

San Diego Unified School District



Independent Citizens' Oversight Committee (ICOC)

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Quarterly Status Update October–December 2010

Prop. S ICOC Quarterly Status Update: October – December 2010

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Proposition S

Independent Citizens' Oversight Committee

Quarterly Status Update

October–December 2010

Summary

This quarterly report provides a summary of the information prepared for and reviewed by the ICOC, and actions taken by the ICOC. The ICOC anticipates providing quarterly reports throughout the life of the program, with an annual report in March of each year. Additional reports to the public and Board of Education (BOE) may be issued if appropriate.

To date nearly \$400 million in funding has been accumulated for Prop S projects from 2 bond issues and \$29.7 million in received state grants. The 5-year implementation of i21 technology has been given priority, i21 projects valued over \$80 million are underway to install digital technology systems in district classrooms; i21 technology is currently in use in 1,309 classrooms including over 35,000 netbook computers. Currently there are 14 construction projects valued at \$47.1 million underway, and design is underway for projects according to the 5-year implementation plan for construction. Nearly \$17.4 million in construction has been completed. A total of \$150 million has been expended to date.

The District's bond financial advisor briefed the ICOC in October providing an analysis of current economic conditions and two opposing scenarios for the issue of bonds. Use of 40-year maturities for future bond issues would allow all Prop. S bonds to be issued in 13 years, while use of 25-year maturities would need 20 years due to assessed property values and limitations on property tax rates to repay bonds. The two scenarios have a substantial difference in the total debt service to taxpayers. The 25-year maturities are projected to cost taxpayers \$8.6 billion over 44 years, while the 40-year maturities are projected to cost \$12.2 billion over 50 years.

The ICOC Construction subcommittee completed on-site walk-throughs of construction sites on two campuses, auto repair shop at Clairemont HS, and new classroom building at Point Loma HS. The ICOC Quarterly Report for April-June 2010 was issued in October and the ICOC Quarterly Report for July-September 2010 was issued in November. In addition the ICOC and staff jointly developed a Prop. S Implementation Strategy (completed in December 2010, it was issued in January 2011).

Background

Prop. S

Proposition S (Prop. S) is the \$2.1 billion general obligation bond measure passed by over 68% of San Diego voters on November 4, 2008. This bond program will provide resources for the San Diego Unified School District (District) to repair, renovate and revitalize 181 neighborhood schools, and provide matching funds to construct classrooms and schools to accommodate enrollment growth in the Miramar and downtown areas.

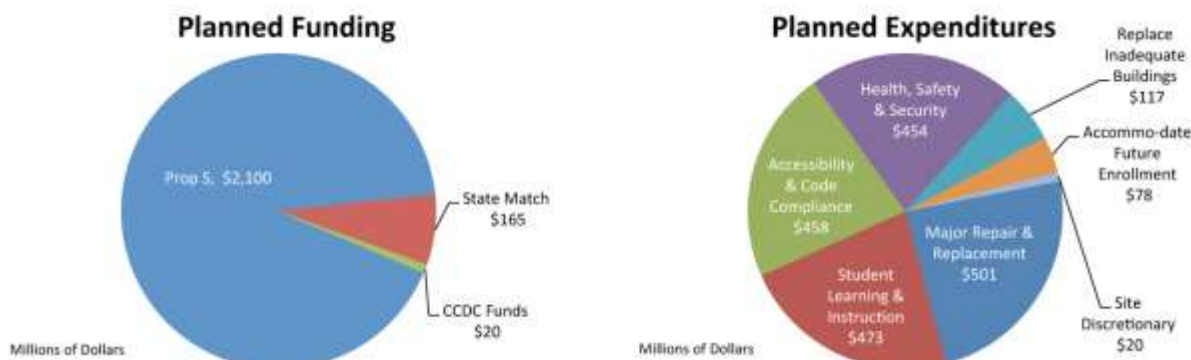
ICOC

The Independent Citizens' Oversight Committee (ICOC) is the legally required committee appointed by the Board of Education (Board) to actively review the proper expenditure of Prop. S funds, and inform the Board and the public concerning Prop. S expenditures. Prop. S funds must be used for projects specified in the bond language and can not be used for teacher or administrative salaries.

