost estimate was \$2.5 million.

Strategic Planning

Many of the State's public school facilities are aging and deteriorating. According to the respondents to our survey, about 53 percent of the buildings are between 21 and 50 years old, and about 19 percent are more than 50 years old. Districts are struggling to maintain their buildings. The Public School Capital Construction Grant Program's funds are limited, and the construction needs of the school districts are growing. Our analysis of the responses to our questionnaire indicates that capital construction needs in Colorado far exceed the funds available through the Program. The Giardino settlement requires that the General Assembly appropriate \$190 million over 11 years for public school construction. The Program may receive additional funds from Lottery moneys and the matching charter school funds. Districts may also incur bonded indebtedness for construction needs. In Fiscal Year 2002 Colorado districts sold more than \$405 million in bonds. Even with a variety of additional funding sources, Colorado's schools do not have enough money to meet all their needs. As noted earlier, the 174 districts who responded to our survey estimated their construction needs to total about \$4.7 billion.

The Department's approach to the Public School Capital Construction Grant Program has been largely short-term and reactive. Some evidence of this can be seen in the applications for grants. About 40 percent of the school districts have not applied for a grant. Of Colorado's 178 districts, 107 (60 percent) have applied for Program grants, and 91 have received at least one grant as shown in the following table.

District Applications and Grants by Region Fiscal Years 2001 - 2003					
Region	Number of Districts	Number Applied	Percent of Districts That Applied	Number Awarded One or More Grants	Percent of Number That Applied
Metropolitan	18	10	56%	7	70%
North Central	20	11	55%	5	45%
Northeast	32	15	47%	15	100%
Northwest	19	7	37%	5	71%
Pikes Peak	26	19	73%	18	95%
Southeast	28	20	71%	18	90%
Southwest	23	20	87%	18	90%
West Central	12	5	42%	5	100%
Total	178	107	60%	91	85%
Source: Office of the State Auditor analysis of Public School Capital Construction Grant Program applications and awards.					

Many of the 71 districts that have not applied have significant construction needs. Although this group includes several wealthy school districts, as measured by PPAV, it also includes very poor districts. Thirty-five (49 percent) of the districts that have never applied have a PPAV below the state average of \$80,036. Additionally, the 33 non-applicant districts with below average PPAVs that responded to our survey:

- Identified construction needs of about \$853 million. The average was \$25.9 million, and the median was about \$2.5 million.
- Estimated the costs for their top five construction projects to be about \$622 million. The average was \$19.4 million, and the median was about \$1.5 million.

Legislators, policymakers, department staff, and district officials see a need for financial assistance in public school construction. However, the State does not have complete, accurate information about the current condition of public school buildings across the State. Although districts that have applied for Program funds have identified what they consider to be the most critical needs, many have not assessed all aspects of their facilities. Sixty-eight (38 percent) of the districts responding to our questionnaire have not applied for grants and answered the question on what types of long-term construction planning they had done. Of those 68, only 32 (47 percent) have a district-wide strategic plan, 36 (53 percent) have a facilities master plan, and 20 have both types of plans. Although most districts did not respond to this question in our survey, the responses we did obtain indicate that the districts themselves appear to lack complete information on their own funding needs.

As a result, policymakers and others who must make funding decisions about these facilities do not have complete information on which to base their decisions. Without such information the Department cannot effectively plan to provide construction assistance to districts. Further, the General Assembly cannot be assured that the Department is making cost-effective repair and renovation funding decisions that are consistent with the long-term goals. According to department staff, “the lack of a statewide picture [of public school construction needs] represents a large hole in the current grant program.”

Section 22-54-117(1.5)(c), C.R.S., requires that the State Board “provide technical consultation and administrative services to districts to evaluate the need for capital construction expenditures and the districts’ plans for expending any assistance received from this subsection (1.5)” [School Capital Construction Expenditures Reserve]. The Department needs to be proactive in planning how the Program funds could best be leveraged to have the largest impact on construction needs. To do so, the Department should identify the statewide needs and develop a strategic plan for the Program. For administering the Program, the Department has been appropriated about \$87,000 in state funds, which includes one FTE. Additionally, the Department received about \$88,000 to administer the Federal Fund. This funding also includes one FTE and will be fully expended in November 2003. We believe the Department should use these resources to improve the cost-effectiveness of the Program through strategic planning. The Department’s initiatives as described below are important first steps in the strategic planning process.

Department Efforts to Collect Data

Recently the Department began collecting data on school facilities from the Fiscal Year 2003 grant applications, from master facility plans submitted by districts, and through staff

observations during site visits. However, the data are incomplete. Not all the applications included the requested master plans. Additionally, Department staff have been able to visit only 73, or 41 percent, of Colorado's 178 school districts.

Although the data are incomplete, the Department's database is the first step needed for the Department to develop a statewide needs assessment and a strategic plan for the Public School Capital Construction Grant Program. Strategic planning is a long-term, future oriented process of assessment, goal setting, and decision making that maps an explicit path between the present and the vision of the future. A strategic plan relies on careful consideration of an organization's capabilities and environment and leads to priority-based resource allocation. It outlines agency goals and objectives, and produces the plan the agency will follow to achieve these goals. A strategic plan addresses issues of major public importance and focuses on results rather than efforts.

The Department should continue its efforts to develop a statewide needs assessment and should incorporate the results into a strategic plan for the Public School Capital Construction Grant Program. The Department should focus its efforts on collecting facility condition and construction plans data from the school districts that are the poorest in terms of the PPAV, are in the poorest areas of the State, and have the greatest construction needs. The strategic plan should provide direction on how to best use the Program funds for the greatest cost effectiveness. A statewide needs assessment and a strategic plan would help the Department ensure that grant moneys are allocated efficiently and effectively to the projects with the most serious needs. The Department would be able to use the information from the needs assessment as part of its evaluation and prioritization of applications from districts.

Recommendation No. 1:

The Department of Education should improve the Public School Capital Construction Grant Program by:

- a. Developing a statewide needs assessment for public school construction, renovation, and maintenance.
- b. Using the statewide needs assessment to formulate a strategic plan for the cost-effective use of the Program grants.

Department of Education Response:

Partially agree. Extreme care should be taken to keep the Department from assuming a proactive role in statewide facility planning that could potentially infringe on local control. This could result in the State assuming the responsibility for funding the capital needs of local districts.

Presently the Department collects facility condition data from districts as part of the grant applications and from facility master plans that the Department encourages districts to perform. The Department doesn't believe that it has the authority to require districts to perform facility master plans (unfunded mandate). The information being collected isn't complete because not all districts apply for grants, but it has provided the beginning of a database.

The Department disagrees that a statewide needs assessment can be done in a manner in which it should be done with the 1 FTE that has been provided for this program

The General Assembly needs to determine if this would be a wise use of funds if the capital construction funding continues to be in a state of flux from year to year, given the state's current fiscal status. Another issue of consideration is the General Assembly may come under pressure for more capital construction funding if the true cost of bringing school facilities up to an acceptable or standardized level were known. Districts that responded to the State Auditor's survey self-reported needs of \$4.7 billion. The costs could be considerably higher if a consistent minimum level were required.

Even though a statewide needs assessment has not been done, the Department believes the current program is cost-effective and places the monies with the districts that have the highest needs.

Implementation Date: Ongoing. Currently collecting data - full implementation not planned. As explained above, CDE doesn't have staff, funding or statutory direction for a statewide assessment.

Auditor's Addendum

By statute, the Department is responsible for prioritizing grants to school districts that have the greatest needs in terms of aging facilities and financial resources. In the absence of data, the Department is limited in fulfilling its statutory

responsibilities. Additionally, the Department already has a basis for such a plan, as it is currently in the process of gathering data on the condition of school facilities. Such information will be helpful in avoiding the problems discussed later in this report including awarding grants to (a) replace ceiling tiles that were subsequently damaged by leaking roofs and (b) awarding grants to projects that did not rank as high as others on the combined rank list. We emphasize that our recommendation does not infringe on long-established local control.

Other Sources of Construction Funding and Assistance

As part of its strategic planning effort, the Department needs to identify additional funding sources for school construction. The Department has taken steps in this area. Staff have worked with school districts informally to pursue additional funding or assistance. For example, staff reported that they have referred two districts that needed chemical cleanups to a small grant program in Jefferson County.

We identified three additional programs administered by other agencies in the State that have been used in the past by school districts for capital construction-related projects.

- **State Historical Fund Grants** are intended to assist with architectural assessments and a wide variety of preservation projects, including the restoration and rehabilitation of historic buildings. To date, 45 out of approximately 1,740 State Historical Fund Grants (2.6 percent) have been awarded to school districts. These grants totaled approximately \$3.2 million and were for projects such as roof replacement, interior/exterior rehabilitation, building restoration, and structural assessments. For example, Durango School District 9-R received a Fiscal Year 2002 State Historical Grant Award in the amount of \$157,458 for restoration of the roof on Durango High School. In Fiscal Year 2001, Rio Grande County School District 33J received a \$9,000 award for a historic structure assessment of Sargent High School.
- **Governor's Office of Energy Management and Conservation (OEMC)** provides free energy engineering studies to help clients identify energy-saving opportunities and quantify the cost savings that potential construction and renovation projects could yield. OEMC provides between \$3,000 and \$15,000 per client in engineering services and other resources. Both Department staff and OEMC staff reported having some contact with the other program concerning

specific school districts' needs. Four school districts used OEMC studies to help leverage funds from the Public School Capital Construction Grant Program. For example, in April 2001 the OEMC completed an energy study of Agate School District 300 and outlined long-term energy savings if windows were replaced at the Agate School. The district included information from this study as part of its Fiscal Year 2002 Capital Construction Grant application. Agate School District 300 later received a Fiscal Year 2002 award in the amount of \$247,986 for a window replacement project at its main building.

- **Great Outdoors Colorado (GOCO)** awards competitive grants to counties, municipalities, and special districts to acquire, establish, expand, and enhance park, outdoor recreation, and environmental education facilities. Although school districts are not able to apply directly for these grants, municipalities, counties, or special recreation districts may apply on behalf of a school district. Eligible projects that are likely to be relevant to school districts' capital construction needs are outdoor athletic fields, tennis courts, and playgrounds.

The Public School Capital Construction Grant Program does not fund improvements to athletic facilities. To date, about \$767,000 in GOCO funds has been awarded to 22 individual school district projects. For example, in Fiscal Year 2002 the Town of Walsenberg was awarded \$27,900 for the final phase of a playground renovation project at Washington Elementary School. The City of Lafayette was awarded \$44,025 in Fiscal Year 2002 for playground renovation at Lafayette Elementary School.

Because the Public School Capital Construction Grant Program has limited funds and the Colorado school districts have more needs for construction projects than the Program will be able to fund, the Department should assist districts in their efforts to supplement Program funds with other grants. This help may be especially important to school districts that lack the staff resources to research numerous grant and assistance programs and prepare the applications. The Department has developed the Public School Capital Construction Grant Program Handbook (Handbook), which describes the differing grants, the application processes, and requirements for grant recipients. Information about other sources of grants could be included in the Handbook.

