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San Diego Unified School District
Independent Citizens' Oversight Committee
Annual Report 2011

Dear Taxpayers,

[letter from chair – write this last]

Sincerely,
Chair

Proposition S: Repair, Renovate, & Revitalize Our Schools - 2011 Highlights

Last year marked the third year of the Prop. S bond program to repair, renovate and revitalize schools within the San Diego Unified School District. During the year there were construction projects on xxx school campuses totaling over \$150 million in construction value. In addition, design work was underway at another xxx school campuses.

- i21 technology suites were installed in x,xxx classrooms bringing the total of classrooms equipped with i21 suites to xxxxx, xx% of all classrooms
- xx new classrooms were constructed at xx schools to replace existing classrooms deemed to be inadequate. The work was funded in part by state grants to relieve school overcrowding
- xx schools received air conditioning for the first time.
- New technical career classrooms were added to expand career and college preparatory educational programs in a variety of business fields including multimedia, automotive and construction
- xx schools received stadium upgrades including new tracks, new artificial turf, new concession stands and toilets and providing full Americans With Disabilities Access (ADA)

The Board of Education voted to accelerate numerous projects and more projects than planned were completed. However, a number of other projects were delayed due to design and funding issues.

2012 Expectations

The bonds authorized by voters by Prop. S will be issued at a much slower pace than originally planned due to depressed assessed property values and low projected property tax revenues. [2012 impact of Board decisions expected in early December should be noted here]

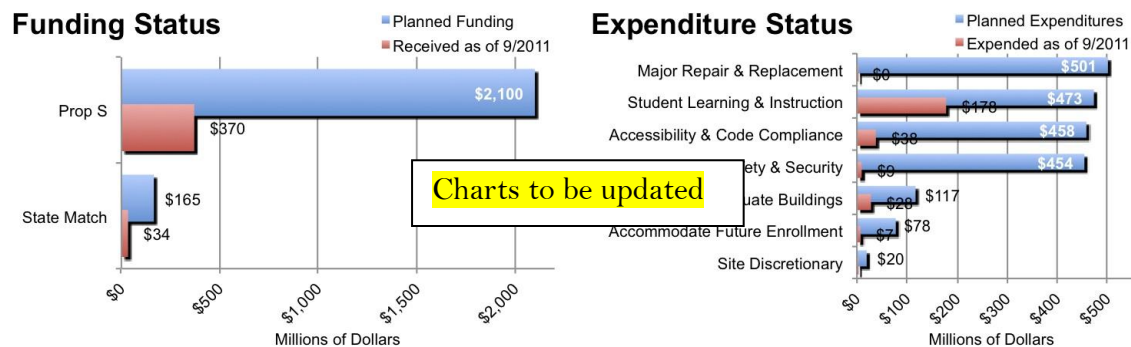
- i21 suites are scheduled to be installed in an additional x,xxx classrooms in year 4 of the 5-year program bringing the total number of classrooms with i21 installed to xxxx
- re-programming of projects based on a slower pace of bond issuances
- [Summary of 2012 projects if possible]

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Financial Status

As of December 2011, a total of \$413 million in Prop. S bonds revenues and state grants have been received. With expenditures totaling \$XXX million and \$XXX million committed to construction, design, planning, and management, there is \$XX in unobligated funding.



The Prop. S program has been, and will continue to be, impacted by current economic conditions. Prop. S committed to not raising property taxes above the current rate of \$66.70 per \$100,000 of property valuation. School property taxes pay for outstanding Prop. MM and Prop. S bonds. The Prop. MM bonds should be paid off by 2029. Historically, property values increase over time and Prop. S was based on conservative assumptions that property values would continue to rise. However, during 2009, 2010, and 2011 property values decreased, which means that tax revenues will not be sufficient to cover debt service payments on any additional Prop. S bonds unless the existing bond debt is refinanced to lower the current annual payments. [Additional narrative to be added as appropriate based on December Board presentations and resulting actions]

