School Facility Projects
BUDGETING & ACCOUNTING

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Lettie Boggs held fiscal and facilities positions in school districts for over seventeen years, most recently as Assistant Superintendent for the Anaheim City Schools. She is currently Chair & CFO of Colbi Technologies, Inc., a company serving school districts with Account-Ability project management, budgeting, and accounting software for school building programs, as well as accounting support and consulting.

She has been an instructor of accounting, an accountant for construction companies, and business manager for an architectural firm in addition to her school business experience.

Lettie is on the board of directors and is current treasurer for the Coalition for Adequate School Housing and is Immediate Past Chair of Californians for School Facilities, a federal action committee formerly known as Cal-Fed. She is founding co-chair of the CASH Urban Committee. She has served as State Chair for Facilities for the California Association of School Business Officials and represented CASBO on the Implementation Committee for the State Allocation Board.

ORGANIZE THE CODING

The perfect accounting system tracks everything you need to know –and nothing more!

- Fund Codes
  - The source of the funds
- Object Codes
  - How you spend the money

It is important to concentrate on two components of the SACS code for setting up the building program accounting. School district accounting is designed to do annualized, single fund accounting – and that is not what we are doing in facilities! We typically do multi-fund, multi-year projects. Organizing the accounting will make it easier to fit those square pegs in round holes.

Everyone needs to know which funds will be used and how much is coming from each contributing fund for each specific project. Not all funds will be available at the beginning, so a comprehensive strategy needs to be in place to move from year to year and to facilitate use of the various funding sources.

When a district accepts state funds for construction or modernization, they accept an additional audit control component – project control. The easiest way to facilitate this control requirement is to make sure that the object codes used for the state projects track every component of the state's audit documentation.

STRATEGIES

- Begin with the end in mind
  - SAB 50-06 Columns
- Have a distinct object code for every reporting category
- Make sure your coding matches the way the projects will be billed

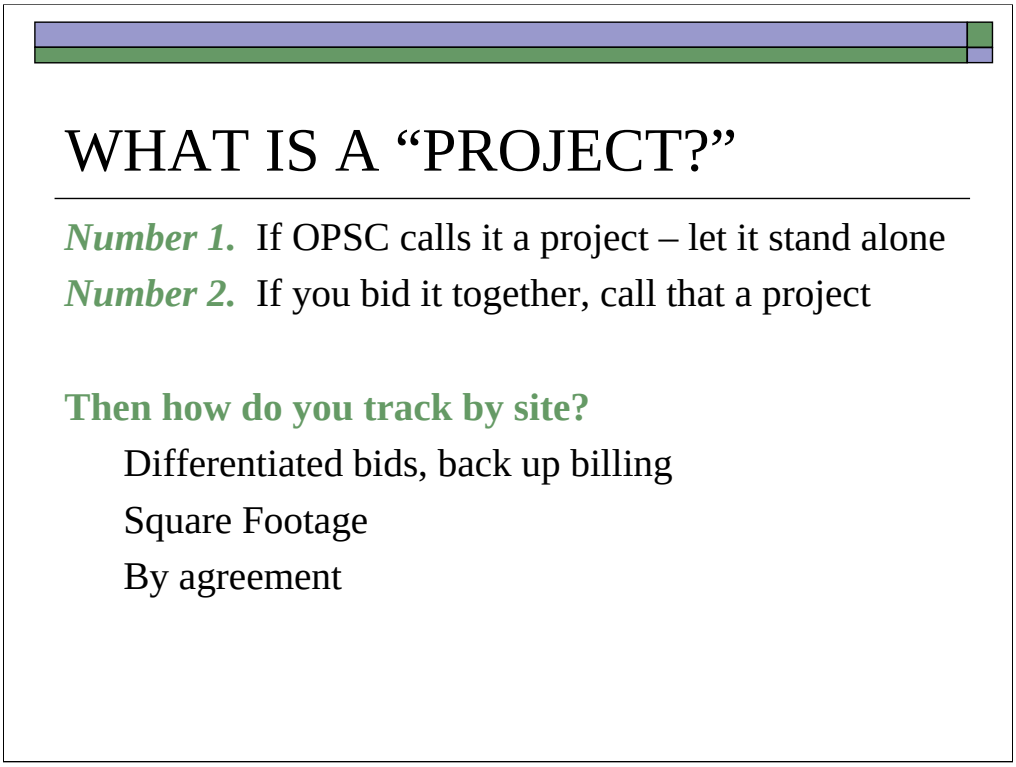
If you can't easily know the number, it will be a lot of work to track it separately!