Recommendation No. 2:

The Department of Education should enhance its efforts to assist districts by helping districts to obtain funding from other sources. To do so, it should identify and evaluate

programs available in other state and federal agencies that might be available for public school construction, repair, and renovation, and make this information available to Public School Capital Construction Grant Program applicants on the Department's Website and in the Program Handbook.

Department of Education Response:

Agree. The Department will continue to notify school districts of other available resources as they become known to the Department. We are concerned about endorsing all available funding programs, because they may or may not be beneficial to individual school districts. Information concerning other available resources will be placed on the Department's Website immediately and will be included in the Program Handbook update as applicable.

Implementation Date: June 2003. As stated above, the Department began implementing this before the audit started. Additional written information on programs that the Department is currently aware of will be added the Program Handbook update and the Capital Construction Website by June 2003. Other programs will be added as they are identified.

Assessments Related to Proposed Projects

Section 22-43.7-105, C.R.S., requires grant applicants to demonstrate the ability and willingness to maintain any new capital construction project funded through the Program. The Department, however, does not have procedures in place to identify facility needs and structural problems that could affect funded projects. In addition, the Department does not require districts to provide an assessment of areas of their facilities that could directly and adversely impact the project. We found that several funded projects have been negatively affected by serious problems in other areas of districts' facilities.

Three of the ten projects evaluated during our district visits included installation of new lighting and ceiling tiles. In two of the districts, damage to the new tiles has already occurred because of leaking roofs. In the third district, a risk of damage exists, although the district has temporarily patched the roof. These three districts were awarded a total of \$224,921 for projects that either have been damaged or could be damaged by structural problems in the facilities.

Periodic evaluation of building conditions is an essential first step in an effective facility management program. Organizations should regularly conduct formal facilities reviews to evaluate existing physical conditions and functional performance as well as maintenance deficiencies. Such a required evaluation could provide decision makers with information for better prioritizing needs.

As part of its strategic planning project, the Department should increase the information it gets from districts. It should include a checklist in the grant application materials that would require districts to assess specific areas of their facilities related to proposed grant projects. The checklist could provide the Capital Construction Advisory Committee with important information concerning the district's ability to maintain funded projects and could potentially assist districts and the State in prioritizing the most critical needs.

Recommendation No. 3:

The Department of Education should incorporate into the grant application a requirement for districts to assess areas of their facilities that could adversely impact the project that the district intends to complete with the grant funds.

Department of Education Response:

Agree. The Department will revise the application to include a section that requires the district to identify the condition of the structure adjacent to or surrounding the area to be renovated and any possible adverse impacts those areas could have on the new construction.

Implementation Date: June 2003.

Evaluation of State Grants

Two of the state-funded construction grant programs—the School Capital Construction Expenditures Reserve and the School Construction and Renovation Fund—have different criteria and approval processes. These two programs were established at different times and for different reasons. The School Construction and Renovation Fund was an early effort by the General Assembly to provide assistance to districts for construction. The School Capital Construction Expenditures Reserve was created as part of the settlement of the Giardino lawsuit. The following table compares and contrasts the two programs.

Comparison of the Two State-Funded Public School Construction Grant Programs		
	School Construction and Renovation Fund (Established Before the Giardino Settlement)	School Capital Construction Expenditures Reserve (Established as Result of the Giardino Settlement)
Authorizing Bill	House Bill 98-1231	Senate Bill 00-181
Date of first funding or grant program funding	State Fiscal Year 2003 for State Fiscal Year 2002 projects	State Fiscal Year 2001
Statutory source of funding	General Fund, any moneys transferred from the School Capital Construction Expenditures Reserve, and any other moneys appropriated by the General Assembly	General Fund transferred to State Public School Permanent Fund
Amount of funding anticipated by statute	\$85 million [Senate Bill 00-181, which amended Section 24-75-201.1, C.R.S.]	\$105 million [Senate Bill 00-181 which amended Section 24-75-201.1, C.R.S.]
Eligible projects	Projects may include new school facilities and may be for instructional facilities, including classrooms, libraries, physical plants, and associated areas, or involving the incorporation of technology into the educational environment.	Projects must be in existing school facilities and include fixed assets or additions to fixed assets that will have benefits for more than one year, including improvements, repair, remodeling, alteration, or renovation of existing school facilities or the purchase of new or replacement equipment within existing school facilities.
Statutory grant evaluation criteria	State Board of Education is required to prioritize projects in the following descending order of importance: <ul style="list-style-type: none"> - In school district with lower wealth based on PPAV. - In school district that has reached at least 90 percent of bonded indebtedness. - That address safety hazards or health concerns at existing facilities. - In school district that has previously demonstrated consistent efforts to allocate moneys to the district's capital reserve fund in excess of the minimum amounts required in Section 22-54-105(2), C.R.S. - That incorporate technology into the educational environment. - That represent any other type of capital construction. <i>[Section 22-43.7-105, C.R.S., School District Capital Construction Assistance Program]</i>	State Board of Education is authorized to approve and order payments for projects that: <ul style="list-style-type: none"> - Address immediate safety hazards or health concerns within existing school facilities. - Relieve excess operating costs created by insufficient maintenance or construction spending. - Relieve building construction conditions which detract from an effective learning environment. <i>[Section 22-54-117(1.5), C.R.S., Public School Finance Act]</i>
Approval process	Subject to appropriation by the General Assembly. State Board of Education submits prioritized list of projects to the Capital Development Committee (CDC). CDC determines the number of projects that may receive funding but cannot change the priority. CDC submits the list to the Joint Budget Committee.	State Board approves and orders payments to districts receiving grants.
District match	Section 22-43.7-103, C.R.S., requires a match.	Not statutorily required, but the Department requires a match unless the district can document a hardship. The Department has not promulgated a rule regarding this required match.
Source: Office of the State Auditor analysis of statutory and Department requirements.		

One area of confusion involves the final approval processes for the two programs. The State Board approves and orders payment to districts for projects funded from the School Capital Construction Expenditures Reserve. However, projects funded through the School Construction and Renovation Fund must go through two additional levels of review. Section 22-43.7-105(6), C.R.S., requires that the State Board submit its list of prioritized projects to the Capital Development Committee (CDC). The CDC is required to determine the number of projects on the list that could receive matching grants from the Fund, but it cannot change the priority of projects on the list. It merely submits the list to the Joint Budget Committee for the purpose of making an appropriation to the Department.

Currently, the process does not enable districts to know if the State will appropriate moneys to fund approved grant awards from the School Construction and Renovation Fund until March or later. This presents a problem for a district that submits a bond proposal to its voters in November if the district's purpose is to use the proceeds as the local match for the State grant. In addition, although the statutory timelines were altered during the 2002 Legislative Session to make the Program more viable, according to the Department, the School Construction and Renovation Fund timelines needs further revision. For Fiscal Year 2004 the following timelines are in place:

- The Department received spending authority for the School Construction and Renovation funds in May 2003 through an appropriation in Senate Bill 03-248, the School Finance Bill.
- Department staff and the Advisory Committee will receive and process applications for recommendation to the State Board by early June 2003.
- The State Board will approve projects at its August 2003 meeting.
- The Department will submit a prioritized list of approved projects to the Capital Development Committee (CDC) by October 1, 2003.
- The Department anticipates that it will have approval from the CDC in November 2003. Therefore, projects could be awarded grants at that time; however, they would not be funded.
- Section 24-43.7-105(6), C.R.S., requires the CDC to submit its list of approved projects to the Joint Budget Committee (JBC) by January 1, 2004 for appropriation.

- According to JBC staff, the appropriation would be part of a supplemental appropriation and that generally this would take place in mid-February. Although the funds are appropriated the districts would not receive the moneys until March 2004 or later. If the funds are not appropriated, the districts approved for grants from the School Construction and Renovation Fund would not receive a grant. As a result, under the current statutory timeline and process, the districts are not able to assure their voters that a state grant has been awarded and funded prior to a November vote on a bond issuance.

Additionally, there is confusion among the districts involving the criteria for the two programs. Department staff reported that it is difficult to communicate the various criteria to the districts. For example, the School Capital Construction Expenditures Reserve's highest priority is for projects that address immediate safety hazards or health concerns in existing school facilities, while the School Construction and Renovation Fund's highest priority is for projects in a school district that has a lower relative wealth. The School Capital Construction Expenditures Reserve can fund projects in existing schools, while the School Construction and Renovation Fund grants may also be used for new or replacement schools. Staff in the districts we visited also told us that they are confused about the different criteria for grants from the funds and the eligibility of projects. As a result, some districts have applied for grants for projects that did not meet the specific criteria for that grant.

According to Department officials, administering the Program is resource intensive. The Program staff spend considerable time reviewing and prioritizing applications, and reviewing and approving reimbursement requests from the districts. Changing the Program structure could streamline the application process and allow staff to reallocate their time to technical assistance. Changes could also help ensure participation by more school districts. There are several options that should be considered. Some of the alternatives involve legislative changes, and some could be done administratively by the Department. The options are summarized below.

Alternatives that the General Assembly could consider:

- Combining the School Construction and Renovation Fund and the School Capital Construction Expenditures Reserve into one fund with one set of criteria. This option could include reporting the list of prioritized projects to the Capital Development Committee and the Joint Budget Committee for information only. From an operational perspective, this would result in a change in the statutory prioritization. Currently the School Capital Construction Expenditures Reserve

statutes do not require the prioritization of applications on the basis of specific criteria, unlike the School Construction and Renovation Fund.

- Distributing grant funds on a formula basis, with a calculated amount per student count and documented construction need. This would eliminate the time-consuming application and review process while providing funds statewide.
- Offering a minimal amount of funding to each district but allowing competitive applications to be submitted for additional resources. This would ensure some funding is available to all districts statewide.

Alternatives for the Department of Education to consider:

- Using the results of the statewide needs assessment to prioritize projects. All public school facilities would be ranked based on their condition. Awards would be granted to improve those buildings that are in the worst condition. The secondary criteria could be the relative wealth of the district. The neediest districts with the schools in the poorest condition would, thus, have the highest priority for funding assistance.
- Designating a portion of the available grant funds to various categories of districts, such as those that are below the state average PPAV or those that are small. Within each designated portion, eligible districts could compete for the available funds. This would ensure that districts sharing similar characteristics would compete against each other instead of against districts in very different circumstances.

Recommendation No. 4:

The Department of Education should evaluate alternatives discussed above for improving the Public School Construction Grant Program and work with the General Assembly to propose any needed statutory changes.

Department of Education Response:

Agree. The Department has evaluated, and will continue to evaluate, distributing the funds on a formula basis. For instance, distributing funds to all districts would not provide enough funding to districts to affect a positive impact. This would be particularly true in small districts.

The Department agrees that combining the two funds would simplify the program. However, the Department doesn't agree that consolidation should occur since the language is clearly documented within the Giardino Settlement Agreement and refers to SB00-181. Specifically, the Department is concerned that any suggested changes may require a review of the Settlement Agreement. The requirements of administering two separate funds and the varying criteria has been somewhat labor intensive for the Department and confusing for the districts. However, the department and the districts are becoming more comfortable with the program and the process.

