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SAN DIEGO UNIFIED SCHOOL DISTRICT
INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE
ANNUAL REPORT 2010

Dear Taxpayers,

Prop. S is now in its second year. The \$2.1 billion bond measure, approved by San Diego voters in 2008, provides the resources to repair, renovate, and revitalize 181 neighborhood schools and, with the help of state matching funds, construct classrooms and schools to accommodate enrollment growth in the Miramar and downtown areas.

State law requires the establishment of an independent citizens' oversight committee to oversee bond programs. As Chair of the ICOC, it is my pleasure to present the ICOC 2010 Annual Report, covering the Prop. S work done last year. Additional Prop. S information is available at the district website (www.sandi.net/props) and the ICOC website (www.sandi.net/props/icoc).

This year, the Board of Education wrestled with difficult financial decisions. We reported last year that declining property values would require the Prop. S bonds to issue over a longer period of time to assure that property tax rates not exceed promised amounts. As a consequence, we expected to be unable to complete all the work items listed in the Prop. S ballot. Trying to take advantage of lower construction costs, the Board opted to increase the 2010 Prop S. bond sales by \$100M. At the same time, since state law authorized it, the Board opted to issue 40-versus 25-year bond. Since the total cost to the taxpayer is far greater for 40-year bonds versus 25-year bonds, the Board is planning carefully for the 2011 strategy. The ICOC will review, and comment on this strategy carefully since Prop. S bond proceeds are 100% financed.

The continued priorities of the Board are to take advantage of projects that qualify for state funds, critically-needed renovations, and the implementation of the i21 program (which puts 21st century technology into every classroom). The ICOC is concerned that the emphasis on changing technology is overshadowing the need for major repair and replacement work called for in the bond, and will monitor the situation.

I would like to welcome our newest ICOC members, Jaime Barton, Andrew Berg, John Daley, and Brian Pollard, and recognize the service of departing members, Gregg Cantor, Glenn Hillegas, Daniel Morales, and John Stump. My fellow ICOC volunteers and I take our duties and responsibilities for independent oversight and reporting of Prop. S implementation seriously. In the coming year, the ICOC will work to ensure that Prop. S is focused on achieving the objectives promised to San Diego voters in an efficient manner.

Sincerely,
/Gil Johnson/
Gil Johnson
Chair

PROP. S

REPAIR, RENOVATE, & REVITALIZE OUR SCHOOLS

2010 HIGHLIGHTS

2010 marked the second year of the Prop. S bond program to repair, renovate, and revitalize schools within the San Diego Unified School District. The District implemented the priorities set by the Board of Education last year: providing 21st century technology in all District classrooms over the course of five years; taking advantage of state matching funds by focusing on Career Technical Education (CTE) projects and Overcrowded Relief Grant (ORG) classrooms; and prioritizing critically needed renovation projects at the school sites. Highlights from 2010 include:

- i21 technology suites were installed in nearly 1240 classrooms; for the first-year i21 schedule, 1226 of 1309 classrooms are 100% complete; for the second-year schedule, 1143 of 1240 classrooms are partly complete (see Project Status inside for more information)
- Five Career Technical Education projects were completed, funded in part by state Prop. 1-D CTE grants; five more are under construction
- Heating, ventilation, and air-conditioning (HVAC) upgrades at Ellen Browning Scripps Elementary School and Americans with Disabilities Act (ADA) ramp upgrades at Muirlands Middle School were completed
- A revitalized track and field complex was built at San Diego High School
- In addition to the completed two-story classroom-building at Hoover High School, two new projects to replace temporary classroom buildings were started, funded in part by state Prop 1-D ORG funds

2011 EXPECTATIONS

The pace of construction work will accelerate in 2011. A Five-Year Look Ahead schedule of projects is provided inside. Below is a summary of work expected to be initiated in 2011:

- HVAC and building improvements at six schools
- Third year of i21 program: i21 technology suites to be installed in 890 additional classrooms
- Data Center at Serra High School and an Information Technology Academy at Hoover High School will begin construction
- Improve second-floor exiting at Chavez, Jefferson, and Rosa Parks Elementary Schools
- New marquees at Angier, Lafayette, and Rodriguez Elementary Schools
- Power & Energy Building at Scripps Ranch High School
- New Building and Modernization at the Creative Performing Media Arts (CPMA)

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FINANCIAL STATUS

Prop. S has been significantly impacted by economic conditions. Prop. S was expected to generate \$2.1 billion in bonds over a 10-year period. Due to a decrease in assessed property values within the District's boundaries, bond issuances will need to be spread over a longer period in order to maintain promised tax rates.