Financial Status

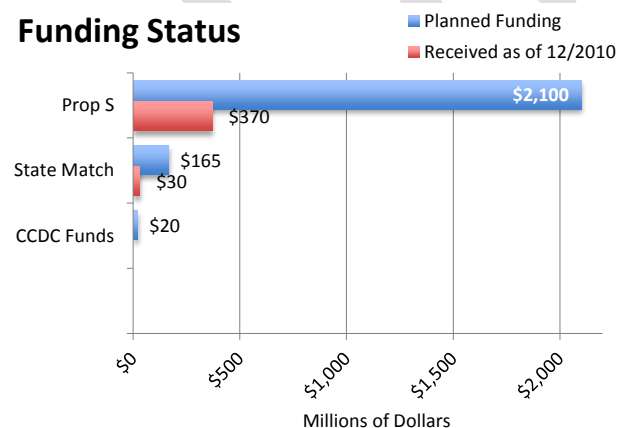
Prop. S authorized the issue of \$2.1 billion in general obligation bonds. Completion of projects listed in the Prop. S ballot language is dependent on the receipt of \$165 million in matching state funds. In addition, \$20 million of CCDC funds have been added to the Prop. S program budget. There is a potential for additional state funds through the Career Technical Education program; however, receipt of these funds is uncertain and they are not included in the total planned funding for the Prop. S program shown below.

For tracking purposes planned expenditures were grouped into 7 categories of work referenced in Prop. S: 1) discretionary projects at each site, 2) new construction to accommodate future enrollment, 3) major repair and replacement (MRR), 5) student learning and instruction, 5) accessibility and code compliance, 6) student health, safety and security, and 7) replace inadequate buildings.

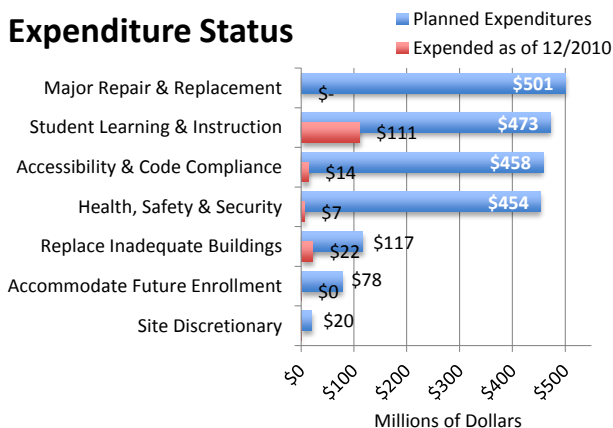


To date a total of \$369,997,581 in Prop. S bonds have been received from 2 bond issues, which has not changed since last status report. Completion of Prop. S projects is dependent on the receipt of state school building grants. The district has received \$29,695,300 in state grants for Prop. S projects to date. Expenditures to date total \$153,613,104. When compared to the 5-year plan, the program is on budget but slightly behind schedule.

Funding Status



Expenditure Status



During the previous quarter the District issued \$200 million in Prop S general obligation bonds with 40-year maturities; this was the second bond issue. The first issue of bonds had 25-year maturities.

In October the district bond advisor provided an updated analysis that included opposing scenarios of using 25-year maturity and 40-year maturity bonds for all future bond issues. The analysis for both scenarios assumed that assessed property values would return to an average annual increase rate of 5% by 2015; this assumption is supported by a 20-year average increase rate of 5.6% (the 20-year period includes the slow growth rate through the 1990's and the recent down turn in assessed values). In addition, the analysis of both scenarios used a 20-year average for assumed borrowing rates.

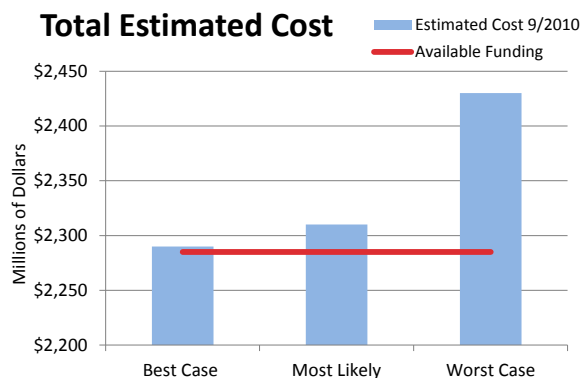
	Original Plan 25 Year Maturities	Updated Analysis	
		25 Year Maturities	40 Year Maturities
Total Proceeds	\$2.1 billion	\$2.1 billion	\$2.1 billion
Average Annual Issue	\$200 million	\$96.1 million	\$157.3 million
Last Bond Issue	2023	2028	2021
Date of Final Payment	2044	2053	2059
Total cost to Taxpayer	\$5.9 billion	\$8.6 billion	\$12.2 billion

Prop S promised that the combined tax rate to pay off Prop MM and make payments on Prop S bonds would not exceed \$66.67 per \$100k. Once Prop MM bonds are paid off in about the year 2029, tax rates will lower to \$60.00 per \$100k in accord with the limits of Prop 39 under which Prop. S was passed.