The Department agrees that the statutory timelines need to be revised for the School Construction and Renovation Fund. The statutory timelines were altered during the 2002 Legislative Session to make the program more viable. However, the School Construction and Renovation Fund timeline still needs to be revised. A district needs to assure their voters that a state grant has been awarded contingent on passing the bond. This has proven to be a powerful tool for a district trying to get a bond passed. Given the current timeline and process for legislative oversight, the districts will still be going to their voters without the assurance of a State grant.

Implementation Date: Implemented.

Grant Application Review and Approval

Chapter 2

Background

As noted earlier, the Department of Education (Department) administers the Public School Capital Construction Grant Program (Program). Currently the Program includes (1) the School Capital Construction Expenditures Reserve, (2) the School Construction and Renovation Fund, (3) the Contingency Reserve, (4) loans from the State Public School Permanent Fund, and (5) the School Renovation, IDEA (Individuals with Disabilities Education Act), and Technology Fund (Federal Fund). In order to receive a state or federal grant for construction, a Colorado school district must submit an application to the Department. The same application is used for all types of grants. Section 22-43.7-105, C.R.S., requires the State Board of Education (State Board) or its designees to evaluate these applications based on certain statutory criteria as discussed in the Overview section. Statutes also allow the Department to establish other criteria by rules.

The State Board established the Capital Construction Advisory Committee (Advisory Committee) to assist in selecting projects for funding. After districts submit the required applications, Department staff assign each project a score and provide the Advisory Committee with a ranked list of projects along with a summary of each. The Advisory Committee meets two to three times per year to review the applications and prioritize those it believes should receive funding. The Advisory Committee then submits the prioritized list to the State Board. The State Board either approves the list or submits it to the Capital Development Committee, depending on which of the programs would be used to fund the grant.

As part of the Giardino settlement, 11 grant cycles were established in Section 24-75-201.1, C.R.S. The cycles correspond to State Fiscal Year 2001 through Fiscal Year 2011. During Fiscal Years 2001 through 2003, awards totaling about \$45 million in state and federal funds for 242 projects have been approved across 91 districts. Examples of projects funded include classroom construction, asbestos removal, electrical code updates, and fire alarm upgrades.

Ranking Projects

Although the Department has designed a scoring methodology to rank applications, we found that the Advisory Committee is inconsistent in its use of the system. As a result, its recommendations may appear to be subjective. Department staff review all applications for state grants prior to committee meetings and assign each project a score. A lower score indicates a higher priority and greater need for the project and the district. The scoring methodology used by the Department is described below:

- C **State Rank:** The Department ranks districts from lowest to highest according to districts' minimum matching contribution, which the Department now requires for all projects (discussed below). The Department determines the matching percentage and bases it on:
 - < District's per pupil assessed valuation (PPAV) to determine relative wealth as discussed in Chapter 1.
 - < District's bond history to determine the efforts of the district to fund the project on its own.
 - < District's mill levy to determine the indebtedness of the district.

The factors on which the State Rank is based are required for prioritization of the applications for grants from the School Construction and Renovation Fund.

- C **Project Rank:** The Department also ranks projects according to the following categories: project to correct immediate health and safety need (assigned 100 points); project to reduce excessive operating costs (assigned 300 points); and project to improve the learning environment (assigned 500 points). The lower the number of points, the higher the project is ranked.
- C **District Match:** Although only the School Construction and Renovation Fund has a statutory requirement for a matching contribution from school districts, the Advisory Committee began requiring that all grant-funded projects include a matching contribution from the district in March 2002. The Advisory Committee added the matching requirement after districts first submitted applications for Fiscal Year 2003. All applicants had the opportunity to submit a match or a waiver request before the Committee's final decision. The Department assigned projects an additional 50 points if the district did not indicate on its original application an intention to provide a match.

- C **Combined Rank:** The Department totals the three numbers described above to determine a combined score for each project. The projects are then sorted by the combined score, with the lowest score representing the highest-priority project and district. The Department provides the sorted list to the Advisory Committee along with the project summaries to use as a tool when evaluating projects.

We analyzed the most recent applications to determine whether projects with a lower combined state rank (indicating a higher-priority project and district) were funded before projects with lower priorities. We used the most recent data for our analysis because the Department had further developed the scoring system in Fiscal Year 2003. There were 218 proposed projects in Fiscal Year 2003 that received a combined state rank and were eligible for state funding (i.e., they were not funded through the Federal Fund). We placed all 218 proposed projects in order according to their state combined rank and found that 54 projects were in the lowest 25 percent. Therefore, based on their low combined rank, these 54 projects were the “neediest.” Of these 54 proposed projects, 24 (44 percent) were awarded Fiscal Year 2003 grants totaling \$7.8 million. The remaining 30 projects (56 percent) with a combined rank in the lowest 25 percent were not funded. These unfunded projects had proposed project costs totaling around \$14.9 million. Further, while some of the most needy projects were not funded, we also found that the Advisory Committee awarded a total of \$2.3 million to 19 projects which were not ranked among the most needy.

Although the Advisory Committee is not required to make award decisions based on the combined rank, scoring systems make the grant review and award process more systematic, consistent, and, therefore, equitable. This is especially important with the significant demand for construction assistance moneys.

Recommendation No. 5:

The Department of Education should work with the Capital Construction Advisory Committee to ensure the consistent use of the project scoring system. When the Committee uses factors other than the combined score, the Department should document the basis for the decision.

Department of Education Response:

Agree. The need for better documentation has been identified and will be corrected. The Department will continue to keep detailed notes and maintain minutes of meetings, including posting the minutes on the Website. All

communication with districts by email will be printed and placed in the individual grant files.

The Advisory Committee must be allowed some flexibility to deviate from the prioritized, ranked list for project awards. The scoring and ranking system is a good tool, but there is a human element in it. Because of the variation in the projects, staff is required to determine whether each one fits the criteria. It is possible that members on the Advisory Committee may view some of the projects in a different light and a project may get considered that would have gone unfunded otherwise. The Advisory Committee needs to be able to consider the complete list and have the authority, as a group, to review and change CDE staff recommendations. If the projects were funded strictly on a formula basis, there would be no need for an Advisory Committee.

Implementation Date: Implementation has taken place for improved documentation. Implementation of revisions of the scoring system by the Advisory Committee will begin after the audit is released. Anticipated date is July 2003.

Matching Fund Waiver Requests

Section 22-43.7-103, C.R.S., requires that districts receiving grants from the School Construction and Renovation Fund provide a matching contribution for their projects. As shown in the following table, the School Capital Construction Expenditures Reserve statutes do not require a district match and the Federal Fund statutes allow but do not require a match.

Comparison of Requirements for District Matches by Grant Source			
Program Requirement	School Construction and Renovation Fund	School Capital Construction Expenditures Reserve	Federal Fund
Match	Yes, Section 22-43.7-103, C.R.S., requires districts to provide a match. Section 22-43.7-106, C.R.S., mandates that the State Board of Education determine the amount of the district match required.	No, Section 22-54-117, C.R.S., is silent on district matches.	Public Law 106-554 allows but does not require states to impose matches for projects.
Source: Office of the State Auditor analysis of statutory requirements.			

As discussed previously, the Advisory Committee began requiring matches for all Fiscal Year 2003 grant applications, including those funded from the School Capital Construction Expenditures Reserve and the Federal Fund.

Before the Committee made its final decisions on the Fiscal Year 2003 applications, it notified all applicants that matches would be required or the district would need to submit a waiver request based on financial hardship. Fifteen districts submitted waiver requests. The Advisory Committee waived the matching requirement for 12 of the districts and initially denied the waiver for 3 districts. One district appealed and agreed to contribute a reduced match (from 96 percent to 50 percent). The second district provided its minimum match of 17 percent. The third district did not provide any match and thus did not receive a grant. This district’s audit showed that it had “over \$1 million in undesignated, unreserved [moneys] in the general fund.” The Advisory Committee concluded that “the waiver request did not justify that some of that balance could not be used for a matching contribution to its \$842,000 project.”

Although the Department instructed districts concerning details to include in the waiver requests, we found that it has not established formal guidelines for the Advisory Committee to use when evaluating these requests. As a result, the Advisory Committee does not have consistent criteria to use when it evaluates whether a waiver request demonstrates inability of a district to contribute financially to its projects. Section 22-43.7-106, C.R.S., requires that the State Board determine the amount of the district match “to be used to finance the qualified capital construction grant” from the School Construction and Renovation Fund. The State Board is required by statute to “develop criteria to determine the amount of each matching grant awarded.” By statute, the criteria must include:

- The school district's ranking on assessed value per pupil, including whether the district ranks below the state average.
- The school district's mill levy and debt capacity.
- The effort of the school district to submit bond questions to voters in the district and to support the passage of such questions during the last 10 years.

By statute, the State Board is also allowed to develop other "criteria deemed necessary."

During our review of 30 of the 106 projects funded in Fiscal Year 2003, the Department provided us with a memo to the Advisory Committee regarding the waiver requests. Department staff suggested that the Advisory Committee be "fairly lenient" when reviewing the requests during Fiscal Year 2003 because it was the first cycle in which all districts were required to contribute a match. Staff recommended that the Department establish guidelines for assessing the waiver requests in future funding cycles. However, no guidelines have been established to date.

The School Construction and Renovation statutes and the Department consider the matching contribution to be an important indicator of a district's commitment to maintain a project. If all districts contribute financially to their projects, the Department will be better able to leverage state and federal funds and potentially fund more projects than it could otherwise. Given the importance of the matching contributions and each district's individual financial constraints, the Advisory Committee should have complete information to evaluate waiver requests. For example, the Advisory Committee could use such factors as a district's application for interest-free loans from the State Treasury. The State Treasurer is required by statute to make loans to school districts that "demonstrate a monthly cash flow deficit." As of December 2002, 54 districts had borrowed money through this program at some time over the past six years. The Department should promulgate rules on the requirements for grant matches and should establish criteria for the Advisory Committee to use when evaluating match waiver requests.

Recommendation No. 6:

The Department of Education should improve its management of the Public School Capital Construction Grant Program by:

- a. Promulgating rules regarding matches for all types of grants.
- b. Establishing criteria for waiving the match requirement.

Department of Education Response:

Agree. Section 22-54-117, C.R.S. Contingency reserve - capital construction expenditures reserve, does not deny CDE the authority to require districts to provide matching funds for grants from the capital construction expenditures reserve. It does state in paragraph (1.5) (a) that ". . .The state board is authorized to approve and order payments from the capital construction expenditures reserve **only for supplemental assistance** to districts for capital expenditures. . ." (emphasis added). Providing matching grants to district funds would seem to be providing supplemental assistance.

Since the statute is silent concerning matching requirements and since the funding was being reduced below expectation, the Advisory Committee determined the requirement of matching funds would leverage the available monies and provide supplemental assistance to more districts.

