



MANAGEMENT ANALYSIS & PLANNING, INC

## WYOMING EDUCATION FINANCE

# Modifying the Maintenance and Operations Adjustment to Comply with the Ruling of the Wyoming Supreme Court

Submitted to  
Wyoming State Legislature

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January 15, 2002

## **Modifying the Maintenance and Operations Adjustment to Comply with the Ruling of the Wyoming Supreme Court**

### **Background**

The Wyoming Supreme Court held in its February, 2001 ruling that the cost of routine maintenance and operation, including utility cost, must be determined by either:

- 1) A formula that uses enrollment measured by ADM, building square footage, and number of buildings in the district; or
- 2) Full reimbursement of actual costs, subject to state oversight.

MAP has determined that the first option, which provides incentives for schools to operate as efficiently as possible, is distinctly preferable.

### **MGT of America Recommendations**

For routine maintenance and operations, the original MAP model (1997) used costs per ADM. Recognizing that a more accurate measure should be developed, MAP called for a study of a multi-factor formula that could include additional factors such as square footage. MAP also recommended that districts more carefully distinguish routine maintenance from capital construction or major maintenance (which would be funded from formulas not included in the MAP model). Pursuant to this recommendation, the Legislative Services Office contracted with MGT of America to develop a more accurate formula for routine maintenance and operation. MGT completed its analysis in fall 1999 and recommended the adoption of a new funding formula. The Legislature, however, did not enact the recommended provisions.

In its review of school district cost data, MGT examined the interrelation of several factors, including building age, building condition, and expenditures for routine maintenance. MGT concluded that there was no connection between building age and building condition, nor between building age and routine maintenance expenditures. MGT did find a strong positive relationship between routine maintenance expenditures and square footage, however. MGT also found that student enrollment (as measured by ADM) affects routine maintenance and should be included in any formula. A key advantage of including ADM in any formula is that it provides an incentive to utilize existing facilities more efficiently and discourages districts from retaining excess capacity. Accordingly, MGT's proposed recommendations included:

- 1) Full funding per square foot for space as necessary to meet state standards for utilization;
- 2) Reduced funding per square foot beyond the standards for utilization; and
- 3) Increased funding per square foot for space utilized below state standards.

In the model developed by MGT, district education square footage that didn't exceed state standards by more than 15% would be funded at the full formula value. From 115% to 200% of

the state standards, districts would receive a diminishing amount. Districts would not be reimbursed for any capacity exceeding 200% of the state standard. The declining scale reflects the fact that space in excess of state standards is used less intensively and normally receives less wear and tear. Eliminating support at 200% of capacity is consistent with the legislature's cutoff for major maintenance funding.

MGT pointed out that districts with less space than the state standard should receive allocations based on a higher amount per square foot than the base, since that space is more intensively utilized.

The above standards all refer to "education" space. Additional facility space necessary for normal school district operations (bus barns, administration buildings, storage facilities, etc.) should also be included in the formula. MGT recommended that the general rule that applies to major maintenance—full formula allowance up to 10% of the education guideline—be modified slightly so that the formula represents the greater of 10% of the actual education space or 10% of the state standard for education space. The goal is to avoid penalizing districts that have little non-education space. Non-education space beyond the 10% criterion (but not to exceed 20%)<sup>1</sup> is funded in a declining amount per square foot, similar to the formula for education space.

MGT's study was limited to routine maintenance expenditures and did not include major maintenance or repair (replacing a roof or a boiler, for example), utilities, or grounds maintenance (except a portion of custodial salaries for occasional grounds work). In Wyoming, major maintenance is a separate category funded by an entirely different formula. MGT found that in the original MAP model approximately 5% of the expenditures reported as routine maintenance and operations were misclassified and should have been characterized as major maintenance and funded from the separate formula for that purpose.

MGT determined that \$2.30 per square foot, in 1998-99 dollars, was the appropriate figure to use to fund maintenance costs at or near state standards. MGT recommended that the figure be adjusted downward to \$2.15 to reflect the fact that the model components were based on 1996-97 cost data.