Good accounting practice always begins with the end in mind. Understand the reporting requirements so that each project can be tracked in the manner in which it will need to be reported. For Office of Public School Construction projects, the reporting document is the SAB 50-06 Detailed Listing of Expenditures. The document is available in Excel format on the OPSC website.

Because the Object Code component of SACS tells us what we spent the money on – and the OPSC audit is based on what we spent the money on, it makes sense to align the object codes with the reporting requirements of OPSC. The sample coding you will find later in this presentation essentially provides an object code for each of the reporting columns on the 50-06. This provides documentation in the fiscal system that will support the compiling and reconciliation with the audit documentation.

It is also important to structure the coding to minimize the amount of reconfiguring that must be done to incoming invoices when they are being prepared for payment. The more differentiation that is required, the more labor too. If an invoice contains three coding strings, then it is three times the work to prepare it.

How can this be avoided? …



The first rule of minimizing invoice preparation and data entry is to not differentiate unless it is necessary.

If OPSC calls it a project, then call it a project in the district too. Be careful not to add scope to the project and it is very important not to combine the accounting for multiple OPSC projects! If combining is anticipated, obtain permission from OPSC in advance. OPSC audits are much cleaner when the project stands alone.

Another important component is to code a project the way it is bid. If a project calls for new roofs at eight schools and the district decides that each of the schools is an individual project, then all of the architect, contractor, inspectors, and testing company invoices will need to be split eight ways. The work of accounting for the project has been multiplied by eight!!!

If the question is, “How much of the project was spent at each site?” That can be answered through other logical means, without all of the ongoing splitting work. And often that question is inappropriate. The amount spent on each site may need to be quite different in order to bring parity to each site. The reporting should focus on achieving parity, not achieving equal expenditures.

MORE STRATEGIES…

- Monitor the interest and assign it to projects
  - Its yours, but they track it
- Track the savings and be able to report them
  - Need a SAB 50-06 for the receiving project too
- The problem with using 5800's
  - What type of consultant?
  - Legal & Advertising

If interest is accrued in Fund 35, OPSC will want a reporting of it. Maintain a reasonable effort at routinely identifying the accumulated interest, assigning it to projects.

When a project generates "savings" that must be declared to OPSC, the project that benefits from the savings must provide the 50-06 information for inclusion in the audit record of the project that generated the savings.

Typically districts report consultant expenditures in the 5800's; however, in the case of capital projects this does not provide adequate information for reporting. The CSAM indicates that capital facilities projects are to use the 6100 & 6200 object codes, even though many of the project costs are for professional services agreements that otherwise would qualify as consultant agreements. Because the OPSC audit requires differentiation of many types of consultants, the use of the 6000 objects is more effective.

Many districts put the project related legal costs and project related advertising in established 5800 object codes, as they are specifically called out in the CSAM, with all the other contracts coded to the 6000's. All of the capitalized project activities should use the 8500 Function Classification.

PROJECT CATEGORIES (506A&B)

A	Site
B	Planning
C	Construction
D	Testing
E	Inspection
F	Furniture & Equipment
G	Project Contingency

The SAB 506A & B are documents that were required to be prepared by project architects under the LPP. They are not mandatory under the SFP, however, they are in widespread use and they provide continuity for cost categories therefore districts and architects continue to use them. Many districts request their architects provide the budget estimates in these categories, even if the manner of calculating within the categories is no longer mandated under the current state School Facilities Program (SFP.)

This budget presentation uses these broad categories to discuss the various components of typical facilities projects.

CATEGORIES & **SAMPLE** OBJECT CODES

SITE ACQUISITION (A)

- The 6100's
- Includes costs associated with the acquisition of property for the project
- Also includes the cost of certifying that the site is environmentally acceptable
- Not required to separate site construction

6110	Purchase Price of Property
6120	Appraisal Fees
6130	Escrow Costs
6140	Surveying Costs
6150	Site Support Costs
6175	Environmental Studies
6180	Other Costs - Site

The first emphasis is on the site. It is essential that you know the relative cost of the site. Start by using local land values. This is where knowing your community is important. A network of contacts with realtors and appraisers is invaluable.

If the district has purchased property before in the area, or there are neighboring districts that have, then use the estimates from them as a ball-park figure for acquisition costs and for DTSC costs. The natural tendency is to try to put the best face on environmental clearance. To be a good "budgeter" you need to assume the **most likely, worst case**. Sounds like poor English, but really, what are you facing?