Prop. S has been significantly impacted by economic conditions. In the simplest terms it was originally expected that the Prop. S would be completed in 14 years and that each \$1.00 of Prop. S funds would cost taxpayers \$2.80 paid off over 35 years. Current projections are that each \$1.00 will cost taxpayers between \$4.10 and \$5.80 paid off over 44 years to 50 years based on the above tax rates and current economic conditions.

The Prop S management team maintains a risk adjusted cost estimate to complete all Prop. S listed work. There has been no change in the projections since the last quarterly report. The estimates are depicted on the right. They continue to predict there will not be enough funding available to complete all listed work items.

While there are many risk factors taken into account in preparing these cost estimates the primary factor is length of the Prop. S program. The best case scenario assumes program completion as early as 2019, while the worst case scenario assumes program completion in 2024.

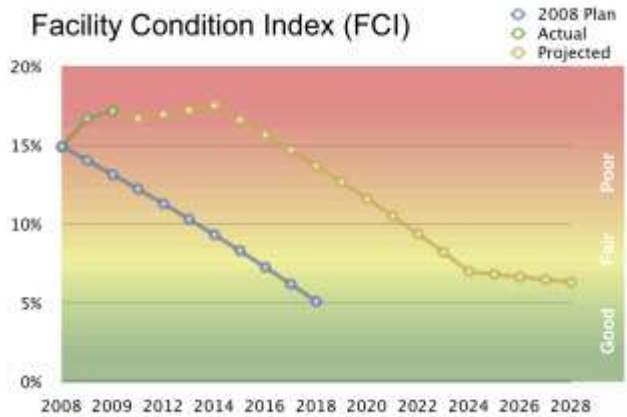


It should be noted that the above financial analysis currently predicts, if only 25-maturities are used for future bond issues, that the last bond issue will not occur until 2028.

The Facility Condition Index (FCI) is a meaningful measurement of school facility condition; the FCI is calculated by dividing the cost of known needed repair and maintenance work by the replacement value and is expressed by a percentage, the lower the percentage is the better the condition of facilities.

The chart to the right tracks the impact of \$501 million in Prop. S planned Major Repair and Replacement (MRR) work on the FCI.

Planned Prop. S MRR work is targeted at improving the condition of schools to a FCI between 5% and 7% which is considered a "Good" condition.



This chart reflects the latest calculation of FCI presented in the 2011 MRR Plan last quarter. However, this chart does not reflect the potentially positive impact that larger bond issues may have on reducing the FCI sooner than shown. As reported to the Board in the ICOC Review of the 2011 MRR Plan, recurring funds available for MRR in the near future are projected to be inadequate to prevent a degradation of the condition of existing school facilities prior to the start of planned Prop. S MRR work.

It should be noted that while the largest portion of Prop. S is earmarked for MRR work, no Prop. S funded MRR work has been completed to date.

Status of Projects

During this quarter, 14 active construction projects valued at over \$47 million were underway. In addition two phases of the i21 program valued over \$80 million and \$78 million in infrastructure improvements needed to support the i21 program are underway.

Project	Construction Cost	% Complete
Accessibility & Code Compliance		
Replace Inadequate Buildings		
Point Loma HS ORG - Classrooms	3,775,600	95.0%
San Diego HS ORG - New Classrooms	5,378,900	44.0%
Health, Safety & Security		
Cherokee Point ES Furnish & Install Chiller	1,042,355	56.0%
Ibarra ES Furnish & Install Chiller	603,129	85.0%
Student Learning & Instruction		
A.L.B.A. School Classroom Conversion	994,775	75.0%
Clairemont HS Autoshop	2,605,500	36.0%
Yr-1: i21 Interactive Suite @ 1,309 CR's	46,213,245	80.6%
Yr-2: i21 Interactive Suite @ 1,235 CR's	40,298,963	5.9%
Infrastructure/Connectivity @ 76 sites	78,188,691	3.9%
Hoover HS Green Workshops	3,854,000	15.0%
Madison HS Automotive Program	3,314,000	99.0%
Madison HS Multi-Media Center	2,625,820	27.0%
Morse HS Autobody Program	3,291,000	57.0%
Morse HS Culinary Program	3,091,000	57.0%
Multiple Categories of Work		
Madison HS Upgrade Stadium Complex	5,998,000	18.0%
Morse HS Upgrade Stadium Complex	7,790,000	15.0%