In August 2010, the District issued \$200 million in Prop. S general obligation bonds with 40-year maturities; this was the second bond issue. The first issuance of bonds had 25-year maturities. At the July 2010 Board meeting that authorized the issuance of 40-year bonds, the District's bond advisor, Mark Young, gave a verbal presentation. He did not provide a cost/benefit analysis or recommendation, but did assure the Board that this bond structure — this early in the program — would not extend the debt service period and would not commit the District to use 40-year bonds in the future.

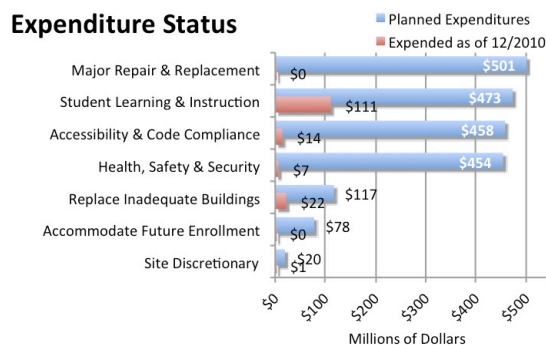
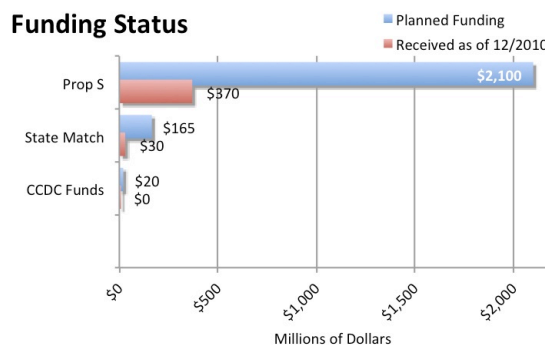
In October 2010, Mr. Young provided an analysis to the Board and the ICOC that included opposing scenarios of using 25-year maturity and 40-year maturity bonds for all future bond issuances. It was originally expected that Prop. S would be completed in 14 years and that each dollar of Prop. S funds would cost taxpayers \$2.80 paid off over 35 years. Mr. Young's presentation projected that each dollar will cost taxpayers between \$4.10 and \$5.80 paid off over 44 years to 50 years.

No cost/benefit analysis comparing an accelerated construction schedule enabled by 40-year bonds against the added future cost of 40-year bonds was provided. Refer to "Bond Accountability" later in this report for auditor and ICOC recommendations to perform this type of an analysis for future bond issues.

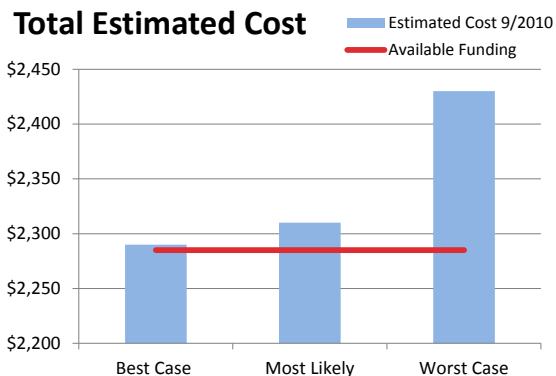
As of the end of 2010, a total of \$382 million has been received from Prop. S bond issuances and state grants. To date, a total of \$150 million has been spent on Prop. S projects.

[Funding Status Chart]

[Expenditure Status Chart]



The Prop. S management team maintains a risk-adjusted cost estimate to complete all Prop. S listed work. Estimates as of the end of 2010 are depicted on the right. They continue to predict there will not be enough funding available to complete all the projects listed in Prop. S.



