

The Star-Ledger

THE NEWSPAPER FOR NEW JERSEY
50 W STATE ST ONE STATE STREET SQUARE
SUITE 116
TRENTON, NEW JERSEY 08608

609-989-0012 voice
609-394-0444 fax
trenton@starledger.com

When New Jersey's \$8.6 billion fund to rebuild public schools ran out of cash five years earlier than expected, The Star-Ledger analyzed whether the money had been spent judiciously. The result, a rigorous comparison of the cost of state-built schools to the cost of schools built at the same time without state involvement, shocked state officials and the general public.

The Star-Ledger determined that the schools built through the state program cost 45 percent more than comparable, non-state school projects -- a finding that has never been challenged. The paper found the state program featured grossly inflated professional fees, uncontrolled change order expenses and conflicts of interest among top program officials and the contractors building the schools. For example, the report identified the chairman of the state Schools Construction Corporation as a lobbyist and political fund-raiser for a major contractor's organization whose members had received \$1 billion in work through the school program.

Change came immediately.

The day after the report was published, the state's Inspector General was dispatched to conduct her own review of the state program. She ordered a suspension of new school contracts, citing evidence of waste.

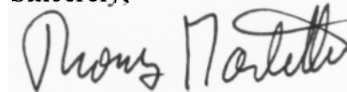
A month later, she published a report that found a wide range of internal weaknesses that make the agency vulnerable to mismanagement, fiscal malfeasance, conflicts of interest and waste, fraud and abuse of taxpayers dollars.

The Corporation's chairman was removed; \$460 million in oversight contracts were cancelled; the corporation hired its first Chief Financial Officer; and a new review process was set up to control change orders.

In addition to the initial report, Dunstan McNichol wrote several follow-up stories detailing serious problems with the corporation's land acquisition program, and how contractors were billing the state for top-of-the-line equipment, including \$15,000 copiers and \$7,200 nationwide cell phone contracts, to stock their construction trailers. Each of the reports has prompted action.

This is a classic case of comprehensive reporting having an impact. State officials, government watchdogs and even candidates for governor publicly credited The Star-Ledger for exposing problems that forced change. The paper's reporting continues to provide the framework for reform at the state agency.

Sincerely,



Thomas Martello
Trenton Bureau Chief



WHY THE BIG DIFFERENCE?

The state agency created to help urban districts design and build schools proves to be a specialist in midproject changes and costly overruns.

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BY DUNSTAN McNICHOL
Star-Ledger Staff

Last fall, with Gov. James E. McGreevey scheduled to make a public appearance there, officials preparing the grand opening of the José Martí Middle School in Union City scrapped their plans to sow grass seeds in the courtyard.

Instead they spent an extra \$7,127 to lay an instant lawn of fresh sod.

The extraordinary effort was wasted when a downpour forced the governor's ceremony indoors. But the expense, and far more costly decisions like it, help explain how a \$6 billion pot of money meant to overhaul New Jersey's "crumbling and obsolescent" city schools is likely to run dry barely midway through the state's largest-ever capital works project.

In September, the state's Schools Construction Corp. announced that funds for the urban building program it oversees would run out in early 2006, five years earlier than expected. Six schools have been built so far, with 32 under construction. By the time the money runs out, the SCC estimates, it will have built about half of the 161 schools that urban districts say they need.

Despite promises of tight management and oversight, the SCC has allowed prices to balloon. A Star-Ledger analysis of school construction in New Jersey since 2002 shows the six urban projects under the SCC have cost, on average, 45 percent more than 19 schools built without the agency's oversight during the same period.

Some of that discrepancy is due to the higher costs of construction in urban areas. But it also is the result of massive cost overruns, layers of bureaucratic oversight and an aversion to saying no to contractors and school administrators, The Star-Ledger analysis found.

"It just became a big grab bag and everyone said, 'We have to get our share.' And they did," said Eugene Keyek, a former schools administrator who, as a member of the state Economic Development Authority, helped oversee the launch of the construction program.