The Department will clarify its authority to require matches for all types of grants. The Department and Advisory Committee will formalize the rules regarding matches and waivers for matches. These rules will then be added to the Handbook and to the workshop presentations.

At the next Advisory Committee meeting the guidelines to be used when reviewing waivers of the match requirement will be formalized. Every circumstance is different and the result will most likely be that there will be guidelines for reviewing waivers, not rigid formulas. CDE must not force districts into making risky financial decisions in order to satisfy strict requirements for consideration of a waiver. However, the State should not provide funding to a district that chooses not to use a small portion of an excessive fund balance to assist with a project.

Implementation Date: July 2003.

Feedback to Districts

As noted earlier, we found that the Department has not fully documented the Advisory Committee's reasons for decisions on grant applications from districts. Further, the Department has not ensured that minutes are recorded for all of the Advisory Committee's meetings. Neither the limited minutes that are available nor letters to applicants contain an explanation of the decision to approve or deny the application. The Department maintains a spreadsheet containing brief notes of the application review process. We found, however, there were notes for only 47 percent of the Fiscal Year 2003 applications. The

notes mainly pertained to partial funding decisions, the Advisory Committee's commitment to fund multiple years of a project, waiver requests submitted, or the match required from districts.

Although the Advisory Committee has existed for over two years and met approximately 12 times, the Department could only provide meeting minutes from two Committee meetings. Section 24-6-402, C.R.S., (Open Meetings Law) requires minutes of "any meeting of a state public body shall be taken and promptly recorded, and such records shall be open to public inspection."

Additionally, we found that the Department has not provided adequate feedback to grant applicants on funding decisions. We reviewed 14 out of 38 unfunded Fiscal Year 2002 application files to evaluate the feedback that the Department provided to districts. The Department sends letters to school districts that are not awarded grants. These letters provide a brief explanation for the basis of denial:

- In 7 of the 14 letters, the reason provided for denial was a lack of moneys to fund all grant applications.
- One of the fourteen letters only stated that the "parking lot lighting project doesn't really qualify" without any further explanation that the project did not meet the funding criteria.

In 9 of the 14 letters, it appeared that the Department had spoken to the district regarding the project. Department staff reported that they verbally communicate the basis for denial to grant applicants if the applicants contact the Department. If a district does not contact the Department, the only communication is the denial letter.

In June 2001 the Office of the State Auditor issued a performance audit on the Department of Education. One of the programs reviewed was the Read to Achieve grant program. In response to an audit recommendation to improve feedback to schools, the Department reported that it provided individualized feedback to more than 700 applicants during the 2001-2002 school year. The Department reports that the feedback to grant applicants is intended to clarify program and budget issues, to be consistent, and to provide assistance on the continuing process of the grant program.

The Department must comply with the Open Meetings Law by recording minutes of all Advisory Committee meetings and making these minutes available to the public. Additionally, our discussions with district staff during our site visits indicate that some confusion exists concerning the grant funds' criteria and the eligibility of projects. By providing feedback to grant applicants concerning the basis for denied applications, the

Department could help districts to understand the Public School Capital Construction Grant Program's requirements and incorporate the required information into future applications.

Recommendation No. 7:

The Department of Education should improve the information available and feedback provided to grant applicants on funding decisions by:

- a. Maintaining minutes on funding decisions.
- b. Including the reasons for funding decisions in letters sent to districts regarding their grant applications.

Department of Education Response:

Agree. Implemented.

Project Assistance and Monitoring

Chapter 3

Background

Managing a construction project often requires knowledge and skills not readily available in school districts. Although construction projects can be challenging for any school district, small districts are likely to face more problems than larger districts. Thirty-eight (61 percent) of the sixty-two school districts that received Public School Capital Construction Grant Program funds in Fiscal Year 2003 are small (fewer than 1,200 students) and are located in rural areas. Small districts in rural areas may not have staff with construction backgrounds or expertise. The General Assembly recognized the challenges of school construction projects. Senate Bill 00-181 directed the State Board of Education to:

... provide technical consultation and administrative services to districts to evaluate the need for capital construction expenditures and the districts' plans for expending any assistance received ...

The Department of Education (Department) provides technical assistance through site visits to districts, workshops for district and school staff, and telephone contacts with district and school officials. Department staff also review districts' requests for reimbursement and contact districts regarding any questions involving invoices or the status of projects, and work directly with contractors. The Department has developed the Public School Capital Construction Grant Program Handbook (Handbook), which describes the differing grants, the application processes, and requirements for grant recipients.

As part of the audit, we visited 10 school districts of varying sizes and in different geographic locations in the State. We evaluated projects from these districts that were approved in Fiscal Year 2002 from the School Capital Construction Expenditures Reserve and the School Construction and Renovation Fund. The 10 projects out of the 96 funded projects in Fiscal Year 2002 represent \$4.7 million (22 percent) of the \$21.4 million awarded for that period. The funds were reported to be spent to improve the safety of schools, enhance the learning environment, and reduce the maintenance costs incurred by the schools. In addition, we discussed the Public School Capital Construction Grant Program with district staff. We chose Fiscal Year 2002 projects because construction had begun and in many cases been

completed for these projects. The following table shows the districts and related projects in our sample.

Public School Capital Construction Program Districts Visited and Projects Reviewed			
District	County	Project	Grant Amount
Agate 300	Elbert	Lighting Replacement	\$40,480
Fowler R-4J	Otero	School Replacement	\$2,102,647
Fort Morgan RE-3	Morgan	Classroom Addition	\$500,000
Jefferson County R-1	Jefferson	Mechanical System Fix	\$215,850
McClave RE-2	Bent	Tile Abatement	\$105,441
Harrison 2	El Paso	Building Security	\$79,200
Sanford 6J	Conejos	New Wing	\$585,000
Sheridan 2	Arapahoe	Fire Alarm System	\$644,059
Mancos RE-6	Montezuma	Asbestos Abatement	\$79,000
West End RE-2	Montrose	Drainage Project	\$312,931
Total Funds Awarded for the 10 Projects:			\$4,664,608
Source: Office of the State Auditor summary of Fiscal Year 2002 projects in our sample.			

Technical Assistance

The 10 districts we visited and the 9 additional districts we contacted reported that they were pleased with the technical assistance that the Department provides. However, some district staff told us they need more help because they do not have experience in construction and they manage the projects in addition to their normal duties. For example, one project we observed was managed by the superintendent with general supervision from the district's board of education. The district appeared to have unresolved issues with its contractor for work that included a new roof. Due to construction problems, the district has had to recoat the roof at an additional cost of more than \$60,000. The district also has withheld partial payment to the contractor. Other issues with the project concerned items not corrected by the contractor including various problems with the heating system. At the time of our visit, the superintendent expected to go to arbitration concerning the project.

We identified areas in which the Department could improve the assistance it gives to districts, including:

- C Notice of Final Settlement.** At the conclusion of work on a construction project, Section 38-26-107, C.R.S., requires the owner of a project to publish a Notice of Contractor's Final Settlement. The Notice protects the owner of the project from subcontractor payment claims asserted after the contractor receives final payment. One of the districts we visited had requested assistance from the Department regarding closeout procedures. However, the Department stated that it did not have closeout procedures which districts should follow. In addition, we found that another district's attorney advised it in February 2002 to publish a Settlement Notice to protect the district from subcontractor payment claims and to comply with Colorado law. The district had not published the Notice by the time of our visit in late October 2002.
- C General Construction Management.** Although some districts have staff who are dedicated to managing the districts' facilities and/or have a background in construction, districts with high superintendent turnover or districts that infrequently undertake capital construction projects may lack experience in construction management.

Another statute specific to school capital construction, Section 38-26-105, C.R.S., directs school districts to require the bonding of contractors for project contracts of more than \$50,000. Bonding is important because it protects districts in case a contractor does not perform according to the contract requirements or does not pay its subcontractors. Although all of the districts visited had required bonding of their contractors for contracts of more than \$50,000, not all were aware of the statutory requirement. Districts mentioned that their policies required the use of bonded contractors, but the districts based the policies on good business practice, not on statutory requirements. One district stated that it has an informal policy to require bonded contractors for projects of more than \$50,000.

The Handbook and the Department's workshops mainly include information to assist districts in applying for grant funds. These sources do not provide direction concerning different types of construction management or where to find information on construction best practices. Another state grant program, the State Historical Fund, provides technical assistance as part of the packet of information sent to grant recipients with the award letter. The packet includes the grant manual, contract, reporting forms, and guidelines for selecting an architect or contractor. The Department could improve the technical assistance provided to school districts by including additional information in its Handbook. Districts would then have the information available as a reference throughout their construction projects and would continue to be responsible for and in charge of managing their projects.

Recommendation No. 8:

The Department of Education should improve the technical assistance provided to districts by:

- a. Including information about types of construction management and sources of best practices in the Public School Capital Construction Grant Program Handbook and, if appropriate, providing construction management workshops for districts receiving grant funds.
- b. Ensuring that districts receive information on statutory requirements related to public school capital construction. The Department should also require districts to provide documentation of statutory compliance.

Department of Education Response:

Agree.

- a. The Department will add some basic information about construction management to the handbook and to the workshops. This will be to aid the districts and is not to shift the responsibility of construction management from the districts to the Department.
- b. The Department has already identified this as a need and is incorporating certifications into the grant application and award. These certifications will address specific statutory requirements, such as bonding, notice of final settlement and others. This information will also be incorporated into the Program Handbook and workshops.

Implementation Date: July 2003.

Contracts for Grant Awards

We reviewed the Department's process for awarding construction grants to school districts. The Department currently sends a letter to each district receiving a grant to inform it of the award. Districts are required to sign the letter and return it to the Department. The award letter also refers the districts to the requirements in the Handbook. However, neither the award letter nor the Handbook includes any penalties for noncompliance, such as withholding or denying payment to a district.

The letter does not detail the scope of the project or how a district may request to change the project's scope.

We found that even though districts sign award letters, they do not consistently follow the terms of the letter or the guidelines in the Handbook. For example, each grant includes an allowance for contingency funds. The Department requires that all projects include an allowance of 5 to 10 percent as contingency funds. According to the award letter and the Handbook, contingency funds are to be used for additional costs that the district could not have anticipated when applying for the grant. Both the award letter and the Handbook instruct districts to notify the Department as soon as the district becomes aware of the need for using contingency funds. However, districts do not always seek approval from the Department before incurring costs that require the use of contingency funds.

If a district does not need to use its contingency funds, the funds revert to the Department, which can disburse the funds to "backup" projects. These are projects that did not receive awards but are eligible to receive funding if additional moneys become available. One project in Fiscal Year 2001 received about \$74,000 in additional funding due to unused contingency funds. As of March 2003 the Department was reviewing two projects for potentially unused Fiscal Year 2002 contingency funds of almost \$78,000.