PROJECT STATUS

During 2010, twenty-two construction projects valued at nearly \$61 million were underway at thirteen school sites. Included are projects receiving Career Technical Education (CTE) funds and new classrooms built using Overcrowded Relief Grants (ORG) from the state. The five-year program to put 21st Century technology into all District schools entered its second year, with the i21 program installing white boards, DVD players, wireless networking, and voice amplification systems in nearly 1240 classrooms. However, netbooks planned for second-year distribution have yet to be supplied to classrooms.

The decision by the Board to issue longer-term bonds has accelerated the schedule of projects. The Five-Year Look Ahead on the right reflects this, particularly in whole site modernization projects. The District expects to begin six more modernization projects in the next four years than reported in the 2009 Annual Report, plus thirteen more in 2015.

Construction project schedules continue to be driven by critical building code and safety concerns, and by projects that bring in funding to supplement available Prop. S funds.

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COMPLETED PROJECTS

Hoover HS Classroom
Culinary Program at Garfield HS, San Diego HS
Ellen Browning Scripps ES HVAC
Kearny HS Construction Tech Academy
Madison HS Automotive Program
Mission Bay HS Café School Store
Multi-Media Studio at San Diego HS
Muirlands MS ADA Ramp Upgrade & Synthetic Baseball Field
Point Loma HS Music Room
San Diego HS Business Management
Track & Field at Mira Mesa HS, Morse HS, San Diego HS

PROJECTS IN PROCESS

Alternative Learning for Behavior & Attitude Classroom Conversion
Chiller at Cherokee Point, Ibarra ES
Clairemont High School Autoshop
Classrooms at Point Loma HS, San Diego HS
i21 Suite for Classrooms 1st Year
i21 Suite for Classrooms 2nd Year
Infrastructure/Connectivity at 76 sites
Jefferson ES Playground Expansion/Child Development Center
Hoover HS Green Workshops

Madison HS Automotive Program, Multi-Media Program
Morse HS Autobody Program, Morse Culinary Program
Stadium Upgrades at Madison HS, Morse HS

FIVE-YEAR LOOK AHEAD

(planned project starts)

SPRING 2011

Bayview Terrace ES Office Enlargement
Hoover HS Sports Facility Upgrade
i21 Suite for Classrooms 3rd Year
New Marquee at Angier ES, Lafayette ES, Rodriguez ES
Normal Heights ES HVAC
Scripps Ranch HS Power & Energy Building
Sessions ES Parking Lot Upgrades

FALL 2011

2nd Floor Occupancy at Chavez ES, Jefferson ES, Rosa Parks ES
Creative Performing Media Arts (CPMA) New Building & Modernization
Hoover HS Academy of Information Technology
Marshall ES Student Drop-off
Mead ES HVAC
Serra HS Data Center

SPRING 2012

2nd Floor Occupancy at Balboa ES, Boone ES, Marshall ES, Washington ES
Alternative Learning for Behavior & Attitude at North Park Phz. 3
Clairemont HS Business Academy
Henry HS Production Studios Program & Theater
i21 Suite for Classrooms 4th Year
Millennial Tech Phase V Bus Turnaround
Mira Mesa HS Broadcast Journalism
Modernization at Bell MS, Knox ES, Morse HS
Morse HS New Building
Point Loma HS Football Stadium Improvements
School of Creative and Performing Arts Live Broadcast Facility

FALL 2012

Euclid ES New Classroom
Marston MS Woodshop Ventilation
Millennial Tech Phase IV New Building
Modernization at Chollas ES, Clairemont HS, Hoover HS, Memorial Academy,
O'Farrell Community School
University City HS Stadium Improvements, Track & Field

SPRING 2013

Gompers MS Charter Project
Henry HS Stadium/Sports Facility Improvements
i21 Suite for Classrooms Final Year

Modernization at Audubon ES, Balboa ES, Emerson/Bandini ES, Encanto ES,
Hamilton ES, Millennial Tech, New Dawn/Riley, Pershing MS
New Classroom at Encanto ES, Language Academy, Serra HS