Among The Star-Ledger's findings:

- The SCC has spent more than a half-billion dollars due to cost overruns and change orders on renovations and emergency repairs of aging schools and on new construction. Those expenses -- fully 20 percent of all construction costs -- ranged from unexpected cleanups of toxic soil to requests to repaint walls a different color.
- Construction costs for the six SCC schools averaged \$184 per square foot, compared with \$145 per square foot on the 19 jobs managed by local school districts.
- Architects on SCC projects are paid almost double the industry standard.
- Construction project managers on SCC projects are paid more than three times what some local school districts have paid.
- Jack Kocsis, who sets SCC policy and evaluates construction payments as chairman of the corporation, also serves as executive director and chief fund-raiser for a statewide contractor's organization. Members of that organization have been awarded \$1 billion in SCC work.

The huge price tags on SCC projects are bad news for taxpayers and students alike. The shortage of leftover funds means thousands of children in poor districts from Camden to Paterson who had been promised new schools will continue to be taught in cramped and outmoded classrooms. And taxpayers, already facing debt payments of \$225 million a year on the school bonding, almost certainly will be asked to bankroll billions more to finish the job.

Jack Spencer, the SCC's chief executive officer, contested some of The Star-Ledger's findings.

Spencer said cost comparisons can be misleading because his schools tend to be built in the more expensive and complicated urban communities in the northern part of the state. "Numbers are like little children; you can make them say anything you want them to say," he said during an interview last week in his Trenton office. "There's a story on every project."

But Kocsis said he was surprised by the architect fees, adding the SCC is already planning to scale back the role of construction managers to save money.

"We're reviewing our whole process," Kocsis said. "If there's any issue we need to deal with, we will deal with it."

Some critics say such a review is overdue.

"It's been mismanaged from the get-go," said Jack DeTalvo, a former school superintendent who worked briefly as an SCC project manager. Earlier in his career, before the state program was launched, he oversaw construction of eight buildings in Perth Amboy.

"The state can't run a two-car funeral," he said. "Everyone knows that."

STAFF OF 260The relatively brief history of the SCC is rooted in the 35-year-old legal battle to ensure a quality education for urban children. About 300,000 students attend school in the state's 31 poorest municipalities -- dubbed the "Abbott districts," for a series of state Supreme Court cases bearing the name of a Camden youth.

The court's most significant ruling, in May 1998, ordered a complete overhaul of schools in districts deemed too poor to provide the same quality of education that students were getting elsewhere. Two years later, the Legislature responded with an \$8.6 billion plan: \$6 billion for the urban districts, plus \$2.6 billion for the rest of the state. The state would cover the complete tab for city schools and at least 40 percent in the other areas. To ensure corruption didn't erode the city fund, state officials would oversee those projects from start to finish.

The state's entrance into the school building and financing business touched off a flurry of construction activity.

Flush with new cash and free of bureaucratic oversight, the locally managed suburban programs roared to life. Since 2000, the suburban communities have launched 1,734 school jobs worth \$5.4 billion, consuming almost 80 percent of the state matching funds set aside for them.

The state-run urban program, meanwhile, got bogged down in complications over bidding procedures and contractor qualifications. McGreevey created the SCC by executive order 30 months ago to correct the situation.

Operating out of a building it renovated in Trenton, the SCC has an annual operating budget of about \$40 million and a staff of 260.

Like all SCC expenses, funds for the corporation's staff come from state bond issues, which will be paid off over the next 25 years. Lawmakers authorized the corporation to borrow up to \$8.6 billion, and \$3.4 billion in bonds have been issued so far.

To date, the SCC has spent \$3 billion. That consists of \$881 million in grants to suburban communities, and \$2.2 billion in design, construction and land costs in the Abbott communities.

The corporation issues bonds as it runs short of cash. A \$500 million borrowing is scheduled for next month, and, with \$2 billion slated to be spent this year, more loans will follow quickly.

Even strong supporters of the program concede layers of oversight and few built-in restraints on spending have allowed costs to spiral.

Long Branch Superintendent Joseph Ferraina, whose district will be the beneficiary of five new schools and two major overhauls, says SCC money helped spur a renaissance in his community. But he concedes the state construction process is costly.

"The truth of the matter is there's a lot more red tape and paperwork in Abbott districts, because there's so much oversight," Ferraina said. "When you have more oversight, it costs you more money -- you can't have it both ways."

END OF THE PROTOTYPEThe state program wasn't supposed to work this way.