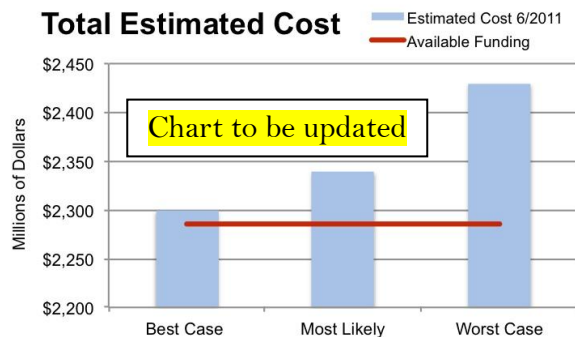
Project Status

The 2010 Board of Education decision to issue \$200 million in Prop. S bonds resulted in a significant increase in the amount of Prop. S work that could be funded during 2011. Completed work included new facilities at xx schools in addition to i21st technology suites installed in x,xxx classrooms during the 3rd year of the program. The 5-year i21 program is installing interactive smart boards, DVD players, wireless networking and voice amplification systems in all District classrooms and will provide netbooks for use by every teacher and student.

While the cost of construction remains at an historical low, even after modest increases in the last year, projects will be affected by the decrease in property values that has resulted in significantly decreased revenues resulting in a slow down in completing projects on the original Prop. S project list provided to voters in November

2008. Doing less work now, when construction costs are at an historic low, and doing more work later after construction costs increase will significantly increase Prop. S costs.

The District's Prop. S management team maintains a risk-adjusted cost projection to complete all listed Prop. S work referred to as the Total Indicated Cost or TIC. The TIC projects that there will be a \$20 million to \$240 million funding shortfall in completing all work originally provided to voters in November 2008, plus projects added by the Board of Education since then. At this point, it is difficult to determine exactly how much of the work listed Prop. S projects will be completed.



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Completed Projects

Hoover High School Classroom
 Culinary Program at Garfield High School & San Diego High School
 Ellen Browning Scripps Elementary School Heating, Ventilation and Air Conditioning
 Kearny High School Construction Tech Academy
 Madison High School Automotive
 Mission Bay High School Café School Store
 Multi-Media Studio at San Diego High School
 Muirlands Middle School ADA Ramp Upgrade & Synthetic Turf Baseball Field
 Point Loma High School Music Room
 San Diego High School Business Management & OW [what is OW????]
 Track & Field complexes at Mira Mesa High, Morse High, and San Diego High

Projects in Process

ALBA School Classroom Conversion
 Chiller at Cherokee Point and Ibarra Elementary Schools
 Clairemont High School Autoshop
 Classrooms at Point Loma and San Diego High Schools
 i21 Suite for Classrooms
 Infrastructure/Connectivity at 76 sites
 Jefferson Elementary School Playground Expansion/Child Development Center
 Hoover High School Green Workshops
 Madison High School Automotive Program and Multi-Media Program
 Morse High School Auto Body and Morse Culinary Programs
 Stadium Upgrades at Madison and Morse High Schools

Five-Year Look Ahead

[review with staff to determine if reasonable list given expected changes]

2012

2nd Floor Occupancy at the following elementary schools: Balboa, Boone, Chavez, Jefferson, Marshall, Miramar Ranch, Rosa Parks, Vista Grande and Washington
ALBA at North Park Phase 3
Clairemont High School Business Academy
i21 Suites for 4th Year Classrooms 4th Year and New Data Center at Serra High
Mira Mesa High School Broadcast Journalism and Screen Printing & Computerized Graphic Design
Modernization at Bell Middle School, Chollas Elementary School, Creative & Performing Media Arts, Knox Elementary School, Memorial & King Chavez Academies
Point Loma High School Football Stadium Improvements
San Diego SCPA Live Broadcast and SciTech Biomedical Sciences
New Classroom Building at Euclid, and Zamorano Elementary Schools
Marston Middle School Woodshop Ventilation
Hoover High School Academy of Information Technology
Creative Performing Media Arts New Building
ALBA at North Park Joint Use Area Improvements