Further, in its work with a sample of 20 districts, examining data over a three year period, MGT found that of the remaining 95% of M&O category expenditures, 70% was consistently and appropriately classified as "routine maintenance." Expenditures for utilities and grounds maintenance and other M&O expenditures not covered in the definition of "routine maintenance" were determined to be 30% of the total M&O budget.

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<sup>1</sup> This limit is consistent with the limit calculated in the education square footage portion of the recommendations, i.e. 20% is 200% of 10%.

### **Interaction with the MAP Model**

The existing MAP model provides for maintenance and operations in two ways. First, a line item for M&O is included in the district portion of the model. Consistent with the rest of the model, there are separate dollar amounts for elementary, middle, and high schools. In addition, custodial salaries and benefits are included in each prototype, again with different allocations for each of the three levels of schooling. Taken together, these two provisions capture all M&O costs. However, several steps are necessary to incorporate the MGT formula into the MAP model.

The first is to remove from M&O funding all funds for major maintenance, since that category is covered elsewhere by a separate formula. The remaining funds are the amounts appropriately allocated for this purpose in the current model.

Second, determine the total M&O allocation by adding the line item allocation in the district portion of the prototype to the amount allocated for custodial salaries and benefits in the school site portion of the appropriate prototype.

Third, divide M&O funds into two categories: (1) routine maintenance (70%) and (2) other operations including grounds maintenance, utilities, and the like (30%). The MGT formula applies only to routine maintenance which is 70% of the total MAP M&O allocation; the other 30% is unaffected by the MGT formula. In effect the 70% in the current prototype is pulled out of the model to be replaced by the new routine maintenance formula. The remaining 30% stays in the formula since this amount represents actual costs for non-routine maintenance purposes.

Fourth, in order to determine the appropriate overall dollar amount for each school, use the MGT formula<sup>2</sup> to compute a district-by-district total for routine maintenance by level (K-5, 6-8, 9-12). This amount will replace the amount that equals 70% of the total M&O allocation determined under the MAP formula.

In summary, “operations and other” has been determined by MGT to be 30% of the total M&O expenditures. That amount per school will remain unchanged and still will be distributed as under the current MAP model. “Routine maintenance” will be distributed based on a district-by-district formula, and will differ by district depending on its configuration. The remainder will be a separate M&O line item for districts consisting of two parts: (1) “operations and other” funded consistent with the current MAP prototypes (uniform for all levels of school) and (2) “routine maintenance” funded according to the MGT formula (which varies by district).

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<sup>2</sup> MGT of America Inc., *Routine Maintenance Funding Formula for State of Wyoming Public School*, MGT of America, October 1999. See Appendix C of the November 1999 addendum for method of calculating routine maintenance allocation per school.

## **Necessary Adjustments**

### **Inflation**

While MAP supports the MGT findings, some updates are required. First, the \$2.15 figure must be updated to reflect inflation since the base year of 1996-97. Ideally, the adjustment method would be easy to administer while accurately portraying cost changes. MAP looked carefully at the following two options:

1. MGT recommended that the State use the nationally known Whitestone Maintenance and Repair Index to arrive at an appropriate inflation adjustment.
2. The current operation of the model provides that M&O will be adjusted in accordance with the rest of the model. That is, if the Legislature decides on a 10% increase in funding per ADM, that 10% would be applicable to all the components of the model, including the square footage allotment for M&O.

The Whitestone Maintenance and Repair Index examines costs for maintenance and repair, including labor costs, of a variety of building types (businesses, schools, residences, and military facilities), for a variety of tasks (preventive maintenance, minor repair, unscheduled maintenance, etc.), reported by region (Cheyenne is Wyoming's sole region). The Whitestone index for non-residential buildings—the category that most closely represents schools—shows an average index change of 2.3% per year over the last 10 years, or about .4% per year less than the Consumer Price Index over the same period. As Whitestone candidly reports, “Ideally, the accuracy of Whitestone estimates could be measured by direct comparison with Maintenance and Repair costs. Unfortunately, we have not found actual cost data that is comparable in detail and definition.” In addition, their estimates include heavily weighted labor costs, which are included in the MAP prototype under personnel costs, not maintenance and operations. Finally, the focus of Whitestone's work was on maintenance and repair and not on operations<sup>3</sup>. While the Whitestone index has many useful qualities, it would be neither simple nor accurate enough to effectively estimate the costs of maintaining and operating schools in Wyoming.

