

San Diego Unified School District



Independent Citizens' Oversight Committee (ICOC)

Quarterly Status Update January – March 2012

Prop. S ICOC Quarterly Status Update: January – March 2012

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Proposition S

Independent Citizens' Oversight Committee

Quarterly Status Update

January – March 2012

Summary

As of March 31, 2011, just over \$400 million is available for Prop. S projects from two bond issuances plus \$31 million in retained state matching funds. \$337 million has been expended against total contractual obligations of \$385 million, leaving an unobligated balance of \$16 million.

In the July – September quarter, the District's bond advisors, Keygent, reported that declining assessed property values in San Diego would make further bond issuances difficult and perhaps impossible in the short run. The District refinanced bonds issued under Prop. MM and set aside \$57 million in a county tax reserve account that will be used to stabilize debt service payments. This provides the District some flexibility in future bond issuances and ensures that property tax rates wouldn't rise above the promised rate. The Board is now considering this year's bond issuance — discussed in more detail inside.

The District hired new bond advisors Feldman, Rolapp and Associates through a competitive selection process. The District has retained Gardner, Underwood, and Bacon as their bond underwriter. The District also terminated its management staffing contract with Gafcon-Vanir partnership after Gafcon Construction and Vanir Construction dissolved their partnership.

The i21 Program reevaluated its use of the terminology “netbooks” in favor of “student devices.” The District will purchase “student devices” that include the Apple iPad in addition to netbooks. While the majority will be tablets, netbooks will be used where their specific capabilities are needed. Fewer student devices than planned — 10,700 instead of 25,700 — will be purchased. A second phase of purchases will wait until after the next bond issuance. This delay in the 3rd year will have ripple effects in the 5-year program. The ICOC has ongoing concerns with the sustainability of the i21 Program and the use of bond funds for equipment with a limited shelf life. They sent a letter to the School Board expressing concerns about these delays.

Other ICOC activities during this quarter include the following:

- Issuing the Oct – Dec 2011 Quarterly Status Update and 2011 ICOC Annual Report
- The ICOC issued its review of the independent financial audit and performance audit

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.

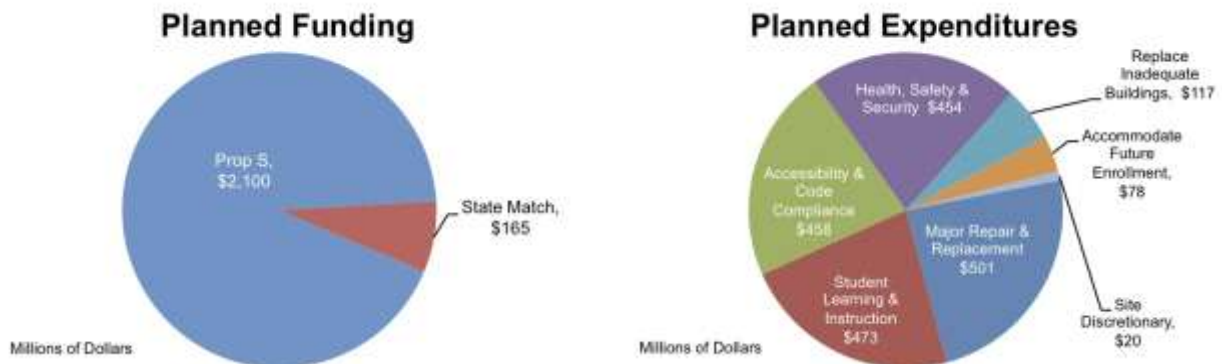
ICOC

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

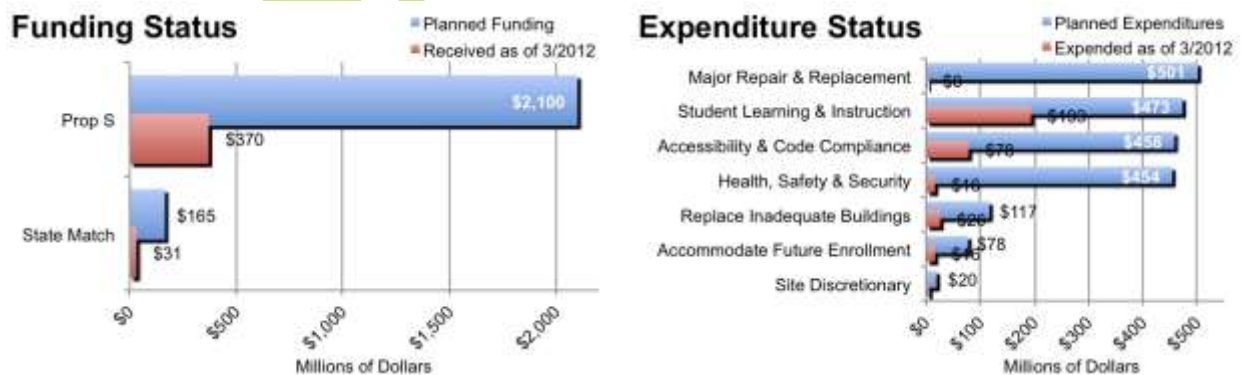
Prop. S authorized the issuance of \$2.1 billion in general obligation bonds. Completion of projects listed in the Prop. S ballot language is dependent on receiving of \$188 million in state matching funds.

