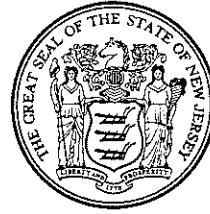

**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**



New Jersey Schools Development Authority

July 1, 2010 to June 30, 2011

**Stephen M. Eells
State Auditor**

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Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Sheila Y. Oliver
Speaker of the General Assembly

Mr. Albert Porroni
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Enclosed is our report on the audit of the New Jersey Schools Development Authority for the period of July 1, 2010 to June 30, 2011. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink that reads "Stephen M. Eells".

Stephen M. Eells
State Auditor
September 29, 2011

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Scope

We have completed an audit of the New Jersey Schools Development Authority (SDA), for the period July 1, 2010 to June 30, 2011. Our audit was limited to the prioritization process and sequencing of school facility projects in the 31 special needs districts, known as SDA districts.

SDA operations are funded primarily from bond proceeds. As of October 31, 2010, \$2.3 billion was available for new projects in SDA districts.

Objectives

The objectives of our audit were to determine whether the criteria utilized to select ten SDA district projects for advancement in 2011 were reasonable, adequately considered educational need, and complied with provisions set forth in the Educational Facilities Construction and Financing Act.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation and policies of the SDA. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also interviewed agency personnel to obtain an understanding of the organization and its internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Transactions were judgmentally selected.

Background

On August 6, 2007, legislation was enacted that established the New Jersey Schools Development Authority (SDA) in, but not of, the Department of the Treasury. The SDA is now responsible for the planning, design, construction, and completion of school facilities projects in SDA districts. Pursuant to this legislation and 2008 legislation that authorized an additional \$2.9 billion for SDA districts, the SDA developed a 2008 Strategic Plan advancing 53 projects, including 27 that had previously been deferred because of funding shortfalls. This plan was subsequently revised as a result of our prior audit recommendations, district requests for project substitutions, and statutory provisions that require a periodic review. The current plan advances ten projects in 2011, nine of which were originally included in the 2008 plan.

Pursuant to section 5 of the Educational Facilities Construction and Financing Act (the Act), the Commissioner of Education (the commissioner), in consultation with each SDA district, establish an educational priority ranking of all school facilities projects in each SDA district based on critical need in accordance with priority project categories developed by the commissioner. The project categories include, but are not limited to, health and safety, overcrowding, and spaces necessary for disabled students, rehabilitation, and educational adequacy. Upon the establishment of the priority rankings, the SDA, in consultation with the commissioner, the SDA districts, and the municipalities in which the districts reside, established a statewide strategic plan to sequence the school facilities projects based on the projects' educational priority rankings and issues impacting the SDA's ability to complete the project, including, but not limited to, the construction schedule and other appropriate factors.

Educational Prioritization

In accordance with the Act, the commissioner used the following criteria to prioritize projects originally included in the 2008 plan or proposed in each SDA district's long-range facilities plan.

Criteria	Points
Overcrowding	Maximum 6 points
Facilities Efficiency Standards (FES)	Maximum 5 points
Building Quality	Maximum 4 points
Efficiency	Maximum 3 points

As illustrated above, the most weighted category is district-wide overcrowding with six potential points. Non-compliance with FES, which includes prescribed instructional spaces, specialized instructional areas, and administrative spaces that the commissioner determines to be educationally adequate, could yield five points. Potential projects in districts determined to have a substantial number of students in aged and educationally inadequate buildings could have received up to four points, with up to an additional three points if its completion would result in a more efficient district-wide operations of school buildings.

The Department of Education (DOE) scored a total of 110 projects. The commissioner determined that the prioritization list would only include projects receiving a score of six or more, resulting in 80 ranked projects with scores ranging from sixteen to six.

SDA 2010 Capital Plan Reassessment

The SDA developed the following criteria to be used in evaluating and scoring projects from the 2008 plan, as well as projects newly identified by the DOE.

Criteria	Points
Efficient Response to Educational Need	Maximum 3 points
Efficient Use of Public Funds	Maximum 3 points
Construction Schedule Factors	Maximum 4 points

A maximum of three points was given based on the efficiency of the project's design and whether there was a more efficient alternative to the proposed project. An additional three points could be earned based on the total cost of the project and the project's total cost to complete per student. A maximum of four points could be earned based on construction schedule factors, such as land acquisition status, environmental risks, and schedule certainty.

Neither the DOE score nor the SDA score were primary factors in determining which projects advanced. The two scores were used to generate a population from which the SDA would advance a portfolio of projects. Of the 80 DOE-ranked projects, there were 61 projects that met the SDA minimum score of three and one half points for advancement.

The most significant factor in determining which projects were advanced was whether a project was supportive of standardization. Standardization refers to the reuse of designs, in part or in whole, on multiple projects, as well as the standardization of systems and materials to be used on project designs. The SDA also identified elementary schools with a capacity of approximately 600 to 700 students as being the model school type that was supportive of standardization. Additionally, the SDA also evaluated each of the 61 projects to determine whether a project was ready to proceed, or if there was an issue that prevented a project's advancement at that time.