FALL 2013

Modernization at Longfellow ES, Madison HS, Mann MS, Montgomery MS, Muirlands
MS, University City HS
Stadium Improvements at Mira Mesa HS, Mission Bay HS
Track & Field at Kearny HS, Mission Bay HS
Zamorano ES New Classroom

SPRING 2014

Kearny HS Stadium Improvements

FALL 2014

Henry HS Modernization

SPRING 2015

Modernization at Baker ES, Clark MS, Crawford HS, Kearny HS, Mira Mesa HS,
Mission Bay HS, Scripps Ranch HS, Serra HS
Serra HS Track & Field

FALL 2015

Modernization at La Jolla HS, Lee ES, Point Loma HS, Wangenheim MS, Whitman ES
Point Loma HS Track & Field

ES: elementary school

MS: middle school

HS: high school

ADA: Americans with Disabilities Act

HVAC: heating, ventilation and air-conditioning

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PROP. S BOND ACCOUNTABILITY

Independent auditor, Christy White Accountancy Corp., completed a performance audit and a financial audit of Prop. S for the fiscal year ending June 30, 2010. The auditor reported that all work was done per standards set by the United States Comptroller General. The two audit reports were reviewed by the ICOC in February, 2011. The ICOC audit review comments were forward to the Board in the below letter..



Independent Citizens' Oversight Committee
Office of the ICOC Support Coordinator
858.637.3609
Fax: 858.573.5876
icoc@sandi.net

February 14, 2011

Honorable Richard Barrera and Honorable Board of Education
San Diego Unified School District
4100 Normal Street, Room 2231
San Diego, CA 92103

Subject: Proposition S 2010 Annual Performance Audit and Financial Audit

Dear Honorable President Barrera and Members of the Board of Education:

Proposition S was passed under the provisions of Proposition 39, which requires both an independent annual performance audit and financial audit. Proposition 39 provides for receipt and review of those audits by your Independent Citizens Oversight Committee (ICOC). This is the report of the review of the audits covering the period July 1, 2009 through June 30, 2010.

On February 7, 2011, the District's auditors, Christy White Accountancy Corporation, presented the final audits to the ICOC Audit subcommittee. The auditors did not identify any loss of public funds, misappropriations or defalcations. There were audit findings that identified opportunities for improvement. The auditors concluded that Prop. S complies with the requirements of Proposition 39 and District financial statements fairly represent the bond proceeds' financial position.

On February 10, 2011, the full ICOC received the audits, at a special meeting. A special meeting of the ICOC was required because these audits were prepared after the scheduled and outside the processes previously recommended by the ICOC, following last year's audits. Based on review and analysis of both audits, the ICOC makes the following recommendations:

- a) Future financial audits should not be limited to the "net construction proceeds" of the general obligation bonds issued by the District. Audits should include the costs of sale and issuing the bonds. The audit should cover the whole program. A net worth statement and a more detailed examination of interfund transfers should be provided.
- b) Future performance audits should include an analysis of the recurring cost and replacement plans maintaining or replacing the facilities and equipment purchased with bond financing. The purpose of the analysis is to assess the adequacy of these recurring funding plans and sources. The ICOC has raised concerns regarding the District's ability to maintain facilities and technology equipment funded by limited one time Bond financing. Additionally, the ICOC is concerned if 40-year bond financing is continued for equipment with a useful life of five years or less.
- c) The District should adopt the auditor's recommendation to engage an independent financial advisor to provide a second opinion on the expected financing costs of the Prop. S (Prop. S 2010 Performance Audit, page 20). An independent unbiased conflict free opinion should include a cost/benefit analysis of the proposed structuring of future bond issues based on the total long term costs to taxpayers and the limitations on total bonding capacity.
- d) The District should adopt the auditor's recommendation to engage an internal auditor for the Prop. S program, funded from Prop. S funds. (Prop. S 2010 Financial Audit, page 27; 2010 SDUSD Performance Audit, page 19).

On behalf of the members of the ICOC, we thank the Board for this opportunity to serve our community.