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.



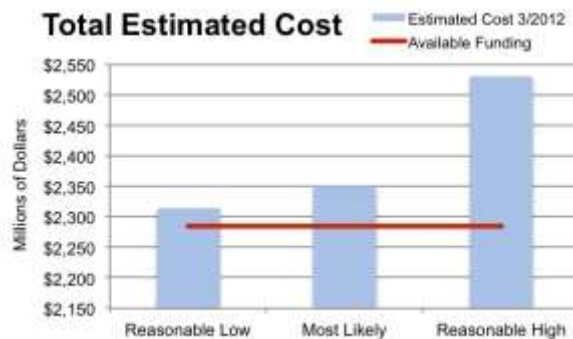
As of March 31, 2012, a total of \$369,997,581 in Prop. S bonds has been received from two bond issuances. No bonds have been sold since the July – September 2010 Quarterly Report. Since Prop. S passed, the District has retained \$31,109,887 in state funding to augment Prop. S projects. Expenditures to date total \$336,907,608 against total obligations of \$385,032,735. The 5-year plan will be revised due to the need to lower the size of future bond issuances and prolong the program. As of March 31, 2012, there is a total of \$16,074,732 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.



NOTE: Total accumulated expenditures for Student Learning are lower than reported last quarter. This is the result of an improved method of spreading PMO costs, which accounts for a lower level of PMO support being provided to the i21 project. PMO or Program Management Office costs are for required management and coordination work that cannot be identified to specific projects — this includes costs such as tracking of expenditures, scheduling of projects, business outreach, and legal support.

The District's Prop. S management team maintains a risk-adjusted cost estimate to complete all Prop. S listed work. The Total Estimated Cost (TIC) was adjusted this quarter based on financial analysis that predicts the last bond issuance will occur between 2021 and 2028. 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 Reasonable Low TIC assumes all construction is completed by 2022 and projects a \$20 million shortfall. The Reasonable High TIC estimate assumes all construction is completed by 2034 and estimates a \$240 million shortfall. The Most Likely projects a \$60 million shortfall.

In the July – Sept 2011 Quarterly Status Report, it was reported that the decline in assessed values would make it difficult to issue bonds in the coming year without refinancing. At the March 27 Board meeting, it was reported that, some Prop. MM bonds were refinanced. In refinancing, the District acquired added funding and set \$57 million additional funds in a tax reserve account, held by the County, that would act as a buffer to keep tax rates at or below the promised rate of \$66.70 per \$100,000 assessed value. Prop. MM had a similar buffer, which worked very well but was ultimately consumed by depressed assessed property values. The refinanced bonds have a revised payment schedule which begins in 2031 and includes two balloon payments in 2040 and 2041.

Refinancing allows the District to issue additional Prop. S bonds this year. Three options were presented by the bond advisors in March: 25-year final maturity bonds, 30-year final maturity bonds, and 40-year final maturity bonds. Each comes with advantages and disadvantages. Shorter-term bonds will result in less payments overall, but also less work completed. Longer-term

	25-year bonds	30-year bonds	40-year bonds
Bond Issuance	\$93 M	\$110 M	\$150 M
Paid off in Year	2048	2048	2052
Total cost per dollar	\$3.77*	\$4.10*	\$5.50*