2013

Millennial Tech Phase IV New Building
Henry High School Production Studios Program, Theater, and Stadium/Sports Facility Improvements
i21 Suite for Classrooms Final Year
Modernization at the following elementary schools: Audubon ES, Balboa ES, Emerson/Bandini, Encanto, Hamilton, and Longfellow; Gompers Charter, Montgomery, Pershing, and Taft middle schools; Clairemont, Hoover, Madison HS, San Diego, and University City high schools; Millennial Tech, New Dawn/Riley and O'Farrell Community School
New Classroom at Serra High School
San Diego High School Stadium and Sports Facility Improvements
University City High School Athletic Facilities Upgrades
Tenant Improvements to 6th/7th Floors for new Charter High School in new downtown Library

2014

Morse High School New Building
Stadium Improvements at the following high schools: Kearny, Mira Mesa and Mission Bay
Track and Field improvements at Crawford, Kearny, La Jolla and Mission Bay high schools
Modernization at Foster, Lee and Penn elementary schools; Muirlands Middle School; and Henry, Morse and Scripps Ranch high schools
Mann Middle School Master Planning and Site Modernization Phase 1
Morse High School New Classroom Building

2015

Modernization at Baker, Franklin, Iftin Charter School @ Jackson, Jerabek, Miller, Miramar Ranch, Oak Park, Perry and Whitman elementary schools; Clark and Wangenheim middle schools; Crawford, Kearny, La Jolla, Mira Mesa HS, Mission Bay, Point Loma, and Serra high schools
Crawford Middle School Master Planning and Site Modernization Phase 1
Point Loma High School Track & Field Improvements

2016

Modernization at Chesterton, Euclid, Lindbergh/Schwaitzer, Logan and Wegeforth elementary schools; De Portola, Lewis, Mann (Phase 2), Momentum @ Cleveland, Pacific Beach, Field and Roosevelt middle schools

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Prop. S Bond Accountability Performance Audit

The required annual performance audit of the Prop. S program was conducted by an independent auditor, Christy White Accountancy Corporation, in accord with Government Auditing Standards issued by the Comptroller General of the United States. The purpose of the performance audit is to confirm that the use of Prop. S funds were for approved Prop. S purposes. The auditor issued an unqualified opinion that the Prop. S program complied in all material respects with the requirements of Prop. S and with applicable sections of the California Constitution and Education Code. In addition, the performance audit included a review of the effectiveness and efficiency of several special interest items. The audit noted several key good practices including an active and involved citizens' oversight committee, the use of well qualified District staff and independent contractors to manage the program, and promotion of an open door policy including a fraud hotline to reduce the risk of fraud and misappropriation of funds.

The following areas for improvement were also noted: an internal audit function to monitor Prop. S funded projects had not yet been fully staffed and implemented, and the use of purchase requisitions and purchase orders for processing professional services expenditures needs to be improved.

Financial Audit

The required annual financial audit of the Prop. S program was also conducted by Christy White Accountancy Corporation in accord with Government Auditing Standards issued by the Comptroller General of the United States. The purpose of a financial audit is to obtain reasonable assurance that the financial statements regarding Prop. S are free of material misstatement. The auditor issued an unqualified opinion that the Prop. S financial statements present fairly, in all material respects, the financial position of the Prop. S bond fund as of June 30, 2011 and conformed with generally accepted accounting principles.

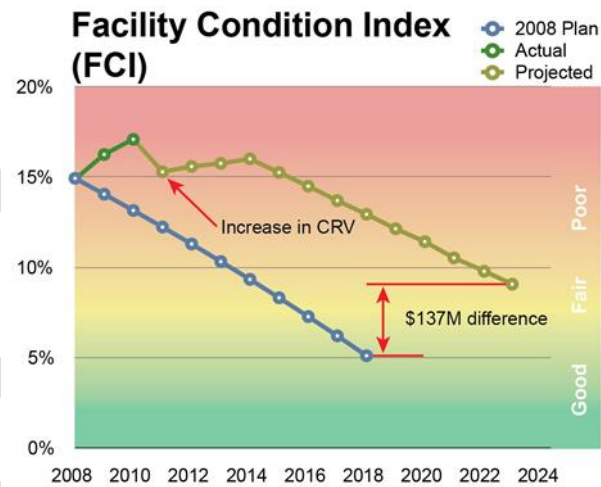
Deferred Maintenance

Prop. S earmarked \$501 million for Major Repair and Replacement (MRR) work to improve the condition of schools throughout the District. By December 2011 only