Estimate high to start with and then back off. But be realistic because you will be making value judgments – so the value matters.

When you budget OPSC's 50% know that they will provide their share based on the highest appraised value with a % cap on other costs – not half of the actual cost!

Deduct that land acquisition budget from the funds available and begin to work with the remaining project budget.

CATEGORIES & SAMPLE OBJECT CODES

RELOCATION – PART OF SITE ACQUSITION (A)

- Must identify the Owner/Tenant and APN for each payment

6160	Site Acquisition Relocation Costs
6161	Last Resort Housing and/or Down Payment / Rental Assistance
6162	Replacement Housing Payment
6163	Moving Expense - Actual or Fixed
6164	Displaced Business Expense / Consultant
6165	Business Reestablishment
6166	In-lieu of Business Expense
6167	Furniture & Equipment Purchase vs. Moving
6168	Loss of Goodwill

The Office of Public School Construction has added a new requirement for reporting to their SAB 50-06 audit document. The new page two delineates all of the above mentioned categories for relocation associated with condemnation of property for purposes of a school district project. The type of payment being made will need to be delineated. This will be required for projects that completed site acquisition prior to the new report. For those projects someone will need to go to the file record and provide the required information.

According to OPSC, this reporting requirement is the result of poor practices at some districts which resulted in inappropriate payments. It is important that each payment is understood and reported correctly.

CATEGORIES & SAMPLE OBJECT CODES

PLANNING (B)

- Architect Contracts
  - New versions
- Program Management
- Common Rate Ranges
  - New Construction, 7-10%
  - Modernization, 10-13%

6210	Architect / Engineering Fees
6220	DSA Fees
6225	CDE Fees
6227	Energy Analysis
6230	Preliminary Tests
6240	Other Costs - Planning

Once the land costs have been budgeted, the next area of focus is the construction budget. Then you would actually return to the architect budget next. You can't know the estimate for the architect until you know the construction budget.

The architectural fee will be subject to several factors.

•How demanding are you as a client?

•How badly do firms want to serve your district?

•What type of design are you proposing?

- •Reuse
- •Standard design
- •A monument

To progress with budget development, develop the construction budget, then apply the appropriate information to the architectural budget.

Don't forget that there are other planning costs…like Account-Ability to keep you out of trouble!

Remember throughout the process that, in most cases, an increase in construction results in an increase to other categories as well.

COMMUNICATING THE CONSTRUCTION BUDGET NUMBER

CONSTRUCTION (C)

- Initially 70% of the non-land funding is budgeted for Construction

This is the number you tell!

- If you communicate the entire project budget number, the project will approach a 30% shortfall.

Of the funds remaining after the funds for land are set aside, put 70% in construction. This is the initial **construction** budget. This is the number the architect designs to! You have 2 numbers in your head

- Construction Budget
- Project Budget

Use them correctly because you need to protect the soft cost funds.

CATEGORIES & SAMPLE OBJECT CODES

CONSTRUCTION (C)

- Shift to soft costs
  - PM = soft cost
  - CM = hard cost
    - OPSC says SOFT unless at risk!
  - LCP = hard cost

6250	Main Construction Contractor
6255	Construction Mgmt Fees
6260	Demolition
6265	Other Costs - Construction
6270	Labor Compliance
6275	Environmental Clean-Up
6277	Interim Housing

There are three general types of COST on a project:

1. Land Costs - Purchase price and costs associated with getting the land acquired.
2. Hard Costs – Directly associated with construction (and OPSC includes F&E)
3. Soft Costs – project costs not directly associated with construction

By monitoring the relationship between the three types you can know whether your project is getting the maximum amount into the construction budget, or whether you are running heavy in administrating the project; which may be a legitimate thing – but you should know it and be able to explain why. It is getting more difficult to get projects done with 70% hard costs. The percentage may have to be adjusted based on decisions that are made regarding how the project is managed.

Bond program management, and project management typically are coded to “Other Planning” and are a soft cost. CM is typically a hard cost, however, OPSC is now considering Construction Management fees as a soft cost unless the CM is truly “at risk.” If a project is budgeted very close to 60% hard costs, it would be prudent to discuss with OPSC whether the type of CM contract the district is using will be considered hard or soft at audit. During audit OPSC verifies that 60% of the project funds are expended for hard costs.

