

BOARD OF EDUCATION
School District of South Orange-Maplewood
525 Academy Street
Maplewood, New Jersey 07040

Cheryl Schneider
Business Administrator

973-762-5600 ext 1800
fax 973-378-9310

TO: Brian Osborne
Board of Education Members

FROM: Cheryl Schneider

DATE: January 5, 2014

SUBJECT: UPDATE TO CAPITAL IMPROVEMENTS MEMO

A resolution is being presented to the Board of Education at the Organizational Meeting on January 7, 2014 to submit proposed capital improvement projects to the Board of School Estimate for authorization to raise funds for the projects. The Board of School Estimate is scheduled to meet on January 22, 2014 to take action on this authorization request.

The list of projects discussed by the Board of Education at the December 16, 2013 Board meeting was presented to the Board of School Estimate (BSE) at a December 19, 2013 workshop. At the BSE workshop, it was requested that we look at the impact of including the other projects that received ROD grants rather than losing the grant funding. As a reminder, the District had 19 grants approved for projects including roof work, electrical upgrades, window replacements, mechanical upgrades, barrier free upgrades and an emergency generator. If the District were to move forward on all of these projects, the local share would be \$12,859,955 (less funds being repurposed from earlier projects). Recognizing concerns of additional tax stress on top of potential operating budget increases, and concerns about future incremental debt burdens (the current projects do not include the Columbia High School renewal projects that have been discussed over the past year), the administration did not recommend implementing all of the grant projects.

The suggested project list presented to the Board and subsequently discussed with the BSE included:

Project	ROD Budget	Local Funding
Columbia HS Roof Replacement "B" and "D"	1,218,695	731,217
Columbia HS Wing A Mech Upgrades	5,354,696	3,212,818
CHS Wing A Corridor Ceiling Upgrades	259,861	259,861
Columbia HS Water Infiltration	610,132	366,079
Jefferson Partial Roof Replacement	545,440	327,264
Marshall Partial Roof Replacement	893,047	535,828
Seth Boyden North Corridor Barrier Free Stair	53,887	32,332
So. Mtn. Annex Partial Roof Replacement	491,474	294,884
Maplewood MS Window Replacements	2,213,154	1,327,892
Maplewood MS Science lab renovations	483,067	483,067
CHS Roof replacement D-wing (alternate section)	178,188	106,913

Jefferson Mechanical Upgrades	152,350	91,410
TOTAL PROJECTS COST	12,453,991	7,769,565
Repurpose funds from previous projects		2,689,565
TOTAL LOCAL SHARE FUNDING REQUIRED		5,080,000

Those projects that received grants, but not included in the above list include window replacements, electrical upgrades and mechanical upgrades such as exhaust fan replacements.

Project	ROD Budget	Local Funding	Grant Funding
Columbia HS Window Replacements "B" and "D"	2,256,035	1,353,621	902,414
Seth Boyden Window Replacement	1,411,722	847,033	564,689
Tuscan Window Replacement	1,565,162	939,097	626,065
Clinton Window Replacement	1,085,626	651,376	434,250
Jefferson Electric Service Upgrade	183,602	110,161	73,441
Seth Boyden Electric Service Upgrade	1,248,550	749,130	499,420
South Mountain Exhaust Fan Replacement	437,152	262,291	174,861
South Orange Middle Exhaust Fan Replacement	1,206,412	723,847	482,565
TOTAL PROJECTS COST	9,394,261	5,636,556	3,757,705

It is difficult to estimate the return on investment on these projects. The main benefit of the electric service upgrade projects is that we could add load to the school buildings allowing for future improvements and equipment upgrades. The electrical upgrades is more of a safety issue than an efficiency issue as the older electrical systems can be subject to future failures as increased electric demands are placed on the systems.

The exhaust fan replacements are estimated to have an approximate rate of return somewhere in the range of 3 to 5 years. Replacement of these types of fans is an efficiency issue as the new fans would run at a better productive level of energy usage and have smoother operation. Replacements would be subject to less problems and maintenance repairs. The replacement of rooftop fans at Jefferson School were included in the initial list as they should be replaced at the same time that the Jefferson roofing project takes place.

Window replacement projects have a much longer rate of return, probably around 20 years. These projects would have an immediate visual improvement and potentially would reduce complaints regarding drafts as well as operational complaints that could be considered safety issues. Many of the existing windows at the schools are insulated glass and therefore we do not anticipate drastic reductions in energy bills. Newer windows, however, would be more efficient with manufacturing improvements. The project designs include windows with internal blinds, making a better appearance, eliminating the need for roller shades and can also be used as a security factor by not just blocking out the light but shutting off views directly into the school's classrooms.

If the Board decides to issue bonds for all of the projects approved for ROD grants, we would suggest holding off on the two projects on the project list that did not receive grants, the Maplewood Middle School Science Lab project and the Columbia HS Corridor Ceiling project, in order to keep the bond issue to \$10,000,000. Issues above \$10,000,000 are no longer considered "bank qualified" and most likely see higher interest rates as a result. This

incremental annual debt service expense would be between \$340,000 and \$530,000 annually to the District over the 15-year payback period. Annual debt service would be as high as \$5.6 million in 2024, with no incremental issuance beyond 2017, compared with \$5.1 million if only \$5.08 million in bonds were issued in 2014 rather than \$10 million.

Long-term considerations include the loss of the grant funding of \$3.76 million and the anticipated cost of bonding at a future date. Our capital advisors project an interest rate of 3.25% if bonds were sold now versus 4.0% in just three years from now (2017). This would be a difference of more than \$1,000,000 in absolute dollars on a \$10 million bond sale. In addition to the \$3.76 million grant funding we would receive from the State, there would also be some efficiencies gained as a result of the additional projects to lower the operating budget, but these are difficult to measure for the projects in question.

Attached to this memo is a draft version of the resolution to be considered on Tuesday evening, January 7, 2014. Please note that in addition to the projects under consideration, the project list also includes the repurposing of funds associated with the Montrose Early Learning Center project. This project was resubmitted to the DOE under a new state number and has been approved for debt service aid of 40% of the cost of the project. The inclusion of this project repurposes existing funding to the new state project number for alignment of the financial reporting for collection of debt service aid of more than \$1.4 million. (Note that the Montrose project is being rebid and is expected to be awarded at the February regular meeting of the Board of Education. Previous bids came in at \$2.7 million, more than the budgeted construction portion of this project.)

A second version of the resolution, reflecting the \$10,000,000 issuance, will be forwarded to the Board for reference once our bond counsel has finalized the wording on the two versions of the resolution.