Each of the ten projects selected for advancement in 2011 was supportive of standardization and considered ready to proceed. Five of the projects had existing designs that supported standardization and five projects fit the model school type. Conversely, projects not supportive of standardization were not advanced. Addition/renovation projects were not advanced because design standards for these projects have not been developed, and early childhood center projects were not advanced because they did not fit the model school type. However, most projects that were not advanced had issues unrelated to standardization that prevented them from being advanced. These issues included concerns related to site remediation and excessive design elements, and the potential for alternatives to the proposed project.

While the DOE identifies educational need and whether a district's proposed project addresses that need, it does not determine whether the identified need can be addressed by an alternative method or project. During its review, the SDA evaluated whether the proposed project was the best way to address the identified need, which had not been the SDA's practice in the past. Several high scoring projects were not advanced because the SDA is considering alternatives to

the proposed projects. The SDA is communicating with the districts and the DOE regarding those alternatives. The fact that a project was not advanced in 2011 does not mean it will not be advanced in subsequent years. The SDA continues to evaluate projects that were not advanced in 2011 and plans to update its portfolio annually.

As of October 31, 2010, the SDA had \$2.3 billion in funding remaining for the capital program. The estimated cost to complete the 80 projects considered most educationally needed by the DOE is \$4.28 billion. Of the 80 projects, 61 received the SDA's minimum score for advancement consideration. The estimated cost to complete these projects is \$2.62 billion. The SDA estimates it can complete 52 of the 80 projects with the current funding. Of the remaining 28 projects, the DOE ranked 13 a higher educational need than two projects advanced in the 2011 portfolio. These 13 projects were not considered because they did not receive the SDA minimum score for advancement consideration.

Conclusions

We found that the criteria utilized to select the ten projects for advancement in 2011 were reasonable and in accordance with provisions set forth in the Educational Facilities Construction and Financing Act. However, educational need may not have been sufficiently considered. The total cost for the 80 projects in the DOE prioritization list is estimated to be \$2 billion more than the available funding. The cost for the 61 projects that received the SDA's minimum score for advancement is estimated to exceed available funding by \$350 million. By advancing lower priority projects because they support standardization, there is the potential for more educationally critical projects not being completed with the current funding.

APPENDIX I

2011 Project Portfolio

District	School Name	Grade	SDA		FES Cap	DOE Pts	SDA Pts	Total Score	DOE Rank	SDA Rank	Total Rank
			Projected Cost (in millions)								
New Brunswick	Chester Redshaw ES	1-5	\$ 45.5		670	15.0	7.0	22.0	3	7	3
Elizabeth	Academic Magnet HS	9-12	\$ 77.1		1091	14.0	7.0	21.0	8	7	5
Paterson	New ES at Marshall	K-8	\$ 29.6		650	14.0	7.0	21.0	8	7	5
Bridgeton	Cherry Street ES	K-8	\$ 38.6		591	13.0	7.5	20.5	17	3	7
Long Branch	Catrambone ES	PK-5	\$ 36.9		817	11.0	8.5	19.5	25	1	11
Newark	Oliver Street ES	3-8	\$ 59.6		868	11.0	6.0	17.0	25	16	20
Jersey City	ES3 / ECC 03	PK-5	\$ 58.9		814	12.0	4.5	16.5	21	38	23
Paterson	PS # 16 ES	PK-8	\$ 53.7		651	11.0	3.5	14.5	25	71	33
W. New York	Harry L. Bain ES	PK-6	\$ 54.0		736	7.0	4.5	11.5	57	38	56
Jersey City	PS # 20 ES	K-5	\$ 46.0		628	7.0	4.0	11.0	57	55	60

Funding Status as of October 31, 2010

	<u>(in billions)</u>
Authorized Funding For SDA Districts	\$ 9.006
SDA Related Expenses To Date	\$ (5.744)
Ongoing SDA Funding Obligations	\$ (0.996)
Funding Remaining For New Projects	\$ 2.266
Projected Costs For 2011 Projects	\$ (0.500)
Remaining Funds For Future Projects	\$ <u>1.766</u>



STATE OF NEW JERSEY

SCHOOLS DEVELOPMENT AUTHORITY

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September 22, 2011

Mr. Stephen M. Eells
State Auditor
Office of the State Auditor
P.O. Box 067
Trenton, New Jersey 08625-0067

Dear Mr. Eells:

Management of the New Jersey Schools Development Authority (“SDA” or “the Authority”) has reviewed the audit report prepared by the State Auditor relative to the Authority’s prioritization process and sequencing of school facility projects during the period July 1, 2010 to June 30, 2011. The SDA appreciates the opportunity to comment on the State Auditor’s conclusions.

SDA is pleased with the State Auditor’s conclusion that the criteria utilized by the Authority to determine those projects to advance in 2011 were reasonable and fully compliant with the provisions of the “Educational Facilities Construction and Financing Act”.

In its report, the State Auditor also concludes that the cost for the 61 projects that received the SDA’s minimum score for advancement is estimated to exceed available funding by \$350 million. Given this reality, SDA will continue to assess the needs of the SDA Districts and determine the most cost effective and efficient manner in which to address those needs. It is only through the continued exercise of vigilant management, strategic optimization of resources and a commitment to new approaches such as design standardization and other alternative delivery methods that the Authority will be best positioned to address the largest number of priority projects while ensuring that taxpayer dollars are wisely spent. The SDA will continue to work with Governor Christie and the State Legislature as we move the school construction program forward.

Very truly yours,

Marc D. Larkins
Chief Executive Officer