

San Diego Unified School District



Independent Citizens' Oversight Committee (ICOC)

Quarterly Status Update July – September 2011

Prop. S ICOC Quarterly Status Update: July – September 2011

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Proposition S

Independent Citizens' Oversight Committee

Quarterly Status Update

July – September 2011

Summary

As of September 30, 2011, just over \$400 million is available for Prop. S projects from two bond issuances plus \$31.1 million in retained state matching funds. \$255 million has been expended as of August 31, 2011, against total contract obligations of \$355 million leaving an unobligated balance of \$46 million.

Most significant this quarter was a presentation of an independent financial analysis of future bond issues. This independent analysis was the result of the 2010 bond audits and recommendations of the ICOC. The analysis shows that, due to decreases in the assessed value of properties within the District, the expected issue of \$140 million in Prop. S bonds during 2012 will not be possible. Refinancing of existing bond debt will likely be needed to ensure that bond payments do not exceed maximum tax rates promised to voters in Prop. MM and/or as allowed under Prop. S.

The District is working on several levels to assess the full impact of this situation on the Prop. S bond program and develop a plan of action. For more detail refer to Financial Status (pages 2–3), ICOC Activities (page 6), and the Special Presentation on Bond Finances (page 7) sections of this report.

Other ICOC activities during this quarter include the following (more details on page 6):

- Election of ICOC officers was held
- 2012 Annual MRR Plan was reviewed and forwarded to the Board
- Concerns regarding project schedule changes were forwarded to the Board
- Construction Subcommittee conducted site visits of Prop. S work at San Diego and Morse High Schools, and Jefferson Elementary School
- ICOC Quarterly Status Update for April – June 2011 was issued
- An annual ICOC Planning Calendar was accepted
- New ICOC members include Douglas Grey, Michelle Huffaker, and Vince Hall. Departing members include Kevin Alvin, John Daley, and Matt Spathas.

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.

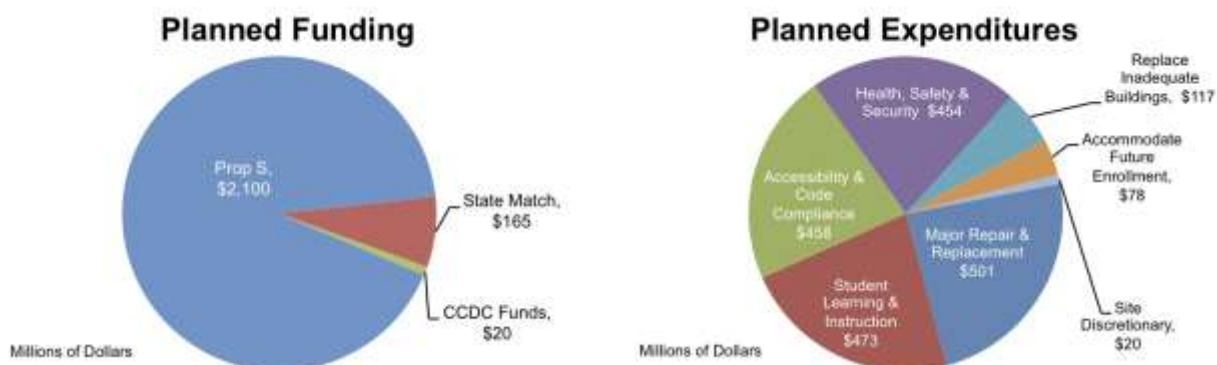
ICOC

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 cannot be used for teacher or administrative salaries.