Respectfully Submitted,

Gil Johnson,
Chair of the ICOC

FACILITIES PLANNING & CONSTRUCTION: 4860 Ruffner Street, Room 3, San Diego, CA 92111: www.sandi.net

THE BOND AUDITS AND THE ICOC'S REVIEW ARE ON THE ICOC WEBSITE:
www.sandi.net/props/icoc/.

DEFERRED MAINTENANCE

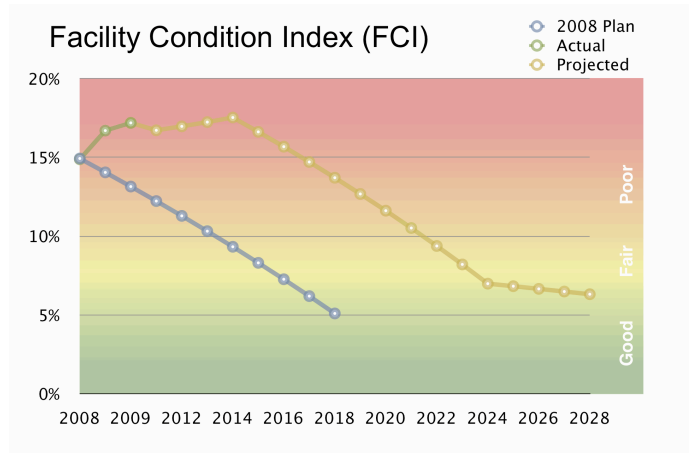
The ICOC conducted a comprehensive review of the District's Major Repair and Replacement (MRR) Plan for 2011. Prop. S has earmarked \$501 million in MRR work to improve the condition of schools across the District.

District Physical Plant and Operations (PPO) Facility office maintains a record of the Condition Index (FCI). The FCI is a meaningful measurement of the condition of existing school facilities. It is calculated by dividing the cost of needed repair and maintenance work by a facility's replacement value and shown as a percentage. The lower the percentage is the better the condition of facilities.

The FCI chart to the right tracks the impact of MRR work planned to be done using Prop. S funds. Planned Prop. S MRR work is designed to improve the condition of schools so that an FCI between 5% and 7% is achieved, which is considered to be a good condition.

As shown the chart, the plan in 2008 was to do this work over the ten-year life of the bond program as originally planned. However, priority decisions pushed the start of Prop. S MRR work back nearly five years and financial realities forced the District to extend it from a ten-year to a fifteen-year plan.

The decision to issue \$200 million in bonds in 2010 accelerated construction work and has moved up several whole site modernization projects, which address MRR issues head on. The first of these beginning in 2012, two years earlier than reflected above. To date, no significant Prop. S funded MRR work has started. FOR MORE INFORMATION, SEE THE ICOC MRR REVIEW ON THE ICOC WEBSITE: [www/sandi.net/props/icoc/](http://www.sandi.net/props/icoc/).



ICOC OVERSIGHT

The Independent Citizens' Oversight Committee is the legally required committee to actively review the proper expenditure of Prop. S funds and to regularly inform the public and the Board concerning Prop. S expenditures. All ICOC meetings are publicly noticed and open to the public.

The ICOC is comprised of eleven volunteers appointed by the Board of Education. The ICOC has established five subcommittees to carry out oversight activities. ICOC members walk construction sites, review planning and financial status reports, and examine audit reports to verify the District is using bond dollars effectively, responsibly, and in compliance with the Prop. S ballot language.

Visit the ICOC website at www.sandi.net/props/icoc for more information.

ICOC MEMBERS

Kevin Alvin
Gregg Cantor
John Gordon
Glen Hillegas
Gil Johnson
Daniel Morales

Leonard Pinson
Kim Schoettle
Matt Spathas
Deanna Spehn
John Stump

ICOC CONTACTS

Phone: 858-637-3609

Email: icoc@sandi.net

Web: www.sandi.net/props/icoc

ICOC meetings are open to the public and held at 4:00 p.m. on the third Thursday of the month at the Eugene Brucker Education Center auditorium, 4100 Normal Street, San Diego, California, 92103 unless otherwise noted. See website for the schedule and location of ICOC Subcommittee meetings.