In our review of 21 of the 96 Fiscal Year 2002 projects, we found that in 6 of the 10 projects (60 percent) where districts used contingency funds, the district did not seek approval from the Department before incurring the extra costs, which totaled about \$74,000. Additionally, in two out of three districts we visited where contingency funds were used, district staff stated that they had been unaware that the Department requires districts to seek prior approval until Department staff contacted them to ask about a reimbursement form. In addition, district staff sometimes consider the amount set aside for contingency funds to be part of the grant amount, not a separate amount intended for unexpected purposes. Department staff also reported that some districts have attempted to use contingency funds for construction work that was outside the scope of the project award.

Although the Department has made efforts to inform districts regarding the appropriate use of contingency funds by including the requirements in the Handbook and the grant approval letter, a lack of understanding by school districts may still exist. Therefore, the Department should take additional steps to ensure districts are aware of approval requirements for use of contingency funds in order to increase opportunities to fund back up projects. For example, the terms under which contingency funds can be used could be clearly stated in contracts developed for state construction grants. The Department should also designate contingency funds separately from the grant amount in the grant contract with the district and state that

the funds are intended only for unexpected purposes and will be held by the Department until such time as there is a demonstrated need.

The Department does not require school districts receiving a grant award to sign a contract that specifies the terms of the grant. As a result, the Department does not have formal recourse for districts' noncompliance with the Program's requirements. A contract in the Public School Capital Construction Grant Program could increase the Department's leverage with districts not complying with Program requirements. In addition, a contract would protect the State and define the terms of its financial obligation to grant recipients. The elements that should be in a contract include:

- Scope of the construction project and amount of award.
- Invoicing procedures.
- Contingency funds.
- Bonding requirements.
- Reporting requirements.

In view of the size and duration of the grants, the Department should develop a standard approved contract for the Public School Capital Construction Grant Program. Districts should be held accountable for meeting the terms and conditions for state-funded construction projects. A contract can help ensure that districts use grant funds for intended purposes and meet other requirements. Additionally, the Department should include the requirement for obtaining prior approval to use contingency funds in the contract, and discuss the appropriate procedures for use of contingency funds at the workshops conducted with the districts.

Recommendation No. 9:

The Department of Education should improve its oversight of the Public School Capital Construction Grant Program by working with the Office of the State Controller to develop an approved contract for the Public School Capital Construction Grant Program to ensure compliance with grant requirements.

Department of Education Response:

Agree. The Department has met with the Office of the Attorney General and discussed a contract. The initial response was positive, but it is going to be looked into further. If the Office of the Attorney General determines that a contract is needed and is appropriate, it will help the Department draft the contract.

Implementation Date: August 2003.

Project Monitoring

We found that the Department does not have a comprehensive process for monitoring projects funded through the Public School Capital Construction Grant Program. As a result, the Department may not become aware of problems or provide as much oversight and assistance to grant recipients as may be needed.

Currently there are three ways the Department monitors projects. First, Department staff review invoices submitted by districts for reimbursement of expenses. This paper review gives information on the progress of the project. Districts are not required to submit requests for reimbursement on a specific schedule. Without timely information from districts throughout the construction process, monitoring projects is difficult, if not impossible.

Second, Department staff report visiting as many districts as possible both before and after grants are awarded, as well as districts that have never applied for a grant. Staff have visited 73 (41 percent) of the 178 school districts during the past three years. Fifty-seven of the districts visited had been approved for 187 projects.

Third, Department staff review the annual and final reports submitted by districts. The reports provide the Department with project expenditures, an evaluation of the district's experience with the contractors, and other information related to choosing a contractor. Districts submit the reports each July 31 and at the end of the project. We reviewed 21 of the 96 Fiscal Year 2002 funded projects and found that districts do not always file annual reports in a timely manner:

- C In 2 of 12 projects reviewed where the district should have submitted an annual report, the report had not been submitted.

- C In 3 of the 10 projects where a district had submitted an annual report, the district had not filed the report on time. The reports were submitted more than 30 days after the due date.

Although districts should submit final reports with their last request for reimbursement, they do not always do so. For example, for 1 of the 21 Fiscal Year 2002 projects reviewed, the Department paid the entire grant award of \$92,400 to a district without receiving the report. The Department should require districts to submit project reports earlier in the construction cycle and hold payments from districts that have not submitted reports as required.

We believe the Department could use a risk-based approach for project monitoring, including site visits and review of invoices and reports. The Department could identify certain types of projects with a higher potential for problems. For example, building renovation projects may represent greater challenges than window replacements, due to the larger scope and potential for unforeseen complications. Smaller districts that do not have staff with construction expertise also might warrant more intense monitoring than larger districts with construction units. By improving its monitoring procedures, the Department will ensure that it receives timely and critical data for evaluating the effectiveness of the Public School Capital Construction Grant Program.

Recommendation No. 10:

The Department of Education should continue to improve its process for monitoring projects funded through the Public School Capital Construction Grant Program by:

- a. Creating a risk-based oversight system in which projects the Department identifies as higher risk receive more oversight or visits from Department staff.
- b. Holding payments from the grant until the Department receives a completed annual or final report from a district.

Department of Education Response:

Agree. The Department will continue to evaluate awarded projects and determine projects with the most need.

Due to the limited staff and financial resources available to the Department many districts have yet to receive an initial visit, as noted in the audit report.

Districts that request technical assistance in relation to potential or active projects receive priority.

CDE has awarded over 250 projects and, due to the volume, only a limited number of projects can be visited. Some of the projects must be monitored through review of reports, review of the funds requests, emails, and phone calls. These methods are in place now, as described in the audit.

The Department will continue to withhold the last payment pending receipt of the final report. Progress payments are withheld pending receipt of the July 31 progress reports.

Implementation Dates:

- a. Implementation initiated.
- b. Implementation August 2003.

Reimbursement Process

The Department reimburses districts for project expenditures. Districts submit a reimbursement form and their invoices to the Department for review. Department staff check the form and the invoices for accuracy and appropriateness before reimbursing the district for construction expenses. Although the Department does not give the entire grant award to districts at one time and it monitors the total amount paid to districts, we found that both the Department and districts have made errors in the reimbursement process.

In our review of 21 of the 96 Fiscal Year 2002 projects, we identified instances where payment mistakes had occurred. For example, the Department paid an incorrect percentage of the amount on the reimbursement form. The Department did not identify an error made by a district on the reimbursement form and underpaid the district by more than \$30,000. Although the Department later corrected the problem, staff did not identify the mistake in some cases until the district submitted its next request for reimbursement two months later.

We also found that the Department sometimes changed the amounts on the reimbursement forms submitted by districts. For example, if the Department did not allow payment for a specific charge, staff adjusted the amounts. Although the Department also made some corrections to the forms due to errors made by districts, the staff notations did not always clearly show the cause and the result of the corrections. Without clear documentation concerning changes made to the reimbursement forms, districts may have difficulty ensuring that the Department has

reimbursed it for the proper amount of grant funds. The districts' review of changes made by the Department serves as a control over the appropriateness of those changes. Therefore, to minimize the risk of errors and irregularities, the Department should clearly document all changes made to reimbursement forms.

In addition, the forms may be difficult for districts to understand, especially when a district makes a matching contribution. The Department has not included guidance on the proper use of the reimbursement form in the Public School Capital Construction Grant Program Handbook. The guidelines should consist of examples, a checklist on completing the form, and costs eligible for reimbursement.

Recommendation No. 11:

The Department of Education should improve the reimbursement process to school districts under the Public School Capital Construction Grant Program by:

- a. Improving documentation of corrections made to districts' reimbursement forms.
- b. Providing additional guidance to districts on the proper use of the reimbursement forms.

Department of Education Response:

Agree.

- a. Before the audit began the Department identified this as a need. All corrections were written on the fund request form or the attached invoices. Now, there is a separate sheet attached to the fund request that tracks Department notes and changes. Once the fund request is finalized for payment, any changes and explanation of why the changes were necessary are faxed to the district.
- b. Each district receives individual guidance when their fund request process begins. Additionally, information will be added to the Handbook.

Implementation Date: Implementation has taken place.

Appendix A
Public School Capital Construction Grant Program
Funded Project Descriptions, Award Amounts, and Matching Percentages
Funding Cycle 1 Through Funding Cycle 3

School District	Project Description	School Construction and Renovation Fund	School Capital Construction Expenditures Reserve	Federal Fund	Total Award Amount	Minimum Matching Percentage ¹
Cycle 1 Awards						
Aguilar Reorganized 6	Education/Facility Plan		\$30,000		\$30,000	N/A
Alamosa RE-11J	Replace Gym Ceiling		\$280,330		\$280,330	N/A
Alamosa RE-11J	Asbestos Removal		\$71,500		\$71,500	N/A
Alamosa RE-11J	Replace Roofing		\$269,500		\$269,500	N/A
Buffalo RE-4	Electrical Upgrade		\$30,000		\$30,000	N/A
Buffalo RE-4	Roof Replacement		\$38,200		\$38,200	N/A
Centennial R-1	Education/Facility Plan		\$30,000		\$30,000	N/A
Center 26 JT	Asbestos Replacement		\$28,556		\$28,556	N/A
Crowley County RE-1J	Repair Roof/Drainage		\$300,000		\$300,000	N/A
Del Norte C-7	Boiler/Plumbing Repair		\$206,300		\$206,300	N/A
Eads RE-1	Fire Alarm Upgrade		\$34,976		\$34,976	N/A
Fort Morgan RE-3	Classroom Construction		\$467,998		\$467,998	N/A
Kiowa C-2	Asbestos Abatement		\$195,606		\$195,606	N/A
Lake County R-1	Tile Replacement		\$175,000		\$175,000	N/A
Lake County R-1	Boiler Replacement		\$165,000		\$165,000	N/A
Lake County R-1	Roof Repair		\$57,000		\$57,000	N/A
Las Animas RE-1	Replace Heat System		\$155,700		\$155,700	N/A
Limon RE-4J	HVAC, Lighting, Electrical Upgrades		\$134,200		\$134,200	N/A
Mancos RE-6	Boiler Replacement		\$99,000		\$99,000	N/A
Monte Vista C-8	Roof Replacement		\$358,195		\$358,195	N/A
Montezuma-Cortez RE-1	Replace Boiler/Heater		\$145,582		\$145,582	N/A
Montrose County RE-1J	Piping Replacement		\$315,150		\$315,150	N/A
Montrose County RE-1J	Window Replacement		\$26,620		\$26,620	N/A
North Conejos RE-1J	Facility Master Plan		\$30,000		\$30,000	N/A
Otis R-3	Replace Heat System		\$175,000		\$175,000	N/A
Platte Valley RE-7	Replace HVAC Units		\$341,006		\$341,006	N/A
Sanford 6J	Electric Code Updates		\$47,422		\$47,422	N/A

Appendix A
Public School Capital Construction Grant Program
Funded Project Descriptions, Award Amounts, and Matching Percentages
Funding Cycle 1 Through Funding Cycle 3