Financial Status

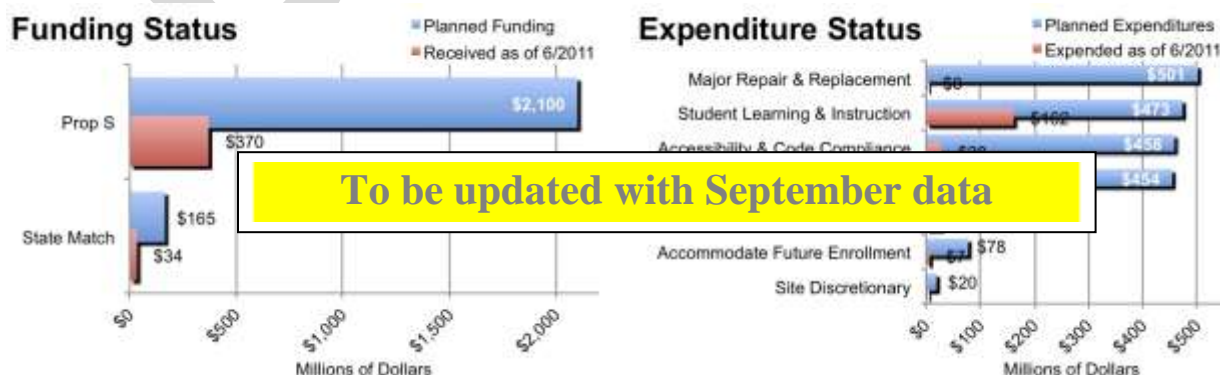
Prop. S authorized the issuance of \$2.1 billion in general obligation bonds. Completion of projects listed in the Prop. S ballot language is dependent on the receipt of \$188 million in state matching funds.

For tracking purposes planned expenditures have been grouped into seven 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), 4) student learning and instruction, 5) accessibility and code compliance, 6) student health, safety, and security, and 7) replacement of inadequate buildings.

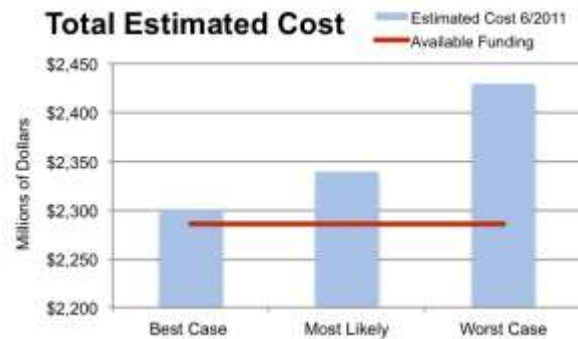


[Update as September info becomes available] As of August 2011, a total of \$369,997,581 in Prop. S bonds have been received from two bond issuances. No bonds have been sold since the July – September 2010 Quarterly Report. Since Prop. S passed, the District has retained \$31,110,327 in state funding to augment Prop. S projects. A total of \$43 million in state funding was received initially; however projects savings for work completed under budget must be returned to the state. Expenditures to date total \$255,478,017. When compared to the 5-year plan, the program is on budget but slightly behind schedule. As of August 31, 2011, there is a total of \$45,745,028 in unobligated funding.

NOTE: State matching funds for CTE and Overcrowded Relief Grant (ORG) projects are based on specific projects. Any unspent state matching funds for completed CTE and ORG projects must be returned to the state. Therefore, received state matching funds are subject to change and may decrease if CTE or ORG projects are completed under budget.



The District's Prop. S management team maintains a risk-adjusted cost estimate to complete all Prop. S listed work. There have been no adjustments to the Total Estimated Cost (TIC) since the last quarterly report. The single most influential risk factor in these risk-adjusted cost estimates is time – the longer it takes to complete construction work, the higher the cost.



There is an anticipated \$2.29 billion in total available funding in Prop. S and expected State matching funds referenced in the bond. The best-case TIC scenario assumes all construction is completed by 2019 and projects a \$10 million shortfall. The worst-case scenario assumes all construction is completed by 2024 and estimates a \$140 million shortfall. As reported in the October – December 2010 Quarterly Status Update, financial analysis predicts that the last bond issue will not occur until 2021 or 2028.