The current formula inflates each component in the model by a factor determined on a regular basis by the Legislature. As long as the Legislature regularly and appropriately adjusts the overall formula for inflation, MAP finds the current proposed inflation adjustment, the Wyoming Cost of Living Index, appropriate. It is simple, understandable, and easy to administer. The development of a more precise index solely to measure change in maintenance and operations would not justify its cost. Utilizing the WCLI, the rate of increase since the base year (1996-97) is .132875. Applying that increase to the \$2.15 figure generates a new allowance of \$2.44 per square foot.

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<sup>3</sup> *The Whitestone Building and Repair Cost Reference*, 2001, Sixth Annual Edition.

### **Allowable Space**

Secondly, since the MGT report was written, the Department of Education has altered the State building standards. The M&O formula should, of course, reflect the new state building standards adopted by the Department, with some modification.

MGT makes the case that the formula should fully fund schools that are not grossly exceeding state standards (up to 115%). MAP recommends that because of the double impact of declining enrollment and the adoption of new standards, schools should be fully funded at up to 125% of the standards during a five-year transition period.

MGT has been retained by the LSO to review state square footage construction standards, especially for smaller schools. The M&O formula should be updated to reflect any changes made to the state standards for allowable square footage. As a general rule, M&O standards should be consistent with construction standards.

### **Utilities Costs**

One component of the “operations and other” category of M&O is utility costs.<sup>4</sup> Several districts have suggested that utilities be funded separately on a full cost reimbursement basis. MAP recommends against this for three reasons. First, except for very small districts, utilities represent a relatively small percentage of a district’s total expenditure. While utility costs may vary, the overall impact on the formula of any change is almost always small. Second, adding another category, especially a small one, needlessly complicates an already intricate formula. Third, and most importantly, fully reimbursing utilities would remove an important incentive for districts to save money. One of the model’s key benefits is that it encourages efficient operation so that money saved can be used in higher-priority parts of the budget.

MAP recognizes the volatility of the utilities market. Capable district administrators plan for such volatility, which partially explains the very large surpluses in district budgets. MAP recommends that the State set aside a small percentage of total estimated utility costs in a contingency fund to be used in cases of extreme hardship—when the change is great and unexpected and cannot be covered by existing reserves.

### **Summary**

The basic recommendations made by MGT in 1999 remain sound today. The routine maintenance formula MGT recommends does what the Court requires, taking into account the number of schools, ADM and square footage. The current MAP allocation for routine maintenance within the Maintenance and Operations category should be replaced by the MGT formula. The approach, while recognizing the different costs associated with different conditions, maintains a strong incentive to operate efficiently.

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<sup>4</sup> Except for small districts. Because utilities represent a larger portion of small districts’ budgets, such districts are currently eligible for full reimbursement of utilities costs.

Minor adjustments should be made to update MGT's formula. First, the \$2.15 per square foot figure, appropriate for 1996-97, must be adjusted for inflation. Using the WCLI, the new allocation would be \$2.44 per square foot. Also, in the time since the report's issuance, the Department of Education has altered the state's building standards. Those new standards must replace the building standards cited in the original report. When the building standards are amended, the M&O standards should be updated accordingly.

MAP does not recommend any change in the "operations and other" portion of the MAP formula beyond the overall re-costing of the model. The Legislature may wish to consider establishing a small fund set aside to deal with unusual instances of utility cost increases that would seriously jeopardize a school's operation in any given year.

MAP does not recommend that utility costs be fully reimbursed by the State.

Finally, MAP recommends that the Department of Education develop and implement ongoing training programs to help districts contain energy costs. Such programs have been adopted by many school districts in other states, resulting in significant reductions in energy costs.