School District	Project Description	School Construction and Renovation Fund	School Capital Construction Expenditures Reserve	Federal Fund	Total Award Amount	Minimum Matching Percentage¹
Sanford 6J	Asbestos Cleanup		\$45,415		\$45,415	N/A
Sierra Grande R-30	Septic Tank Conversion		\$37,250		\$37,250	N/A
Sierra Grande R-30	Roof Repair-Gym		\$88,700		\$88,700	N/A
South Conejos RE-10	Replace Windows		\$34,293		\$34,293	N/A
South Routt RE-3	Asbestos Abatement		\$95,601		\$95,601	N/A
South Routt RE-3	Window Replacement		\$64,509		\$64,509	N/A
Springfield RE-4	Replace Roof		\$30,000		\$30,000	N/A
Springfield RE-4	Update Electric Codes		\$5,000		\$5,000	N/A
Trinidad 1	Ceiling Replacement		\$208,614		\$208,614	N/A
Weldon Valley RE-20J	Asbestos Abatement		\$36,500		\$36,500	N/A
West End RE-2	Roof Replacement		\$6,500		\$6,500	N/A
West End RE-2	Drainage Plan		\$45,000		\$45,000	N/A
Wiggins RE-50J	Asbestos Removal		\$94,777		\$94,777	N/A
	Total Cycle 1 Awards:	\$0	\$5,000,000	\$0	\$5,000,000	

Appendix A
Public School Capital Construction Grant Program
Funded Project Descriptions, Award Amounts, and Matching Percentages
Funding Cycle 1 Through Funding Cycle 3

School District	Project Description	School Construction and Renovation Fund	School Capital Construction Expenditures Reserve	Federal Fund	Total Award Amount	Minimum Matching Percentage ¹
Cycle 2 Awards						
Agate 300	Propane Tank Replaced		\$51,617		\$51,617	N/A
Agate 300	Attic Insulation		\$18,564		\$18,564	N/A
Agate 300	Window Replacement		\$247,986		\$247,986	N/A
Agate 300	Door Replacements		\$43,754		\$43,754	N/A
Agate 300	Lighting Replacement		\$40,480		\$40,480	N/A
Aguilar Reorganized 6	School Replacement	\$1,458,669	\$342,231		\$1,800,900	33% ²
Akron R-1	Replace Heat Pipes		\$63,293		\$63,293	N/A
Akron R-1	ADA Bathrooms		\$36,729		\$36,729	N/A
Alamosa RE-11J	Asbestos Abatement		\$200,954		\$200,954	N/A
Alamosa RE-11J	Fix Ceiling ACM Spray		\$50,684		\$50,684	N/A
Alamosa RE-11J	Asbestos Ceiling Fix		\$77,074		\$77,074	N/A
Alamosa RE-11J	Roof Repair		\$33,337		\$33,337	N/A
Alamosa RE-11J	Insulation		\$78,287		\$78,287	N/A
Branson Reorganized 82	Fire Safety and Health		\$150,700		\$150,700	N/A
Brighton 27J	Remodel Project		\$1,480,000		\$1,480,000	N/A
Buffalo RE-4	Science Classroom		\$64,534		\$64,534	N/A
Centennial R-1	Roof Replacement		\$250,000		\$250,000	N/A
Center 26 JT	Computer Lab/Elevator		\$58,000		\$58,000	N/A
Colorado Springs 11	Replace Fire Alarm		\$110,000		\$110,000	N/A
Cripple Creek-Victor RE-1	Replace Heating Units		\$186,224		\$186,224	N/A
Custer County C-1	Roof/Kitchen Upgrade		\$231,120		\$231,120	N/A
Del Norte C-7	Roof, Boiler, Window Fix		\$135,246		\$135,246	N/A
Dolores County RE-2	Boiler Replacement		\$41,857		\$41,857	N/A
Dolores RE-4A	Industrial Arts Building Replacement		\$300,000		\$300,000	N/A
Edison 54 JT	Install Fire Alarm System		\$25,564		\$25,564	N/A
Edison 54 JT	Replace Windows		\$16,299		\$16,299	N/A
Edison 54 JT	Cistern		\$13,695		\$13,695	N/A

Appendix A
Public School Capital Construction Grant Program
Funded Project Descriptions, Award Amounts, and Matching Percentages
Funding Cycle 1 Through Funding Cycle 3

School District	Project Description	School Construction and Renovation Fund	School Capital Construction Expenditures Reserve	Federal Fund	Total Award Amount	Minimum Matching Percentage ¹
Ellicott 22	Partial Building Renovation		\$926,228		\$926,228	N/A
Ellicott 22	Tornado Damage		\$516,285		\$516,285	N/A
Florence RE-2	Security Alarm System		\$17,350		\$17,350	N/A
Florence RE-2	Wheelchair Stairway Lift		\$15,750		\$15,750	N/A
Florence RE-2	Elevator for ADA		\$119,989		\$119,989	N/A
Fort Morgan RE-3	Classroom Addition		\$500,000		\$500,000	N/A
Fowler R-4J	School Replacement	\$704,792	\$1,397,855		\$2,102,647	26% ²
Harrison 2	Building Security		\$79,200		\$79,200	N/A
Harrison 2	Building Security		\$79,200		\$79,200	N/A
Haxtun RE-2J	Replace Heating System		\$250,000		\$250,000	N/A
Hayden RE-1	Fire Alarm Upgrade		\$77,000		\$77,000	N/A
Jefferson County R-1	Mechanical System Fix		\$215,850		\$215,850	N/A
La Veta RE-2	Asbestos Abatement		\$45,000		\$45,000	N/A
Lake County R-1	Ceiling Tile Replacement		\$110,000		\$110,000	N/A
Las Animas RE-1	School Replacement	\$2,251,539			\$2,251,539	26% ²
Limon RE-4J	HVAC/Electrical Upgrade		\$500,000		\$500,000	N/A
Lone Star 101	Asbestos Abatement		\$160,110		\$160,110	N/A
Mancos RE-6	Asbestos Abatement		\$79,000		\$79,000	N/A
Manzanola 3J	Mortar Cracks/Gym Roof		\$280,658		\$280,658	N/A
McClave RE-2	Tile Abatement		\$105,441		\$105,441	N/A
McClave RE-2	Build Classrooms		\$344,600		\$344,600	N/A
Mesa County Valley 51	PA/Intercom Upgrades		\$83,600		\$83,600	N/A
Moffat 2	Roof Repair		\$30,000		\$30,000	N/A
Monte Vista C-8	Cafeteria Acoustics		\$16,500		\$16,500	N/A
Monte Vista C-8	Restroom Renovation		\$9,900		\$9,900	N/A
Monte Vista C-8	Security and Entry		\$165,000		\$165,000	N/A
Monte Vista C-8	Auditorium ADA		\$92,400		\$92,400	N/A
Monte Vista C-8	Entry Door		\$8,800		\$8,800	N/A

Appendix A
Public School Capital Construction Grant Program
Funded Project Descriptions, Award Amounts, and Matching Percentages
Funding Cycle 1 Through Funding Cycle 3

School District	Project Description	School Construction and Renovation Fund	School Capital Construction Expenditures Reserve	Federal Fund	Total Award Amount	Minimum Matching Percentage ¹
Montezuma-Cortez RE-1	Replace 2 Doors		\$25,300		\$25,300	N/A
Montezuma-Cortez RE-1	Roof Replacement		\$121,000		\$121,000	N/A
Montezuma-Cortez RE-1	Asbestos Abatement		\$26,994		\$26,994	N/A
Montezuma-Cortez RE-1	Asbestos Abatement		\$134,970		\$134,970	N/A
Montezuma-Cortez RE-1	Boiler Replacement		\$59,833		\$59,833	N/A
Montezuma-Cortez RE-1	Boiler Replacement		\$23,857		\$23,857	N/A
Montezuma-Cortez RE-1	Asbestos Abatement		\$28,793		\$28,793	N/A
Montrose RE-1J	Re-Keying		\$44,662		\$44,662	N/A
Montrose RE-1J	Boiler Replacement		\$120,755		\$120,755	N/A
Park County RE-2	Fire Detection System		\$10,000		\$10,000	N/A
Park County RE-2	Replace Failed Boiler		\$60,000		\$60,000	N/A
Park County RE-2	Gym Ceiling Renovation		\$10,000		\$10,000	N/A
Pueblo City 60	Life Safety Projects		\$763,758		\$763,758	N/A
Rocky Ford R-2	Office Safety Upgrades		\$102,439		\$102,439	N/A
Sanford 6J	Asbestos Project		\$57,915		\$57,915	N/A
Sanford 6J	Building New Wing	\$585,000			\$585,000	7% ²
Sanford 6J	Pre-School Expansion		\$40,775		\$40,775	N/A
Sanford 6J	Evacuation Upgrade		\$26,125		\$26,125	N/A
Sargent RE-33J	Auditorium Acoustics		\$52,800		\$52,800	N/A
Sargent RE-33J	Suspend Ceiling/Lights		\$53,562		\$53,562	N/A
Sargent RE-33J	Roof Replacement		\$33,000		\$33,000	N/A
Sheridan 2	Fire/Security Alarms		\$644,059		\$644,059	N/A
South Conejos RE-10	Renovate Cafeteria		\$409,714		\$409,714	N/A
South Conejos RE-10	Welding Shop Vents		\$13,475		\$13,475	N/A
South Conejos RE-10	Replace Heating System		\$486,525		\$486,525	N/A
South Routt RE-3	Roof Replacement		\$290,000		\$290,000	N/A
Springfield RE-4	HVAC Replacement		\$56,000		\$56,000	N/A
Stratton R-4	Environmental Safety		\$245,430		\$245,430	N/A

Appendix A
Public School Capital Construction Grant Program
Funded Project Descriptions, Award Amounts, and Matching Percentages
Funding Cycle 1 Through Funding Cycle 3

School District	Project Description	School Construction and Renovation Fund	School Capital Construction Expenditures Reserve	Federal Fund	Total Award Amount	Minimum Matching Percentage¹
Trinidad 1	Renovation Assistance		\$308,500		\$308,500	N/A
West End RE-2	Asbestos Abatement		\$28,000		\$28,000	N/A
West End RE-2	Finish Drainage Project		\$312,931		\$312,931	N/A
Westminster 50	Bus Loading Zones		\$68,250		\$68,250	N/A
Westminster 50	Intercom Upgrade		\$46,300		\$46,300	N/A
Westminster 50	Lock Renovation		\$187,362		\$187,362	N/A
Westminster 50	Asbestos Abatement		\$224,696		\$224,696	N/A
Westminster 50	Install Walls/Doors		\$30,000		\$30,000	N/A
Widefield 3	Cafeteria Table Project		\$79,559		\$79,559	N/A
Wiggins RE-50J	Replace HVAC Units		\$24,360		\$24,360	N/A
Woodland Park RE-2	Roof Replacement		\$323,950		\$323,950	N/A
Woodland Park RE-2	Roof Replacement		\$61,922		\$61,922	N/A
Woodland Park RE-2	Roof Replacement		\$180,494		\$180,494	N/A
	Total Cycle 2 Awards:	\$5,000,000	\$16,392,010	\$0	\$21,392,010	

Appendix A
Public School Capital Construction Grant Program
Funded Project Descriptions, Award Amounts, and Matching Percentages
Funding Cycle 1 Through Funding Cycle 3