On September 29, 2011, Keygent Advisors presented a more conservative financial analysis to the ICOC Finance, Planning & Controls subcommittee. Keygent had been hired to perform an independent financial analysis of proposed bond issues as result of the 2010 bond audits, and ICOC recommendations. Keygent's more conservative analysis assumptions indicate that the earliest that all bonds could be sold is between 2028 and 2032. This is eight to nine years beyond current best-case and worst-case cost projections in the TIC.

More importantly, the above analysis predicts that an expected bond issue of \$140 million in 2012 will not be possible: issuance of any additional bonds in 2012 is dependent on the ability to refinance Prop. MM debt and lower bond payments in order to remain within tax rates promised to voters. The Keygent presentation and financial analysis is discussed in further detail on page 7.

Bond financial analysis will be revised in the next several months using updated data from the county tax assessor. TIC cost projections will also be updated after receipt of revised financial analysis. Meanwhile, the current TIC estimates appear to be optimistic – funding shortfalls are likely to be greater than the TIC currently projects. There are no indicators that the ability to complete all work listed in the Prop. S ballot language will improve.

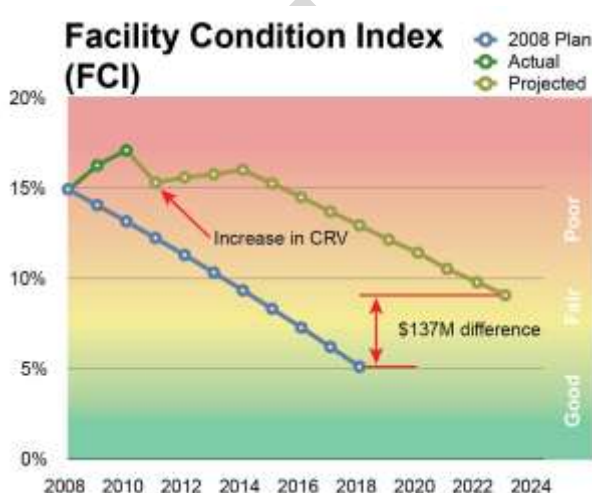
There has been no change since the last quarterly report regarding funding status for bond funded major repair and replacement (MRR) work or the deferred maintenance (DM) program that the ICOC reviews as part of their assigned duties.

Regarding the status of DM and MRR work, it is helpful to use the Facility Condition Index (FCI) to measure the current condition of existing school facilities. The FCI is calculated by dividing the cost of needed repair and maintenance work by the facility's replacement value, and is expressed by a percentage. The lower the percentage is, the better the condition of the facilities being measured.

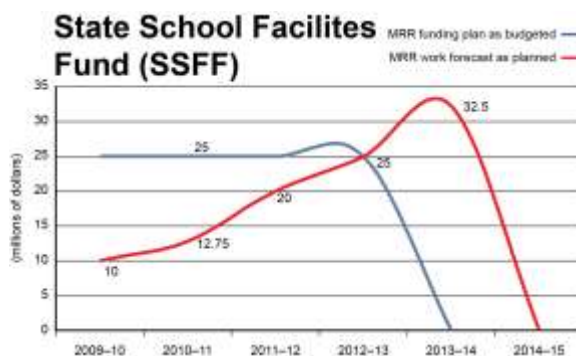
Physical Plant & Operations (PPO) has been using the FCI index to track the condition of District schools. In previous years, Prop. MM used just \$301 million for MRR work to bring the FCI of District schools from 25% to 15%; which is still considered to be a poor condition. The Prop. MM bonds used for this past MRR work will be paid-off by taxpayers in 2029. Prop. S has earmarked \$501 million in MRR work targeted to improve the condition of District schools; the goal established in 2008 was to improve the FCI to 5%, which is considered to be a good condition.

As reported previously, the start of Prop. S-funded MRR work was pushed back to 2014, and the length of the program was extended from 10 to 15 years. Also reported, annual budgets between 2008 and 2014 are not sufficient to maintain the condition of District schools and a degradation of condition is expected until Prop. S-funded MRR work begins.