When the idea for a centralized building agency was hatched in 1998, the administration of Gov. Christie Whitman saw state control as a way to control costs and envisioned a

streamlined and efficient program that would benefit from its massive scale.

At the time, state Treasurer James D'Eleuterio predicted the centralized system would build schools for 26 percent less than individual districts spent.

But a key piece of D'Eleuterio's plan was scrapped almost immediately: Urban superintendents and community activists shouted down his idea to offer a limited choice of standardized school and classroom designs.

"Our concept was, if you want the state to pay for this, the more standardized features you would agree to, the more the state would be willing to pick up," D'Eleuterio said in a recent interview.

The notion of model schools fell so far out of favor that, two years ago, Ferraina, the Long Branch superintendent, was rebuffed when he proposed reusing blueprints from the Anastasia Elementary School for another project in town.

"What I wanted to do was spend less money and get it done faster," he said.

Instead the SCC ordered a new round of architectural bids.

Tomaino & Tomaino -- the architectural firm that designed Anastasia at a cost of \$2.2 million -- was selected again. The firm will design the new school -- modeling it after Anastasia -- for an additional \$1.5 million.

Spencer, a former Port Authority executive who joined the SCC in 2003, said the decision to require fresh designs reflects a commitment by state lawmakers to have the new schools reflect the neighborhoods where they are built.

"These schools are going to be fixtures of the community," he said. "You wanted a school to fit the community."

Critics of the SCC say architectural fees are one reason state-built schools are costing more than those designed locally.

Last year for example, the SCC awarded 43 design contracts, worth an average of 11.3 percent of the value of the planned construction. By contrast, design fees averaged 5.5 percent for the non-Abbott schools built in 2003 and 2004.

Spencer said the higher costs reflect the state requirement that its architects handle responsibilities "cradle to grave."

"They're involved in a project from its earliest beginnings, dealing with a district, managing the outreach and community input and then bringing that project out in the field," he said.

However, invoices and change orders from the six schools completed under the SCC -- a high school in Barnegat, middle schools in Union City and West New York, and elementary schools in Long Branch, Orange and Paterson -- show architects charging extra for some project work.

For instance, in June 2004, Einhorn, Yaffee Prescott, the New York City firm that won a \$1.3 million contract to design the Roberto Clemente Elementary School in Paterson, billed an extra \$4,689.99 to hold three public meetings to discuss a swimming pool at the school. The pool project was later killed.

In Long Branch, when the discovery and removal of contaminated soils delayed work on Anastasia Elementary School by more than a year, Tomaino & Tomaino won approval to bill the state an extra \$12,940 a month to continue monitoring the work. The firm also billed \$2,806.65 for a framed copy of its architectural drawings.

KOCSIS' POSITIONThe architectural premiums paid by SCC come on top of the 9.5 percent, on average, it pays project management firms, which are responsible for overseeing design, construction and billing at each site.

To date, 13 PMFs have been paid \$216 million for completed and ongoing work, records show. At the same time, the SCC has paid \$2 billion for construction work in Abbott communities where the management firms are assigned, meaning management oversight is almost one-tenth of the building program's expenses.

Spencer said the SCC uses private management firms so it doesn't have to hire state workers to monitor the sweeping construction program.

As with architectural fees, the state pays project managers at a higher rate than local school boards.

In Howell, for instance, the firm that managed the district's three-school, \$46 million

construction project was paid \$550,000, a rate of about 1.2 percent.

Clifton paid its construction manager 1.3 percent to manage a \$20 million job, and construction management cost Lumberton a fee of about 3 percent on a \$7.7 million elementary school job.

Kocsis said SCC's project managers have a wider range of responsibilities than traditional construction managers do. And he said the corporation is considering scrapping the managers in favor of a less costly system of assigning construction managers to individual school projects, as local school boards do.

Records also show many of the firms collecting project-management fees have professional and political ties to Kocsis, the unpaid SCC board chairman, who also is executive director of the Building Contractors Association of New Jersey. The trade group's membership includes five of the project management firms and 22 companies that have won SCC work the past two years.

Since 2003, firms handling and seeking SCC work have contributed \$70,000 to the Building Contractors' political action committee, which Kocsis heads.