CATEGORIES & SAMPLE OBJECT CODES

CONSTRUCTION TESTING (D)

- Based on potential site issues

INSPECTION (E)

- Based on the rates in your area applied to the duration of your project – a change in duration will result in additional cost

6280	Construction Tests
6290	Construction Inspection

The testing budget in this section is really for **construction testing**. Testing during the site acquisition phase goes into site costs and during the design phase it goes into preliminary tests – even though you may use the same company.

Think about the project site. Is the soil going to be difficult? Are there worries about compaction? Moisture? Then the testing will cost more, so that those issues are covered. Initially a big number will be needed, but as the site and the design are better known, the number budgeted may be reduced.

Inspection will cost more if your area has a shortage in inspectors or if you do multi-story construction. This is an area where local networking will help you determine the potential cost. Remember that changes in the project duration due to change orders often result in a longer contract for the inspector of record, so that budget should be adjusted when significant days are added to the project.

CATEGORIES & SAMPLE OBJECT CODES

MEDIA, FURNITURE & EQUIP (F)

- It can all be capitalized –the first time
- Standard by grade level, saves time & $
- Only give the principal 80% of his budget – release the rest after the buildings are occupied

6310	Bks & Media for New Libraries
4310	Mat'ls & Supplies <$500
4410	Non-Capitalized Eq $500-5000
6410	Equipment New >$5000
6510	Replacement Equipment

One of the best ways to simplify the equipment budget (and equipment acquisition) is to work with grade level standards. Have an instructional committee establish the grade level standard. Use ones that already exist, if your district has them. Be sure there are purchasing and business folks on the committee for the "get real" aspect.

Once established the basic list can work for mods, new constr, relos – all types of classrooms. This takes the pressure off facilities and gets some parity to those places where the principal may not be a skilled advocate. And it assures that the most basic items get purchased first.

There are things that won't be known until the building is occupied. But they will be considered essential by the folks occupying the facility. At this point you may not have much (and shouldn't have much) in reserves to bail them out. So if you don't want to be hitting the general fund for essential items, don't give all the money to the principal. The F&E budget is often managed by a principal. Remember this is not something they are trained to do, or that they do very often. You may want them to submit their F&E lists for approval before they start purchasing so that you can make sure it is going for approvable and appropriate F&E.

There is a relationship between F&E costs and casework. Be sure to modify storage budgets and purchases based on the casework in the various types of rooms. If the project has minimal casework, it will need a higher F&E budget…and vice versa.

The F&E part of the project may be a small part of the overall costs, but it is the last phase and the one that folks touch daily. People relate to the furnishings, so will talk about them. They tend to have an out of proportion impact on the "feeling" people have about the project.

CATEGORIES & SAMPLE OBJECT CODES

CONTINGENCY (G)

- The danger of layered contingencies
- New construction, 10% of the **Project** budget (Not the Construction budget)
- Modernizations need more, up to 20%
  - Use of phasing

One style of budgeting is to layer contingency, focusing on padding areas likely to need additional funds. Facilities project managers have a particular need to know the real contingency available, as the prudent level varies during the course of the project. Some layering may be appropriate, but at least two people should know what the layers are and where they are located in the budget. The budget is a sketch of the project drawn in numbers. It should look like the project!

Be careful when using completed projects to develop new budgets. Most of the contingency ends up applied to construction, that is why post construction stats show higher than 70% hard to soft ratio and lower contingencies. If a budget starts at that higher level, it will probably be short of funds for soft costs.

Project budgets should be designed to make the maximum contingency available at the most vulnerable parts of job. For new construction this tends to be during grading. The dirt is the least knowable with the highest potential impact to the budget.

For modernization the most vulnerable phase is when the walls & roof are first opened. Once that is done there is a better idea of what water and termites have done to the building. One approach is to divide the project into two phases with some less essential work in the second phase. They can even be bid at the same time, but planned to be done sequentially. Then if more money is needed for phase I, don't proceed with II.