PPO presented the 2012 MRR plan to the ICOC in accord with board policy; at their July meeting the ICOC accepted the plan which was to be presented to the Board. The MRR plan included an update to the FCI chart to reflect revised estimates of replacement values of school facilities and repairs. As depicted in the chart it is expected that it will take until 2016 to recover lost ground due to inadequate annual funding of MRR work. The 2008 goal of reaching a good condition of 5% FCI will not be achieved; estimated shortfall is \$137 million.



In recent years annual budgets for MRR have been maintained at \$25 million, funded primarily from capital money in the State School Facilities Fund (SSFF). The 2012 MRR plan expects to spend all SSFF monies by 2014. This is depicted in the chart to the right.



Over the last four years, District operating revenues have decreased by \$500 million (over 25% reduction) while student enrollment has remained unchanged at 117,000 students. The MRR Plan reported that while annual budgets for MRR have been maintained, actual expenditures of these budgeted monies has been constrained for three years — an effort to hang-on to cash, preserving the District's credit rating and ability for short-term borrowing 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 DM and MRR programs to preserve capital assets of the District remains unresolved.

Status of Projects

During this quarter, 19 active construction projects budgeted at over \$78 million were underway along with two phases of the i21 program valued at over \$80 million. In addition, \$78 million in infrastructure improvements at 76 schools to support the i21 program are underway and design for the new data center was approved for construction. The currently awarded construction work totaling \$64 million is 18.7% under budget and the current change order rate is 3.8%. The Infrastructure/Connectivity project is \$20 million over budget; as a whole, the i21 Program is 8.6% over budget.

Active projects are shown to the right:

1) The following projects were completed this quarter:

- Teachers' Lounge Upgrades at the Language Academy
- Year Two of the i21 Interactive Suite (at 1,235 classrooms)**

2) The following projects were started this quarter:

- Drop-Off and ADA Upgrades at Marshall Elementary School
- Air-conditioning at Meads High School
- Sustainable Technology Buildings at Scripps Ranch High School

NOTE: *The listed dollar amount for i21 and related projects reflect the full bond budget amount, rather than the construction budget shown in other projects, (related work directly paid by the E-rate program is not included).

**Year One of the i21 Interactive Suite (1,309 classrooms) was completed in the April to July quarter of 2011.

Project	Construction Budget	% Complete
Accessibility & Code Compliance		
Clairemont HS Stadium ADA Improvements	7,832,371	92.0%
Replace Inadequate Buildings		
San Diego HS ORG - New Classrooms	9,289,999	98.0%
Health, Safety & Security		
Normal Heights ES HVAC	800,000	95.0%
Marshall ES Drop-Off/ADA Upgrades	880,346	0.0% 2)
Meads HS HVAC	1,552,041	0.0% 2)
Sessions ES Parking Lot & Drop/Pick-Up Upgr	1,944,272	51.0%
Student Learning & Instruction		
Clairemont HS Autoshop	4,027,900	90.0%
Data Center 2 at Serra HS	18,883,489	5.9% *
Yr-2: i21 Interactive Suite @ 1,235 CR's	40,298,963	100.0% * 1)
Yr-3: i21 Interactive Suite @ 881 CR's	40,436,247	6.9% *
Infrastructure/Connectivity @ 76 sites	78,188,691	2.4% *
Hoover HS Athletic Facilities	9,683,346	25.0%
Hoover HS Green Workshops	4,662,181	98.0%
Language Academy Teacher's Lounge Upgrades	167,179	100.0% 1)
Morse HS Autobody Program	5,464,858	96.0%
Morse HS Child Development Program	3,286,457	45.0%
Morse HS Culinary Program	4,130,061	96.0%
Point Loma HS Motion Picture Facility	3,784,510	52.0%
Point Loma HS Music Room	1,988,189	52.0%
Point Loma HS Weight Room Building	931,989	28.0%
Multiple Categories of Work		
Jefferson ES Playground Exp & CDC Add	4,339,327	58.0%
Morse HS Upgrade Stadium Complex	7,708,289	89.0%
Scripps Ranch HS Technology Buildings	5,866,116	13.0% 2)

