

Prop. S Implementation Strategy

The purpose of this paper is to present the FY 2010-2011 Prop. S Investment Strategy and Project Execution Plan.

In approving Prop. S, San Diego voters authorized SDUSD to issue general obligation bonds up to a total of \$2.1 billion. The time period during which bonds would be sold is not defined in the voter pamphlet as timing is dependent upon the net assessed value of property within the SDUSD boundaries. Prop. S ballot language promised voters that the current tax rate of \$66.70 per \$100,000 of property value would not be exceeded. Because the district is paying debt service on a previously approved bond measure there are limits on how many bonds can be sold within a year.

In order to establish the most aggressive execution schedule possible and to keep stakeholders informed as to the execution of Prop. S the ICOC recommended that the Prop. S Executive Director annually forward for approval a moving five year project execution schedule to the Board of Education.

This annual plan is based on the following:

- execution to date of the program comprehensive project list
- program end of year cash reserves
- the annual program project plan of finance
- current work in progress.

This plan is projected to come before the Board of Education in November 2010.

Once approved in November of each year, the execution schedule should remain unchanged until November of the following year with pre-defined adjustments and resets as noted below in this paper. The district realizes that while program flexibility is necessary maintenance of the schedule results in fewer changes and in the end will reduce schedule churn, Prop. S operating costs, design changes and related staff costs. Further an approved annual execution plan prevents expectations mismatch among parents, students, tax payers, the public, the Board of Education, and district staff.

Project Scheduling

The voter pamphlet states that “projects will be completed as needed in accordance with board-established priorities, and the order in which such projects appear on the Bond Project List is not an indication of priority for funding or completion”.

Projects selected by the Board of Education for implementation through Prop. S principally fall within four areas of concentration:

1. Projects that improve student health, safety and security
2. Projects that improve school accessibility and code compliance upgrades
3. Projects that directly enhance student learning and instruction

4. Projects that repair and replace major building systems

For reporting purposes, costs are being tracked in seven areas referenced in Prop. S: the above four principal areas of concentration, work to accommodate future enrollment, site discretionary work, and replacement of inadequate buildings.

The voter pamphlet permits the district to participate in the State of California Proposition 1D (Prop 1D), the Kindergarten-University Public Education Facilities Bond Act of 2006. This Act was placed on the November 2006 ballot as a result of Governor Schwarzenegger signing Assembly Bill 127 (Chapter 35, Statutes of 2006) into law on May 20, 2006. Prop 1D was approved by the voters, providing \$10.416 billion in general obligation bonds for educational facilities, of which \$7.329 billion is earmarked for kindergarten through 12th grade projects (Office of Public School Construction, <http://www.bondaccountability.opsc.dgs.ca.gov/bondac/proposition/proposition1D.asp>).

Bond Project List

The Board of Education may make changes to the Bond Project List consistent with the projects listed in the County of San Diego Registrar of Voter's 04 November 2008 Voter's Pamphlet (Voter's Guide). The Voter's Guide describes permissible projects and categories of permissible projects, including the addition or removal of projects or project elements.

The bond measure specifically states that listed projects assume the receipt of state matching funds. In addition the bond identifies the potential for additional funding sources that may affect the total amount of funds available over the lifetime of Prop. S. Currently a potential for additional funds for the following purposes has been identified:

1. Added State matching funds to construct classrooms and schools to accommodate student growth for new housing areas at Marine Corps Air Station (MCAS) Miramar.
2. Added State matching funds to retrofit and construct classrooms, labs, and facilities to improve specialized instruction.
3. Redevelopment funds to supplement construction of classrooms and schools in the downtown area to meet the educational needs of the district.

Proposition 1D Background

In addition to the revenues from bond proceeds the district is permitted to use other resources to augment bond revenues. Chief among these resources are California Prop 1 D matching funds. This program provides up to 50 percent matching funds for new construction projects, modernization, career technical education, charter schools, and joint use projects.

SDUSD considers this source of funds key and essential to the successful completion of Prop. S projects, and has aggressively participated in the program.

Project Prioritization

District staff has provided the Board of Education, ICOC, and the public regular updates on the scope, budget, and prioritization of Prop. S projects. District staff used a four-step process for developing the budget, project list, and schedule for each project site. These steps included:

1. Facility Analysis. In 2002, SDUSD engaged 3DI, Inc., an independent contractor, to conduct a district-wide facility condition assessment of the major repair and replacement needs of all school sites. This assessment was updated and validated in 2006 and 2007 by AECOM, Inc. In 2008, the data was further validated. Data is also confirmed prior to the start of design.

2. Site-Specific Upgrade Analysis. District staff, under direction by the BOE, selected high schools as the first priority in the Prop. S program. Consistent with BOE direction, the Prop. S program is focused on stadium upgrades, site modernization, Career Technical Education projects, Overcrowded Relief Grant projects, site discretionary, and technology improvements (i21 Interactive Classroom Initiative) in all district schools.