MANAGING BUDGET DEVELOPMENT

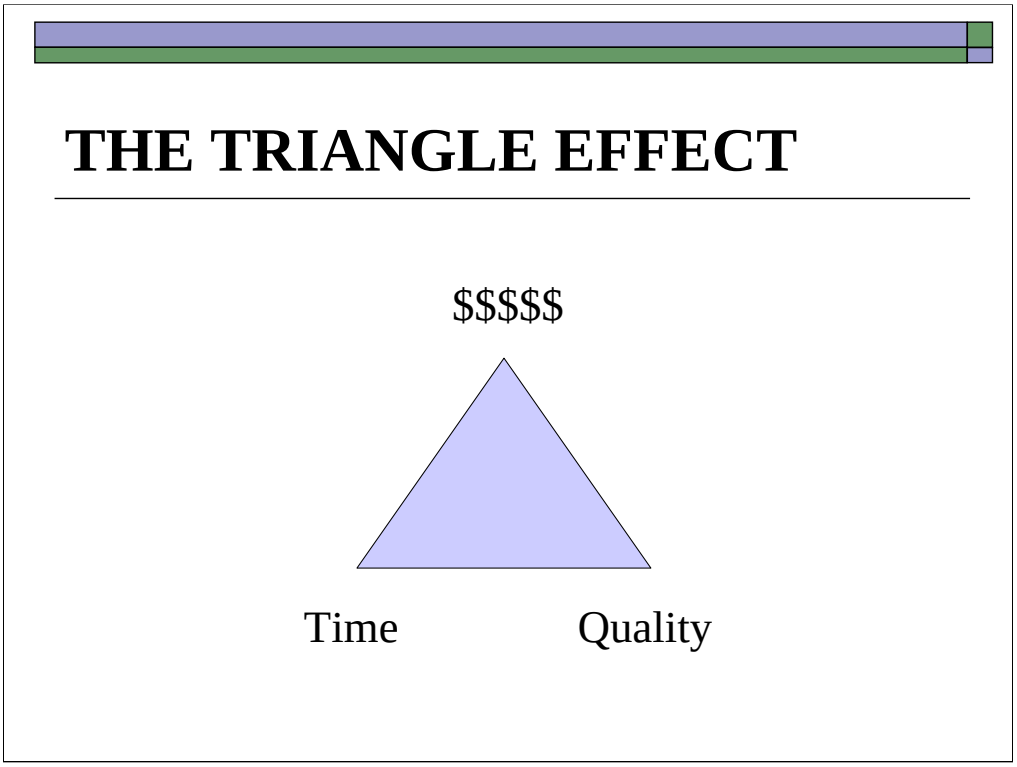
- Initial Planning
  - Keep refining as land and project size are specified
- Design Phase
  - Refine with each architect estimate
- Construction
  - CM/GC do the construction detail
  - Monitor Change Order budget impacts

Now you have the big picture budget. You can begin to make the case for your bond, or to start site selection. But the budgeting process is not yet complete. As more information becomes available that budget can be made more specific. The more that is known, the more exact the budget can become. As each budget component is completed, transfer any remaining funds on the budget worksheet to another phase or to contingency so that you are working with the maximum funds available as you plan and work the project.

Once an architect is on board and begins to have specific project design information, then architect estimates can be provided. If those estimates are provided in the SAB 506 A&B format, then they will be in the same categories as the district budget and can be used to refine the budget. If the district's and the architect's numbers are significantly different, there needs to be a conversation about why. Make sure both documents are including the same items in each category.

Once construction begins, then the schedule of values and other information will be provided by your Construction Manager or General Contractor. The information can be used to keep the budget up to date and to monitor change orders and to pace the use of contingency.

So, the district doesn't have to fill in all the categories on their own! Other professionals come along side to assist in providing increasingly specific budget numbers. But the district is primarily responsible for the first broad brush budget as described in this presentation.



My friend John Bailey, of Lusardi Construction, says there is a triangle effect on every project and I have found it to be true. The points of the triangle are time, dollars, & quality. When one is altered – so are the others. For instance if you give the project a very short timeline it will affect the cost and quite possibly the quality.

When planning a project, the project manager seeks to constrain only one of these. Perhaps even two may be constrained, but if all of them are, the players will have a difficult time adjusting to even minor problems. It may be necessary, but it needs to be understood, in order to deal with the dynamics of managing the job. When every component of a job is cranked down to the lowest possible margin, then it will be a more contentious job.

It is also important to understand these dynamics when budgeting a project. If dollars are constrained, then more time will be needed. If time is constrained, more money will be needed in the budget. And of course if quality is demanded, it can cost both time and money. As the person responsible for budgeting the project understands the constraints of the project, they can more accurately assess the budget requirements.

THE UPSIDE DOWN BUDGET

What if you do the expenditure budget and there are not enough funds to cover it?

Do not just fix the budget –

You have to change the project!

One last thought…people have a tendency to minimize bad information. If you do this budget and it shows you don't have enough funds – DO NOT just go change the budget. Remember the budget is representative of the project and it needs to be realistic. The budget is telling you what kind of shape the project is in and if you modify the budget to avoid bad news without modifying the actual project, you may need to brush up on your resume skills!