At the SCC, Kocsis serves on the committee that decides whether to pay change orders processed by the project management firms on behalf of SCC contractors.

During 2004, state records show, Kocsis voted to approve change orders that added \$5.7 million to contracts held by construction firms that had contributed to the builders' political action committee last year.

Kocsis, who declined to reveal the salary he draws from the association, said his dual roles pose no conflict.

"I don't work for any individual contracting firm," said Kocsis. "Quite honestly, I have to be more sensitive to right and wrong, what's appropriate and inappropriate, given my day job."

TURNING POINT Despite the SCC's layers of oversight, the corporation's projects have been plagued by enormous overruns and change orders.

The six completed schools featured \$18 million in change orders, adding about 12 percent to the projects' total cost. The local projects, by contrast, were all completed within budget.

Some of the cost overruns illustrate the SCC's reluctance until recently to reject the wishes of urban superintendents.

In West New York, where Assembly Speaker Albio Sires is mayor and his wife, Adrienne, an assistant superintendent, a new middle school includes \$1.6 million in extras. There was an additional \$50,000 to inlay -- instead of paint -- a school logo and yard markers on a new artificial turf football field, and tens of thousands of dollars for an elaborately designed terrazzo floor in the lobby.

"You come in, it looks like a penthouse or the lobby of a hotel," said Principal Anthony Ferrainolo proudly.

At Main Street Elementary School in Orange, the state paid \$35,000 for changes to a computer room, including moving the terminals to the middle of the room after local officials decided they didn't want the terminals along the walls.

Throughout Orange, the state approved \$1.3 million in extra design costs last year to accommodate a new superintendent's revamped class structure.

In Union City, changes to a science lab cost an additional \$224,362 for new plumbing and piping.

One school official readily conceded he had worked "every angle" to get things paid for by the SCC. Now others worry that, with cost concerns on the rise, the agency is cutting back.

Joan Ponessa of the Education Law Center in Newark, the group that filed the Abbott lawsuit, said some urban school officials are complaining the SCC, in a desperate bid to cut costs, is reducing the size of hallways and storage space.

"The buildings that got off the ground first got a lot different treatment than they do now," she said. "The SCC is now very concerned about money."

Irene L. Sterling, director of the Paterson Education Fund, an advocacy organization, has similar concerns. "At this point, they are scaling things back," she said.

Sterling said a glass tower and circular stairway planned for International High School in Paterson have been scrapped. "Those were the things that makes the building really

beautiful," she said.

Other overruns are clearly a matter of policy decisions that urban advocates argue are reasonable. The state Department of Education, for example, decided the state should pay for the technology in new schools.

In Union City and West New York, the SCC approved a total of \$1.7 million in added costs to pay for the installation of computers and other high-tech equipment. West New York's technology program cost more than \$900,000.

By the time the West New York school opened in the fall, extra features had boosted its cost to \$32.5 million from \$29 million.

Spencer denied the corporation gave any special consideration to West New York because of Sires, who as Assembly speaker controls the SCC's purse strings.

In Long Branch, where the Anastasia School is due to open next month, construction has dragged 13 months beyond schedule, and the total cost has swelled to \$27.2 million from \$17.5 million.

SCC records show the project was hampered by the discovery of contaminated soil in February 2003, just four months into the job.

Over the next 10 months, SCC approved \$2.7 million in extra remediation and site-preparation costs to deal with the hundreds of tons of soil deemed contaminated.

In all, orders have increased the cost of the project by 32.5 percent.

Spencer said problems at Anastasia were unavoidable, and he hopes in the future to have an average of only 7 percent in change orders, a rate he called the industry standard.

"You strive for a perfect design," he said. "The reality is, once you get in the field, there are issues."

Others said the SCC's track record on change orders is troubling.

"That tells me that either the architects didn't do a good job or somewhere along the way someone missed something," said Keyek, the former Economic Development Authority member. "That's poor policy."

Spencer, however, defended every change order, even as he acknowledged some might draw criticism.

"I'm sure there will be items that can be looked at that way," he said. "There's no question that when you're designing and constructing 2,500 schools across the state, someone can always come back as a Monday morning quarterback and say, 'That was not appropriate.'"

Staff writers Steve Chambers and John Mooney contributed to this report.