3. Project Prioritization. To ensure that the district has a transparent and objective project prioritization process, SDUSD developed a prioritization algorithm with eight weighted variables. Based on this algorithm, the 170 schools with modernization projects were ranked. BOE members were provided the opportunity to comment on the order of school site projects in their respective sub-districts in February 2009, and again in August 2010. The eight weighted variables include:

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| 1. school type, | 6. a small-school factor, |
| 2. last major renovation at the site, | 7. eligibility for state matching funds, |
| 3. facilities condition index, | and |
| 4. Academic Performance Index ratings, | 8. climate zone. |
| 5. number of portable classrooms, | |

4. Five Year Execution Schedule. Based on the above, a dynamic five-year project implementation schedule has been developed. The schedule is dependent upon the overall site ranking, revenues available through the sale of bonds, cash flow, the speed in which the Division of the State Architect (DSA) reviews SDUSD architectural drawings, and other scheduling considerations. In some cases, projects may be “split” to accommodate cash flow. Please note that the district has elected to schedule Prop 1D grant projects early in the program due to funding availability and state matching grant requirements. The BOE has prioritized implementation of an aggressive technology program through the i21 project.

To provide flexibility in completing projects, the five-year implementation plan includes, as the budget permits, designing projects that are not scheduled until future years so that multiple “shovel-ready” projects can be submitted for funding that may become available. This allows the district to respond to unanticipated revenue sources and take advantage of a continued favorable bidding climate. In the future, projects that are ready for bid and award can be brought forward earlier to be included in the implementation schedule. Additional funds would also allow projects

to proceed expeditiously. However, if revenue were less than planned, projects would remain in the currently adopted sequence and would not be awarded until fund balances are adequate.

Five-Year Execution Strategy

Revenues and Expenditures from 01 July 2011 to 31 June 2015

In general and based on the above, SDUSD intends to match annual revenues, end of year revenues, and matching funds to approved projects on the Bond Project List and new projects as directed by the BOE.

Based on advice from Gardner, Underwood and Bacon, LLP, district staff estimates a minimum revenue stream of \$140 million per year through the sale of General Obligation Bonds and other financial instruments for the next five years, and end of fiscal year 2010 reserves carried forward of \$72.1 million including matching Prop 1D funds of \$8.2 million. Based on these revenue sources district staff estimates that total revenues available for the period from 01 July 2010 to 01 July 2016 will be approximately \$884.2 million.

All of the Prop. S funds have been earmarked and reserved for current or future planned projects.

Program Expenditures

District staff has developed a fully cost-loaded Bond Project Schedule.. The total cost of completing these projects is estimated to be in the range of \$2.28 billion to \$2.4 billion over the life of the Prop. S program.

The Bond Project Schedule, project costs, and revenue streams are all interrelated. Changes in the schedule may change project costs and draw down of revenues. Changes in project cost, or revenue streams, may delay project schedules in order to balance the rate of expenditures to revenue streams, or accelerate project schedules to take advantage of available revenues during a favorable bidding climate.

Program deficits are now estimated to be approximately \$10.0 million over the life of the program based on Total Indicated Cost (TIC) analysis. This estimate is based on current economic and business conditions, the current schedule, bid trends and other factors. As always there are a number of factors that may significantly increase the cost of construction, including inflation in the cost of materials and labor costs and various tax increases. With a revenue ceiling of \$2.1 billion in bond revenues and an estimate of \$200 million flowing to SDUSD through Prop 1D eligibility, projected expenditures cannot exceed a total of \$2.3 billion unless the potential of additional funding sources is realized.

The current estimated deficit is a prediction that unless there are favorable changes in the future, not all projects or project work can be completed. TIC analysis currently predicts that the district will need to adjust the scope of project work to stay within budgetary limits.

Reprogramming Authority

Apart from emergencies the annual plan will be executed without significant reprogramming.

Reprogramming is defined as schedule changes (delays or acceleration) to the approved project execution plan that change the start date of any project on the Five-Year Execution Schedule by more than 6-months. Needed reprogramming may be related to temporary cash flow issues, which should be minimal since typically the bonds are sold in August of each year, or due to any of the following:

- A recommendation by the Prop. S Executive Director and staff that reprogramming will be more effective due to contractor execution, disruption of school operations, special environmental issues, or cost savings, that must be fully described in the recommendation to the BOE.
- Immediate health, life and safety requirements and concerns noted by the district's facility audit process.
- Operating budget considerations, e.g., the timing of personnel or financial resources that are made available.
- If special, out-of-term district operating budget decisions close facilities or programs after the typical budget year, staff will cease design and issue stop work orders immediately.

Should project timing move from one year to the next for any reason, or any series of outyears, or if financial resources either expand or contract, if population changes so dictate, or if natural emergencies so intrude and render part of the district's asset base unusable, staff will consider these factors in the next year's Prop. S Investment Strategy and Project Execution Plan.

Whole-site Prioritization Matrix

Staff will maintain and update its facility condition index and other facility scoring systems with more current data as it becomes available. District staff will also work toward creating a reserve of DSA approved projects, consistent with the Prioritization Matrix, which can be advanced or held back from bid and contract award in response to funding availability.