NOTE: * calculated by (Issue Proceeds + Total Interest Cost) / Issue Proceeds

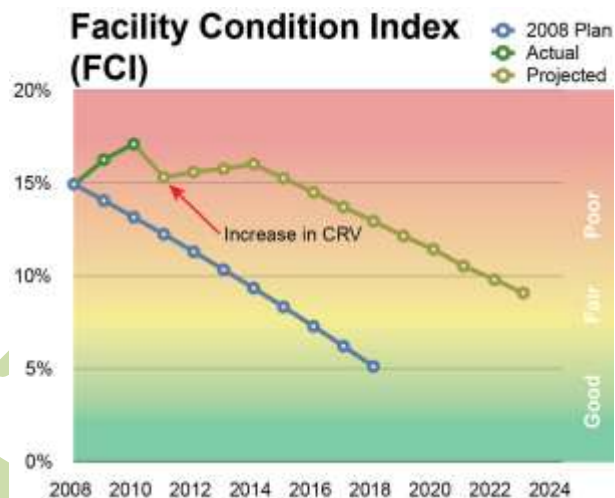
bonds will cost more, but allow more work to be completed faster. The bond advisors made projections based on a 1% rise in assessed valued this year and 5% each year thereafter – this is a much faster projected recovery then the original projections presented to the ICOC in May 2009, which reached 5% in 2015/16 (2 years later than current projections). Originally, it was expected that Prop. S cost per dollar would be \$2.80 paid off over 35 years.

The District's Prop. S management team has already conducted analysis on *similar* bond issuances' effect on the five year plan. Issuing 35-year bonds over the next five years should result in awarding 61 projects; issuing 40-year bonds should result in awarding 88 projects.

Under a 40-year bonding scenario, Prop. S may complete work in 2025. With 25-year bonds, Prop. S may finish in 2034. These projected timelines are reflected in the Reasonable High and Most Likely estimates in the TIC chart on the previous page.

The School Board is also considering a new ballot proposition to issue bonds through an increase in taxes. While review of this proposal, which is only a consideration at this point, falls outside of the ICOC oversight, the ICOC is interested in the potential impact it will have on the Prop. S program.

Physical Plant & Operations (PPO) has been using the FCI index to track the condition of District schools. In previous years, Prop. MM used \$301 million to complete MRR work and bring the FCI of District schools from 25% to 15%, which is still considered 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%, considered good condition, will not be achieved.



The start of Prop. S-funded MRR work was pushed back to 2014, the length of the program was extended from 10 to 15 years. 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. The MRR Plan estimated that the delay in the start of Prop. S funded MRR and inadequate annual funding of MRR will result in a \$137 million shortfall of achieving the 2008 goal to improve the condition of District schools.

The MRR program currently uses funding from the State School Facilities Fund (SSFF), which holds money received in state grants resulting from Prop. MM projects. MRR has been budgeted at \$25 million per year. Actual expenditures have been constrained in an effort to hang on to cash in the SSFF fund, preserve the District's credit rating, and increase the ability for short-term borrowing as other reserve 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. The District is expected to present their next annual MRR Plan in April.

Status of Projects

During this quarter, 14 active construction projects budgeted at over \$61 million were underway along with one phase of the i21 program valued at over \$40 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. Currently awarded construction work totaling \$54 million is 12.8% under budget and the current change order rate is 4.5%. While the Infrastructure/Connectivity Project is \$20 million over budget, the i21 Program is on budget.

The Data Center at Serra High School was on hold due to cash flow issues. Work done to date has been design work. It is now going to bid on the anticipation that more bond will be issued.

Active projects are shown to the right:

- 1) The following projects were completed this quarter:
 - Clairemont High School Stadium ADA Improvements
 - Hoover High School Green Workshops
 - Jefferson Elementary School Playground Expansion and CDC Addition
 - Marshall Elementary School Drop-Off and ADA Upgrades
 - Morse High School Autobody and Culinary Facilities
 - Morse High School Stadium Upgrades
 - Normal Heights Elementary School Heating, Ventilation, and Air-conditioning

- 2) The following project was started this quarter:
 - University City High School Lighting and Scoreboard

Project	Construction Budget	% Complete
Accessibility & Code Compliance		
Clairemont HS Stadium ADA Improvements	7,832,371	100.0% 1)
Replace Inadequate Buildings		
Health, Safety & Security		
Normal Heights ES HVAC	800,000	100.0% 1)
Marshall ES Drop-Off/ADA Upgrades	880,346	100.0% 1)
Meads HS HVAC	1,552,041	48.0%
Sessions ES Parking Lot & Drop/Pick-Up Upgr	1,944,272	92.0%
Student Learning & Instruction		
Data Center 2 at Serra HS	18,883,489	6.1% *
Yr-3: i21 Interactive Suite @ 881 CR's	40,436,247	36.8% *
Infrastructure/Connectivity @ 76 sites	78,188,691	3.2% *
Hoover HS Athletic Facilities	9,683,346	57.0%
Hoover HS Green Workshops	4,662,181	99.0% 1)
Morse HS Autobody & Culinary Facilities	9,594,919	98.0% 1)
Morse HS Child Development Program	3,286,457	74.0%
Point Loma HS Motion Picture/Music Room	5,772,699	83.0%
Point Loma HS Weight Room Building	931,989	78.0%
Multiple Categories of Work		
Jefferson ES Playground Exp & CDC Add	4,339,327	96.0% 1)
Morse HS Upgrade Stadium Complex	7,708,289	97.0% 1)
Scripps Ranch HS Technology Buildings	5,866,116	50.0%
University City HS Lighting/Scoreboard	1,463,799	22.0% 2)