ICOC Activity Summary

The ICOC meets monthly and subcommittees meet as needed, usually monthly. The ICOC has worked with District staff to develop and refine routine reporting on bond expenditures and status to meet requirements imposed by Prop. 39 California bond accountability, the Prop. S ballot measure, and District policy. Subcommittees review recurring reports in detail and forward appropriate materials to the full ICOC either as information or action items.

During the July 2011 meeting the ICOC:

- Received and accepted the 2012 Annual MRR Plan for submission to the Board
- Elected Gil Johnson as Chair and Leonard Pinson as Secretary/Vice Chair
- Accepted an ICOC Planning Calendar
- Issued a letter voicing concern that staff reports to the Board regarding changes to the prioritized sequencing of projects did not address current projections of funding shortfalls and potential risks posed to higher priority projects
- Issued the ICOC Quarterly Status Update for April – June 2011

A special ICOC meeting was held in August as an orientation for new ICOC members Douglas Grey and Michelle Huffaker. Vince Hall became an ICOC member in September; he received an initial orientation from the ICOC Chair and Facilities Executive Director. Departing ICOC members were Kevin Alvin, John Daley, and Matt Spathas.



ICOC member briefed during site-walk at Morse HS



Workmen finish concrete placement at Morse HS stadium

During September, the Construction Subcommittee conducted site visits of Prop. S work at three schools:

- San Diego High School: Facility improvements for the Culinary Arts Program, School of Business Management and Multimedia Studio, and a New 2-story Classroom Building
- Morse High School: New Auto Body Shop, Child Development and Culinary Arts Programs, and Stadium Complex upgrades
- Jefferson Elementary School: Joint Use Building Improvements, K–2 2nd Floor Exiting improvements, and a look at the planned upgrades envisioned in the whole site modernization project currently in design

The Audit Subcommittee did not meet in July. The Finance Planning & Controls Subcommittees did not meet in July or August. The Executive/Governance Subcommittee did not meet in September.

Special Presentation on Bond Finances

On September 29, 2011, the Finance, Planning & Controls Subcommittee received a presentation from Keygent Advisors. Keygent had been hired to perform an independent financial analysis of proposed bond issues as result of the 2010 bond audits and ICOC recommendations. During the presentation, the District's primary bond financial advisor, Loop Financial, and the District's Chief Financial Officer were present and provided comment and observations regarding Keygent's presentation.

Keygent's preliminary 2012–2027 projections show that Prop. MM and Prop. S bond payments as about \$15 million to \$20 million above tax revenues that would be generated by the maximum tax rates of \$66.70 for Prop. MM and \$60.00 for Prop. S. This is primarily due to assessed values (AV) of properties being lower than previously expected. This analysis means that the expected bond issue of \$140 million in 2012 will not be possible. It may not be possible to issue any additional bonds until the AV increases or until bond payments for previously issued bonds decrease.

Given AV declines in 2009, 2010, and 2011, increases in AV look flat in the near term. The ability to issue additional Prop. S bonds in 2012 is dependent on the ability to refinance Prop. MM debt and lower payments for previously issued bonds.

Observations during the presentation pointed to inconsistencies in information provided from the county tax assessor's office regarding the balance of Prop. MM reserves held by the county and to differences in assumptions used by the two bond financial advisors.

The next steps include:

- Determining the actual balance in the Prop. MM reserve
- Redo of financial analysis based on updated AV information
- Evaluate the impact on project schedules and projected costs

In response to this presentation, the Executive/Governance Subcommittee recommended the Prop. S Director compose a plan of action (including a small reserve for emergencies) based on two scenarios: 1) a \$60 million bond issue in 2012 and 2) a \$90 million bond issue. Expected timelines for revised analysis are: to reconcile reserve balances with county in October/November 2011, analysis by bond advisors to the Board in January/February 2012, followed by possible bond sales actions in spring of 2012.