School District	Project Description	School Construction and Renovation Fund	School Capital Construction Expenditures Reserve	Federal Fund	Total Award Amount	Minimum Matching Percentage ¹
Cycle 3 Awards³						
Adams County 14	Fire Alarm Replacement		\$158,541		\$158,541	26%
Adams County 14	Fire Alarm Replacement		\$3,144		\$3,144	26%
Aguilar Reorganized 6	Kitchen/Commons Area		\$1,395,450		\$1,395,450	24%
Brush RE-2J	Fire Alarm Replacement		\$10,382		\$10,382	58%
Brush RE-2J	Fire Alarm Replacement		\$15,431		\$15,431	58%
Buffalo RE-4	Restroom Upgrade - ADA Compliant			\$12,900	\$12,900	14%
Buffalo RE-4	Technology Infrastructure Upgrade			\$123,363	\$123,363	14%
Calhan RJ-1	Communication System Replacement			\$33,789	\$33,789	5%
Canon City RE-1	Technology			\$332,916	\$332,916	20%
Centennial R-1	HVAC Air Quality/Mold Spores Removal			\$37,400	\$37,400	45%
Center 26 JT	ADA Access & Computer Lab Addition			\$190,800	\$190,800	21%
Center 26 JT	HVAC/Lighting Upgrades/Alarm System			\$552,664	\$552,664	21%
Cheyenne County RE-5	HVAC, Lighting, Code Compliance			\$618,065	\$618,065	95%
Cotopaxi RE-3	New Windows			\$69,000	\$69,000	52%
Cotopaxi RE-3	New Roof on School & Dining Room			\$115,000	\$115,000	52%
Creede Consolidated 1	Asbestos Removal		\$88,000		\$88,000	88%
Crowley County RE-1J	Electrical System & Service Renovation		\$113,200		\$113,200	23%
Del Norte C-7	ES Safety & Energy Renovations		\$348,118		\$348,118	33%
Del Norte C-7	21st Century Communications			\$310,142	\$310,142	33%
Del Norte C-7	Mobile Wireless Lab			\$29,174	\$29,174	33%
Del Norte C-7	Technology Upgrade			\$10,518	\$10,518	33%
Eads RE-1	Glass Hallway Renovation		\$88,400		\$88,400	41%
Eads RE-1	HVAC Installation			\$233,200	\$233,200	41%
East Otero R-1	HVAC Replacement		\$169,105		\$169,105	16%
East Otero R-1	HVAC Replacement/Asbestos Abatement		\$133,482		\$133,482	16%
Edison 54 JT	Renovate Heating/Cooling Systems			\$88,336	\$88,336	17%
Edison 54 JT	Replace Roof on Original Building		\$27,300		\$27,300	17%
Edison 54 JT	Lighting Retrofit		\$24,248		\$24,248	17%

Appendix A
Public School Capital Construction Grant Program
Funded Project Descriptions, Award Amounts, and Matching Percentages
Funding Cycle 1 Through Funding Cycle 3

School District	Project Description	School Construction and Renovation Fund	School Capital Construction Expenditures Reserve	Federal Fund	Total Award Amount	Minimum Matching Percentage ¹
Elbert 200	Computer Lab Renovation			\$57,739	\$57,739	30%
Elbert 200	Office Remodel, Re-Keying & Drainage		\$5,695		\$5,695	30%
Elbert 200	New Boiler			\$122,640	\$122,640	30%
Elbert 200	New Roof & De-Icing System			\$25,900	\$25,900	30%
Elbert 200	Solve Major Drainage Problem			\$42,000	\$42,000	30%
Ellicott 22	Middle School Renovation		\$32,752		\$32,752	14%
Frenchman RE-3	Air Quality/Energy Efficiency			\$412,711	\$412,711	24%
Harrison 2	Fire Alarm Upgrade/Replace		\$600,000		\$600,000	18%
Haxtun RE-2J	Replace Roof			\$180,000	\$180,000	28%
Haxtun RE-2J	Energy Savings & Student Safety			\$133,788	\$133,788	28%
Hoehne Reorganized 3	Roof Replacement		\$35,595		\$35,595	30%
Holly RE-3	Safe and Productive Capital Project		\$370,000		\$370,000	32%
Idalia RJ-3	Water Facility Compliance		\$2,792		\$2,792	83%
Kiowa C-2	Replace (Inoperative) Fire Alarm			\$65,000	\$65,000	23%
La Veta RE-2	High School Renovation			\$896,317	\$896,317	53%
Lake County R-1	Middle School ADA Elevator			\$621,500	\$621,500	19%
Lamar RE-2	ES Renovation/Media & Computer Labs		\$1,769,264	\$230,736	\$2,000,000	12%
Liberty J-4	Boiler Replacement			\$21,928	\$21,928	50%
Liberty J-4	Window Facelift			\$14,000	\$14,000	50%
Littleton 6	Replace Sewage Injection System		\$48,280		\$48,280	37%
Mancos RE-6	Roof Replacement			\$75,900	\$75,900	31%
Mancos RE-6	Security Window Installation		\$7,590		\$7,590	31%
Manzanola 3J	Health, Safety, Energy, Learning Projects			\$182,813	\$182,813	13%
McClave RE-2	Science Room Renovation			\$100,100	\$100,100	28%
McClave RE-2	Sewer Replacement and Modernization		\$72,500		\$72,500	28%
Meeker RE-1	District Telecommunications System			\$140,088	\$140,088	96%
Miami-Yoder 60JT	Replace Foam-in-Place Roof		\$104,048		\$104,048	4%
Moffat 2	Replace/Repair Doors		\$36,999		\$36,999	39%
Moffat 2	Technology Project			\$22,366	\$22,366	39%
Moffat 2	Re-Roofing			\$36,905	\$36,905	39%

Appendix A
Public School Capital Construction Grant Program
Funded Project Descriptions, Award Amounts, and Matching Percentages
Funding Cycle 1 Through Funding Cycle 3

School District	Project Description	School Construction and Renovation Fund	School Capital Construction Expenditures Reserve	Federal Fund	Total Award Amount	Minimum Matching Percentage ¹
Moffat 2	Entry Sidewalk Replace/Roof Replace			\$22,707	\$22,707	39%
Moffat 2	Brickwork Repair			\$10,065	\$10,065	39%
Moffat 2	Water Purification Project		\$3,203		\$3,203	39%
Monte Vista C-8	Heating System Renovation		\$382,798		\$382,798	9%
Monte Vista C-8	Fire Alarm System Upgrade		\$18,769		\$18,769	9%
Monte Vista C-8	Modular Renovation		\$35,035		\$35,035	9%
Monte Vista C-8	Shop Renovation			\$95,095	\$95,095	9%
Monte Vista C-8	District Fiber Network			\$164,464	\$164,464	9%
Mountain Valley RE-1	Drainage Project			\$49,830	\$49,830	35%
Mountain Valley RE-1	ADA Restroom Renovation/Remodel			\$38,758	\$38,758	35%
Mountain Valley RE-1	Safety Alert System			\$41,772	\$41,772	35%
North Conejos RE-1J	Boiler & Heating System Replacement		\$423,987		\$423,987	3%
Otis R-3	Roof Replacement			\$95,159	\$95,159	33%
Ouray R-1	Roof Replacement			\$60,000	\$60,000	81%
Peyton 23 JT	New Electrical Distribution System			\$49,200	\$49,200	18%
Plateau Valley 50	Science Room Renovation			\$63,320	\$63,320	35%
Plateau Valley 50	Classroom Remodel			\$13,413	\$13,413	35%
Platte Canyon 1	Safety & Access Project		\$368,150		\$368,150	16%
Pueblo City 60	Life Safety of Students and Staff		\$979,768		\$979,768	23%
Pueblo Rural 70	Fire Alarm Upgrade		\$489,850		\$489,850	12%
Sanford 6-J	Roof Repair & Replacement		\$43,560		\$43,560	7%
Sangre de Cristo RE-22J	Fire Safety		\$50,600		\$50,600	33%
Sangre de Cristo RE-22J	Roof Replacement/Insulation			\$52,166	\$52,166	33%
Sangre de Cristo RE-22J	Cafeteria Ventilation		\$10,299		\$10,299	33%
Sangre de Cristo RE-22J	Instructional			\$55,272	\$55,272	33%
Sargent RE-33J	Suspend Ceiling/Lighting Completion			\$42,799	\$42,799	29%
Sargent RE-33J	Carpet Replacement			\$59,543	\$59,543	29%
Sargent RE-33J	HVAC Fire System & Controls Repair			\$34,364	\$34,364	29%
Sargent RE-33J	Stair/Balcony Railing Replacement		\$16,050		\$16,050	29%
Sargent RE-33J	Heat Loss Abatement			\$62,402	\$62,402	29%

Appendix A
Public School Capital Construction Grant Program
Funded Project Descriptions, Award Amounts, and Matching Percentages
Funding Cycle 1 Through Funding Cycle 3

School District	Project Description	School Construction and Renovation Fund	School Capital Construction Expenditures Reserve	Federal Fund	Total Award Amount	Minimum Matching Percentage ¹
Sargent RE-33J	Snow/Ice Protection			\$20,931	\$20,931	29%
Sierra Grande R-30	Technology Upgrade Project			\$84,500	\$84,500	71%
South Routt RE-3	Data/Voice System			\$116,084	\$116,084	84%
Springfield RE-4	Heating-AC & Roof Replacement			\$236,755	\$236,755	29%
Springfield RE-4	ES Expansion			\$567,364	\$567,364	29%
Springfield RE-4	K-12 Technology			\$147,000	\$147,000	29%
Springfield RE-4	HVAC Upgrade (Supplemental)			\$26,567	\$26,567	29%
Strasburg 31J	Install Energy-Efficient Windows			\$33,000	\$33,000	25%
Stratton R-4	Asbestos Management & Abatement			\$62,625	\$62,625	28%
Swink 33	Industrial Arts/Art Bldg Replacement		\$357,657		\$357,657	9%
West End RE-2	Coal Furnace Replacement			\$39,340	\$39,340	37%
Westminster 50	Floor Tile/Asbestos Remove & Replace		\$203,411		\$203,411	19%
Widefield 3	School Remodel		\$306,000		\$306,000	15%
Wiggins RE-50J	Replace Outdated Heating System		\$367,885		\$367,885	25%
Wiley RE-13 JT	HVAC Upgrade/Bleacher Safety		\$185,390		\$185,390	16%
Wiley RE-13 JT	Climate Control & Pollutant Mitigation			\$48,450	\$48,450	16%
Wray RD-2	ADA-Accessible Doors			\$5,170	\$5,170	53%
Yuma County 1	Replace Carpet		\$10,200		\$10,200	49%
	Total Cycle 3 Awards:	\$0	\$9,912,928	\$8,537,813	\$18,450,74	

Source: Colorado Department of Education data.

¹ The minimum matching percentage is the minimum percentage that school districts were required to contribute to their projects if they received funding through the Public School Capital Construction Grant Program. Districts may have contributed more than this minimum amount. No school districts were required to provide a match in Cycle 1.