NOTE: * The listed dollar amount for i21 and related projects reflect the full budget amount, rather than the construction cost shown in other projects.

1) Projects completed this quarter include:

- Madison HS Automotive Program

2) Projects started this quarter include:

- Jefferson ES Playground Expansion and Child Development Center Addition



ICOC Activity Summary

The ICOC meets monthly and subcommittees meet monthly as needed. The ICOC has worked with District staff to develop and refine routine reporting on bond expenditures and program status in order to meet the Proposition 39 requirements for California bond accountability, Prop. S requirements as defined by the ballot measure approved by the voters in November 2008, and San Diego Unified School District policy. Subcommittees review recurring reports in detail and forward appropriate materials to the full ICOC either as information or action items.

The ICOC pushed for the completion of the annual performance audit and the annual financial audit in this quarter, but they were not completed until the following quarter. (The ICOC received the audits at a special meeting in February 2011. More information to follow in the next Quarterly Status Update.)

Following last quarter's issue of the ICOC Review of the 2011 Major Repair and Replacement (MRR) plan, the Construction subcommittee formed an Ad Hoc subcommittee on MRR, in order to look into the condition of existing schools and how fast they are deteriorating. The 2011 MRR plan and ICOC review have not yet be presented to the Board in accord with Board Policy E-2570 adopted in April 2008.

The ICOC Construction subcommittee completed on-site walk-throughs of construction sites on two campuses:

- October 28, 2010 – Autoshop at Clairemont HS
- November 16, 2010 – ORG Classroom Building at Point Loma HS

The ICOC Finance Planning and Controls subcommittee worked with staff to develop a Prop. S Implementation Strategy; completed in December the Prop. S Implementation Strategy was issued by the ICOC in January. The purpose of the Prop. S Implementation Strategy is to present the five-year execution plan and document the strategy upon which the execution plan is based. The document provides background information on Prop. S and augmenting funding sources, the Bond Project list, and documents strategies for Project Scheduling, Project Prioritization, Five-Year Execution Strategy, Program Expenditures, and Reprogramming Authority.

ICOC Activity Details

The description of ICOC activities in the following pages of this report are organized by areas of oversight as required by state law for bonds issued under the provisions of Proposition 39, Prop. S requirements, and/or District policy. Descriptions below also provide a reference to documents received, reviewed, and/or issued by the ICOC during a public meeting and posted on the ICOC website (<http://www.sandi.net/props/icoc>).

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Actively Review Proper Expenditure of Bond Funds

Review Expenditure of Bond Funds

Review of Recurring Financial Reports The Monthly Controls Status Report serves as the primary recurring financial report.

- Monthly Controls Status Report is received/reviewed first by the FCP Subcommittee (that meets on the 4th Thursday of the month) and then by the ICOC (that meets on the 3rd Thursday of the month). Reports include financial planning data, planned versus actual status charts, expenditure summaries, and other progress and trend monitoring data.
 - FPC Subcommittee: October 2010
 - ICOC: October 2010 and November 2010

Review of Bond Related Programs The ICOC reviews and monitors District programs funded by Prop. S proceeds and/or designed to contribute to the successful execution of the Prop. S program. Below provides a listing and description of activities during this quarter.