ICOC Activity Details

ICOC activities included in this report are organized by areas of oversight as required by state law for bonds issued under the provisions of Prop. 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>).

Actively Review Proper Expenditure of Bond Funds

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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.

- The Monthly Controls Status Report is reviewed first by the Finance, Planning, and Controls Subcommittee that meets on the 4th Thursday of the month, and then by the full 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: [September 2011](#)
 - ICOC: [July 2011](#) and [September 2011](#)

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.

- **Staffing Plan**: The ICOC received status updates of staffing changes approved by the Board and designed to lower management costs.
 - No specific activity this quarter
- **Business Outreach Program** This program is routinely reviewed and monitored by the ICOC.
 - Community & Business Outreach & Engagement Plan:
 - No specific activity this quarter
 - Business Outreach Activity and Achievement Report are reviewed periodically
 - Construction Subcommittee: [July 2011](#), [August 2011](#), and [September 2011](#)
 - ICOC: [July 2011](#)
- Project Stabilization Agreement (PSA)
 - Construction Subcommittee: [July 2011](#) and [August 2011](#)
- 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: [July 2011](#), [August 2011](#), and [September 2011](#)
 - Construction Subcommittee and ICOC review the Construction Management report monthly; it provides a status summary of ongoing construction projects.
 - Construction Subcommittee: [July 2011](#), [August 2011](#), and [September 2011](#)
 - ICOC: [July 2011](#) and [September 2011](#)
 - i21 Program Summary is reviewed by the Construction Subcommittee and ICOC on a monthly basis.
 - Construction Subcommittee: [July 2011](#), [August 2011](#), and [September 2011](#)
 - Special Reports
 - The Construction Subcommittee and ICOC received a report on the i21 report.
 - Construction Subcommittee: [August 2011](#)
 - ICOC: [September 2011](#)
- Board of Education (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: [September 2011](#)
 - ICOC: [July 2011](#) and [September 2011](#)

Special Reviews

- Keygent Advisors presented an independent financial analysis of proposed bond issues to the Financial, Planning and Controls Subcommittee in September.
 - FPC Subcommittee: [September 2011](#)

Actively Review Proper Expenditure of Bond Funds (continued)

Inspect Schools and Grounds

On-Site Project Reviews

- The ICOC did a walkthrough of Kearny High Educational Complex on May 19, 2011 in conjunction with that day's ICOC meeting.

Review Efforts to Reduce Costs

Review Efforts to Reduce Costs

- Cost Saving Measures Matrix: Cost savings are monitored by the Construction Subcommittee on a monthly basis.
 - Construction Subcommittee: [August 2011](#)

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.

Receive & Review Deferred Maintenance (DM) Plan

Annual MRR Plan: The ICOC is tasked with review the District's annual MRR Plan.

- No specific activity this quarter.

Inform Public Concerning Expenditure of Bond Funds

ICOC Web Site

ICOC Web Site: The ICOC website contains minutes of all ICOC and subcommittee meetings as well as 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" in the Facilities Planning and Construction 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 that 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](#)
- [Quarterly Status Update for April – June 2010](#)
- [Quarterly Status Update for July – September 2010](#)
- [Quarterly Status Update for October – December 2010](#)
- [Quarterly Status Update for January – March 2011](#)
- Quarterly Status Update for April – June 2011

ICOC Annual Report

ICOC Annual Report: The ICOC issued its first Annual Report in May 2010; the second Annual Report was issued in April 2011. 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 – 2009](#)
- [Prop. S – ICOC Annual Report – 2010](#)

District Communications

Monthly Communications Report: District public communications regarding Prop. S

- ICOC: [July 2011](#) and [September 2011](#)