² In Cycle 2, school districts were only required to provide a match for projects funded from the School Construction and Renovation Fund.

³ In Cycle 3, school districts were not required to provide the minimum match (e.g., the matching percentage was reduced or waived completely) if the district submitted a waiver request subsequently approved by the Capital Construction Advisory Committee.

<p>Appendix B</p> <p>Public School Capital Construction Grant Program</p> <p>Colorado Office of the State Auditor</p> <p>School District Capital Construction Needs Survey Results.</p>

Survey Approach Statement

To gain a general overview of the capital construction needs facing Colorado’s school districts, we surveyed the Colorado school districts. The following summarizes the responses from 174 of the 178 Colorado school districts.

Response Rate

Total Number of School Districts in Colorado:	178
Total Number of School Districts Responding:	174
Response Rate:	97.8%

Surveys were sent to school district superintendents via U.S. mail and completed during the month of October 2002.

Survey Questionnaire

1. How many buildings and facilities does your district currently lease or own for education, administration, and maintenance purposes?

Minimum:	1
Maximum:	843
Average:	19

2. Think about the age of the buildings and facilities in your district. Approximately what percent are:

	<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>
a. Under 5 years old	0%	80%	8.4%
b. 5-10 years old	0%	67%	8.8%
c. 11-20 years old	0%	100%	10.6%
d. 21-50 years old	0%	100%	53.2%
e. 51-80 years old	0%	100%	13.3%
f. More than 80 years old	0%	100%	5.7%

3. Think about recent renovation and capital construction efforts in your district. Have you renovated any of the buildings and facilities in your district within the last 10 years?

Yes:	87.4%
No:	12.6%

4. Think about recent renovation and capital construction efforts in your district. Approximately what percent of your buildings and facilities have been renovated within the last 10 years?

Minimum:	0%
Maximum:	100%
Average:	47.6%

5. On a scale of 1-5, how would you characterize the overall scope of recent renovation and capital construction projects in your district?

Scale

- 1 “Minimal” (e.g., general repairs, painting, etc.)
- 2 “Small” (e.g., re-carpeting, re-keying, lighting)
- 3 “Moderate” (e.g., classroom, bathroom, common area remodel)
- 4 “Major” (e.g., roof replacement, heating system replacement)
- 5 “Significant” (e.g., new school construction, new wing addition)

	<u>Minimum Rating</u>	<u>Maximum Rating</u>	<u>Average Rating</u>
a. renovations in the last 3 years?	1	5	3.6
b. renovations in the last 3-5 years?	1	5	3.2
c. renovations in the last 5-10 years?	1	5	3.5

6. Think about the overall capacity of the schools in your district compared with their current occupancy. For approximately what percent of the schools in your districts does the occupancy exceed the capacity?

Minimum: 0%
Maximum: 100%
Average: 18%

7. How would you characterize the overall extent of overcrowding in your district?

None (occupancy does not exceed capacity): **51.7%**
Mild (occupancy exceeds capacity by 0-10%): **22.4%**
Moderate (occupancy exceeds capacity by 11-25%): **17.8%**
Significant (occupancy exceeds capacity by 26-35%): **6.9%**
Extreme (occupancy exceeds capacity by more than 35%): **1.1%**

8. Think about how you use the buildings and facilities in your district. Approximately what percent are used for:

	<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>
a. administration purposes only?	0%	25%	5.3%
b. classroom instruction (e.g., school buildings)?	0%	100%	70.1%
c. storage/maintenance (e.g., bus barn, physical plant)?	0%	50%	10.6%
d. athletic/extracurricular activities only?	0%	35%	6.2%
e. multiple uses (e.g., gym, cafeteria, administration)?	0%	100%	6.7%
f. other uses (e.g., special education, teacher housing)?	0%	70%	1.5%

9. On a scale of 1-6, how would you rate the overall physical condition of the buildings and facilities in your district that are used for:

Scale

- 1 “Replace” (e.g., non-operational structure; replacement required)
- 2 “Poor” (e.g., requires major repair or overhaul)
- 3 “Fair” (e.g., extensive corrective maintenance and repair required)
- 4 “Adequate” (e.g., some preventive maintenance and repair required)
- 5 “Good” (e.g., only routine maintenance or minor repair required)
- 6 “Excellent” (e.g., new or easily restorable to “like new” condition)

	<u>Minimum Rating</u>	<u>Maximum Rating</u>	<u>Average Rating</u>
a. administration purposes only?	1	6	3.8
b. classroom instruction (e.g., school buildings)?	1	6	3.7
c. storage and/or maintenance (e.g., bus housing, physical plant)?	1	6	3.3
d. athletic and extracurricular activities only?	1	5	3.6
e. multiple uses (e.g., gym, cafeteria, administration)?	1	6	3.9
f. other uses (e.g., special education, teacher housing)?	1	5	3.1

10. Which of the following areas best capture the current capital construction needs in your district? (mark all that apply)

HVAC repairs/replacement	69.5%	Asbestos testing/abatement	28.2%
Roof repairs/replacement	65.5%	Acoustical control/noise reduction	28.2%
Improve temperature/ventilation control	63.8%	Ceiling/wall repair due to water damage	25.9%
Window/door replacement	62.6%	Upgrade other systems to meet code	25.3%
Improve classroom technology	60.3%	Improve insulation	24.7%
Upgrade electrical systems for technology	56.3%	Reduce number of students per classroom	24.7%
Security/surveillance equipment	50.0%	Other needs ¹	22.0%
Lunchroom/common area improvement/renovation	48.3%	Chemical/hazardous material storage	21.8%
Accessibility/ADA compliance	47.7%	Correct major electrical hazards	21.8%
Fire alarms, sprinklers, fire lanes	46.6%	Emergency exits/lighting	21.3%
Master key/door card systems	45.4%	Ice, snow, wind protection	21.3%
Improve/increase classroom storage space	43.7%	Correct major mechanical hazards (non-HVAC)	14.4%
Aesthetic improvements to walls/floors	40.8%	Correct major structural hazards	13.2%
Upgrade electrical systems to meet code	37.4%	Molds/fungi abatement	12.6%
Auditorium improvement/renovation	35.1%	Radon testing/abatement	9.2%
Media center/library improvement/renovation	35.1%	Lead testing/abatement	8.6%
Improve vehicle loading zones	32.8%	Underground fuel tank removal/replacement	4.6%

¹“Other Needs” includes additional district-reported items such as athletic fields, gymnasiums, locker rooms, playgrounds, parking lot maintenance, bus barns, kitchens, plumbing, vocational education, and alternative education facilities.

11. Of those capital construction needs that you identified in Question 10, which are your top five district priorities?

HVAC repairs/replacement	47.1%	Reduce number of students per classroom	10.3%
Roof repairs/replacement	46.0%	Correct major structural hazards	9.2%
Window/door replacement	28.7%	Improve vehicle loading zones	8.6%
Improve temperature/ventilation control	23.6%	Ceiling/wall repair due to water damage	7.5%
Improve classroom technology	21.8%	Aesthetic improvements to walls/floors	6.3%
Upgrade electrical systems to meet code	20.1%	Correct major electrical hazards	5.2%
Fire alarms, sprinklers, fire lanes	18.4%	Upgrade other systems to meet code	2.9%
Upgrade electrical systems for technology	17.8%	Emergency exits/lighting	2.3%
Accessibility/ADA compliance	16.7%	Improve insulation	2.3%
Other needs ¹	16.5%	Ice, snow, wind protection	2.3%
Lunchroom/common area improvement/renovation	14.9%	Correct major mechanical hazards (non-HVAC)	1.7%
Security/surveillance equipment	13.8%	Molds/fungi abatement	1.7%
Master key/door card systems	13.2%	Chemical/hazardous material storage	1.7%
Asbestos testing/abatement	10.9%	Acoustical control/noise reduction	1.1%
Media center/library improvement/renovation	10.9%	Underground fuel tank removal/replacement	1.1%
Improve/increase classroom storage space	10.3%	Radon testing/abatement	0.6%
Auditorium improvement/renovation	10.3%	Lead testing/abatement	0%

¹“Other Needs” includes additional district-reported items such as athletic fields, gymnasiums, locker rooms, playgrounds, parking lot maintenance, bus barns, kitchens, plumbing, vocational education, and alternative education facilities.

12. What would probably be the total cost of all repairs and renovations required to put your district's buildings and facilities in good overall physical condition?

Minimum Estimate:	\$0
Maximum Estimate:	\$800,000,000
Median Estimate:	\$2,000,000
Average Estimate:	\$27,265,977
Sum of All Estimates:	\$4,717,014,029

Frequency of District Responses

Less Than \$1 million:	30.1%
\$1 million -- \$4.9 million:	33.5%
\$5 million -- \$9.9 million:	11.6%
\$10 million -- \$19.9 million:	8.7%
\$20 million -- \$49.9 million:	7.5%
\$50 million and Above:	8.7%

13. What would probably be the total cost of all repairs and modifications required to sufficiently address your district's top five capital construction priorities that you identified in Question 11 above?

Minimum Estimate:	\$0
Maximum Estimate:	\$400,000,000
Median Estimate:	\$1,500,000
Average Estimate:	\$14,274,861
Sum of All Estimates:	\$2,441,001,232

Frequency of District Responses

Less Than \$1 million:	40.9%
\$1 million -- \$4.9 million:	28.7%
\$5 million -- \$9.9 million:	9.9%
\$10 million -- \$19.9 million:	7.0%
\$20 million -- \$49.9 million:	7.0%
\$50 million and Above:	6.4%

14. Which primary source listed below did you use to determine your cost estimates in Questions 12 and 13 above?

Inspections and/or assessments performed within the last 3 years by licensed professionals:	25.7%
Repair/renovation work already being performed and/or contracted for:	15.2%
Capital improvement/facilities master plan or schedule:	22.1%
Best professional judgment:	29.0%
Opinions of other district administrators:	5.7%
Other source:	2.4%

15. Which of the following long-term planning documents does your district currently have in place? (mark all that apply)

District Strategic Plan:	50.3%
Facilities Master Plan:	64.2%
Facility Audit:	45.1%
Asbestos Hazard Emergency Response Act (AHERA) Management Plan:	37.6%
ADA Survey/Code Compliance Document:	29.5%
Other (e.g., historical structure assessment):	9.2%

16. How old are the planning documents you identified in Question 15?

	<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>
a. District Strategic Plan	Current	8.0 yrs.	1.9 yrs.
b. Facilities Master Plan	Current	22.5 yrs.	2.1 yrs.
c. Facility Audit	Current	18.0 yrs.	2.6 yrs.
d. AHERA Management Plan	Current	18.0 yrs.	3.0 yrs.
e. ADA Survey/Code Compliance	Current	18.0 yrs.	4.9 yrs.
f. Other (e.g., historical structure assessment)	Current	3.0 yrs.	1.1 yrs.

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303-869-2800

Please refer to the Report Control Number below when requesting this report.

Report Control Number 1505