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).

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.

The ICOC addressed several issues in this period, foremost among them the ongoing challenges with Prop. S financing and bond issuances. The ICOC received a presentation from new bond advisors, Fieldman, Rolapp, & Associates.



ICOC Members visited the new Student Drop-Off Area on the Kate Sessions Elementary School

The ICOC subcommittees conducted meetings and activities:

- The Audit Subcommittee did not meet this quarter
- The Construction Subcommittee reviewed changes in the i21 Program
 - A site walk of Kate Sessions Elementary School was held January 20, 2012
- The Executive/Governance Subcommittee completed work on the October – December Quarterly Status Report and reviewed the Colbi Technologies (the ICOC consultant) activities
- The Finance, Planning and Controls Subcommittee reviewed the expenses of the Prop. S bond underwriters Gardner, Underwood, and Bacon
- The MRR Ad-hoc committee met with District staff in March regarding the upcoming MRR Plan — a draft of the plan is expected in April

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>).

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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: [January 2012](#) and [February 2012](#)
 - ICOC: [January 2012](#), [February 2012](#), and [March 2012](#)

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.
 - ICOC: [January 2012](#)
- **Business Outreach Program** This program is routinely reviewed and monitored by the ICOC.
 - The Business Outreach Narrative is reviewed quarterly by the ICOC
 - ICOC: [January 2012](#)
 - Business Outreach Program Events Overviews are reviewed periodically
 - Construction Subcommittee: [January 2012](#), [February 2012](#), and [March 2012](#)
- **Project Stabilization Agreement (PSA)**
 - Construction Subcommittee: [January 2012](#), [February 2012](#), and [March 2012](#)
- **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: [January 2012](#), [February 2012](#), and [March 2012](#)
 - Construction Subcommittee and ICOC review the Construction Management report monthly; it provides a status summary of ongoing construction projects.
 - Construction Subcommittee: [January 2012](#), [February 2012](#), and [March 2012](#)
 - ICOC: [January 2012](#), [February 2012](#), and [March 12](#)
 - i21 Program Summary is reviewed by the Construction Subcommittee and ICOC on a monthly basis.
 - Construction Subcommittee: [January 2012](#), [February 2012](#), and [March 2012](#)
 - ICOC: [March 2012](#)
 - Special Reports
 - No specific activity this quarter.
- 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: No specific activity this quarter.
 - ICOC: No specific activity this quarter.

Special Reviews

- Keygent Advisors presented an independent financial analysis of proposed bond issues to the ICOC in October. This was presented to the FPC Subcommittee in September.
 - ICOC:

Actively Review Proper Expenditure of Bond Funds (continued)

Inspect Schools and Grounds

On-Site Project Reviews

- ICOC walkthroughs in the first quarter of 2012.
 - Construction Subcommittee: Kate Sessions Elementary School on January 20, 2012

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: [February 2012](#)

Receive & Review Annual Performance Audit

Receive & Review Annual Performance Audit

- Prop. 39 bonds require an annual, independent performance audit.
 - The ICOC issued a letter to the Board of Education regarding the Performance Audit and the Financial Audit: [January 2012](#)

Receive & Review Annual Financial Audit

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- Prop. 39 bonds require an annual, independent financial audit.
 - The ICOC issued a letter to the Board of Education regarding the Performance Audit and the Financial Audit: [January 2012](#)

Receive & Review Deferred Maintenance (DM) Plan

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

- On March 5, 2012 the MRR Ad Hoc subcommittee met with staff for a presentation of deferred maintenance and the annual MRR Plan.

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](#)
- [Quarterly Status Update for July – September 2011](#)
- [Quarterly Status Update for October – December 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](#)
- [Prop. S – ICOC Annual Report – 2011](#)

District Communications

Monthly Communications Report: District public communications regarding Prop. S.

- ICOC: [March 2012](#)