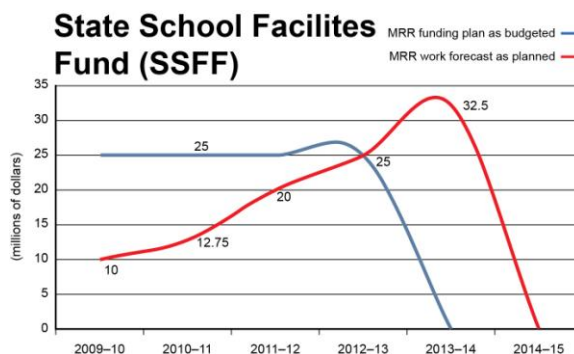
\$xx,xxx of MRR work was completed. The review of the District's Deferred Maintenance program is a task assigned to the ICOC by the state's Education Code and by a policy adopted by the Board of Education. Deferred Maintenance includes repair work with an expected useful life of less than 20 years, while all MRR work has an expected useful life exceeding 20 years. Per Board policy, Deferred Maintenance work should be funded by recurring funding sources while MRR may be funded by long-term debt (including bonds) when sufficient recurring funding sources are not available.

The Prop. MM program, which was completed in 2008, used \$301 million for MRR work to improve the condition of District schools. Since 2008, there has been a measurable deterioration in the condition schools as result of inadequate Deferred Maintenance and MRR funding. The current MRR Plan, presented to the Board in 2011, estimates that the condition of District schools will not be returned to the 2008 condition until 2015, and that there will be a \$137 million shortfall against goals established at the beginning of Prop. S.

NOTE: FCI is a measurement of the condition of capital assets (buildings and property improvements). It is calculated by dividing the cost of needed repair and maintenance by the facility's current replacement value (CRV), and is expressed by a percentage. The lower the percentage is, the better the condition of the facilities being measured.



Deterioration of the condition of the District's capital assets has been impacted by current economic conditions. Over the last four years, District total operating revenues (recurring funds) have decreased by \$500 million, a reduction of over 25%, while student enrollment has dropped by about 3% and there has been no decrease in the capital assets maintained by the District. The current MRR Plan reports that while annual budgets of \$25 million for MRR have been maintained, actual expenditures of these budgeted monies has been constrained for three years in an effort by the Board of Education to preserve cash assets, preserve the District's credit rating, and increase the ability for short-term borrowing to cover operating costs as other funds are depleted due to budget cuts and funding deferrals by the state.



The long-term challenge of identifying adequate annual funding of Deferred Maintenance and MRR programs to preserve capital assets of the District remains unresolved.

ICOC Oversight

The Independent Citizens' Oversight Committee is the legally required committee that actively reviews the proper expenditure of Prop. S funds and regularly informs 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 11 volunteers appointed by the Board of Education. The ICOC has established four standing subcommittees to carry out oversight activities. ICOC members conduct walk-through inspections of construction sites, review planning and financial status reports, and examine audit reports to verify that 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.

COPIES OF THE PERFORMANCE AUDIT, THE FINANCIAL AUDIT, QUARTERLY REPORTS, AND THE ICOC REVIEW OF THE MRR PLAN ARE AVAILABLE ON THE ICOC WEBSITE.

2011 ICOC Members

Jamie Barton
Andrew Berg
John Gordon
Douglas Gray
Vince Hall
Michelle Huffaker
Gil Johnson
Leonard Pinson
Brian Pollard
Kim Schoettle
Deanna Spehn

ICOC Contacts

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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.