- **Staffing Plan:** The ICOC received status updates of staffing changes approved by the Board and designed to lower management costs.
 - Construction Subcommittee: October 2010, November 2010, and December 2010
- **Business Outreach Program** This program is routinely reviewed and monitored by the ICOC.
 - Community & Business Outreach & Engagement Plan:
 - ICOC: October 2010
 - Small Business Achievement status reports: No activity this quarter
 - Business Outreach Activity Report provides are reviewed periodically
 - Construction Subcommittee: October 2010 and December 2010
- **Project Stabilization Agreement (PSA)**
 - Construction Subcommittee: October 2010, November 2010, and December 2010
- **Labor Compliance Program**
 - No specific activity this quarter
- **Joint-Use Efforts**
 - No specific activity this quarter

Actively Review Proper Expenditure of Bond Funds (continued)

Review Expenditure of Bond Funds (continued)

- Review of Project Planning and Execution
 - The multi-year Project Management Report is monitored monthly by the Construction Subcommittee and reviewed as needed by the ICOC. It is a 5-year implementation plan that documents and tracks scheduled milestones of planned construction projects.
 - Construction Subcommittee: October 2010, November 2010, and December 2010
 - Construction Subcommittee and ICOC review the Construction Management report monthly, it provides a status summary of ongoing construction projects.
 - Construction Subcommittee: October 2010, November 2010, and December 2010
 - ICOC: October 2010 and November 2010
 - I21 Program Summary is reviewed by the Construction Subcommittee and ICOC on a monthly basis.
 - Construction Subcommittee: October 2010, November 2010, and December 2010
 - Special Reports
 - The Construction Subcommittee received a report on escalating constructions costs.
 - Construction Subcommittee: November 2010
- BOE Look Ahead Report The BOE Look Ahead is a report designed to keep the ICOC informed of items that have been submitted to the Board. It is reviewed by the FPC subcommittee and the ICOC on a monthly basis.
 - FPC subcommittee: October 2010
 - ICOC: October 2010, November 2010

Special Reviews

- The ICOC received the same presentation that Mark Young gave to the Board of Education (on October 19, 2010) regarding bond sales, the investment status, and investment philosophy of Pond S bonds
 - ICOC: October 2010

Actively Review Proper Expenditure of Bond Funds (continued)

Inspect Schools and Grounds

On-Site Project Reviews

- No specific activity this quarter
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Review Efforts to Reduce Costs

Review Efforts to Reduce Costs

- No specific activity this quarter
-

Receive & Review Annual Performance Audit

Receive & Review Annual Performance Audit

- No specific activity this quarter
-

Receive & Review Annual Financial Audit

Receive & Review Annual Financial Audit

- No specific activity this quarter
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Receive & Review Deferred Maintenance (DM) Plan

Annual MRR Plan The ICOC has a responsibility to review Deferred Maintenance (DM) plans of the District. The annual Major Repair and Replacement (MRR) Plan addresses the global issue of maintaining the condition of District school facilities in a safe and functional condition. Per District policy the annual MRR Plan assesses the adequacy of DM and other programs and funding sources used in maintaining the condition of District capital facilities. In addition District policy the MRR Plan is to be received/reviewed by the standing ICOC who is to report review recommendations to the BOE at a public meeting.

- MRR Implementation: The Construction Subcommittee formed an Ad Hoc committee to look into the condition of existing schools and how fast they are deteriorating
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Inform Public Concerning Expenditure of Bond Funds

ICOC Web Site

ICOC Web Site The ICOC internet website contains minutes of all ICOC proceedings and all documents received and reports issued by the ICOC. The ICOC website is open to the public and can be accessed directly, or through other District websites:

- <http://www.sandi.net/props/icoc> (ICOC website, direct access)
- <http://www.sandi.net> (District website)
 - Click on Proposition S in the Site Shortcuts navigation panel
 - Click on Proposition S - Independent Citizens' Oversight Committee in the Proposition S Program navigation panel
- <http://www.sandi.net/boe> (Board of Education website)
 - Hover over Committees in the navigation bar
 - Select ICOC - Prop S from the Committees drop-down menu

ICOC Quarterly Status Update

ICOC Quarterly Status Update The ICOC issues Quarterly Status Updates, they are posted on the [Library](#) page of the ICOC Website.

- [Quarterly Status Update for Period ending December 31-2009](#)
- [Quarterly Status Update for January-March 2010](#)

ICOC Annual Report

ICOC Annual Report The ICOC issued its first Annual Report in May 2010, it was presented to the BOE at a public meeting on [June 29, 2010](#). It is the ICOC's intent that Annual Reports are presented to the Board at a public meeting, are posted on the ICOC website, and are available in print for distribution to community organizations and individuals as required.

- [Prop. S – ICOC Annual Report ~ FINAL 2009](#)

District Communications

Monthly Communications Report District public communications regarding Prop. S

- ICOC: October 2010 and November 2010