

ICOC QUARTERLY STATUS UPDATE

July – September 2012



BACKGROUND

PROP. S

Proposition S is the \$2.1 billion bond measure passed by San Diego voters in 2008. This bond program provides resources to repair, renovate and revitalize 181 San Diego schools, and provides matching funds to construct classrooms and schools to accommodate enrollment growth in Miramar and downtown.

ICOC

The Independent Citizens' Oversight Committee is the legally required committee appointed by the Board of Education 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 and cannot be used for teacher or administrative salaries.

GET INVOLVED

ICOC meetings are open to the public. For times, locations, and past minutes, please visit our website:

WWW.SANDI.NET/PROPS/ICOC

Summary

Prop. S has been, and continues to be, challenged by current economic conditions. Nevertheless, progress toward many of the promised goals has been made.

The unprecedented decline in property values in recent years has constrained how quickly the \$2.1 billion authorized by voters can be obtained. In 2008, financial planners expected to issue all authorized bonds in 10 years. Current estimates predict that it may take 15 to 18 years. The economic downturn and the decline in property values means that capital appreciation bonds (CABs) were needed to continue work on Prop. S projects.

The Finance/Audit subcommittee grappled with the controversy of the CABs issued in May 2012. Their issuance removed a hold on new projects, but the bonds have a debt repayment ratio considered "Cautionary" by the County of San Diego Treasurer-Tax Collector. That decision was detailed in the previous Quarterly Status Update.

The district also introduced new analysis of facility conditions, detailed on page 2 of this update. The 2008 goal to improve the condition of school facilities will not be achieved by Prop. S.

The third year of the i21 program to create 21st century learning environments was likewise delayed, but is targeted to finish in November.

Other ICOC Activities

- ▶ Issued the April – June 2012 Quarterly Status Update
- ▶ Decided to merge the Finance and Audit subcommittees into one subcommittee
- ▶ The ICOC has three vacant positions

Financial Status

Received Previously	551,106,292
Received this Quarter	13,665,003
Received to Date	564,771,295
Expended Previously	382,247,632
Expended this Quarter	6,474,211
Expended to Date	388,721,843
Committed to Date	538,909,452
Uncommitted Balance	25,861,843

Status of Projects

Fourteen construction projects budgeted at over \$98 million were underway along with one phase of the i21 program, infrastructure improvements at 76 schools, and the Data Center at Serra High School.

Projects	Status
ALBA Phase 3 Improvements	50%
CPMA Kroc Performing Arts	7%
Serra HS Data Center 2	20%
Encanto ES Classrooms	10%
Euclid ES Classrooms	11%
Hoover HS Athletic Facilities	100%
Hoover HS Restroom Upgrades	0%
i21 Year 3	72%
Infrastructure/Connectivity	6%
Knox MS Modernization	16%
Language Academy New Building	9%
Madison HS Weight Room	40%
Mira Mesa HS Broadcast	16%
Morse HS Child Development	74%
Point Loma HS Motion Picture	99%
Point Loma HS Concessions	8%
Zamorano ES Classrooms	10%

RECENTLY COMPLETED

Hoover HS Athletics Facilities
 Point Loma HS Music Room and Motion Picture Facility

RECENTLY STARTED

Hoover HS Restroom Upgrades
 Language Academy K-8 New Building & Building Addition
 Madison HS Weight Room
 Point Loma HS Restrooms/Concessions Stand

For detailed project status info, please visit:

FPCPROJECTS.SANDI.NET



Point Loma HS Music Room and Motion Picture Facility



Construction begins at the Language Academy new building

Quarterly Spotlight

Facility Conditions

One of the objectives of Prop. S is addressing the many needed repairs in the district schools. Out of the \$2.1 billion bond program, \$501 million was designated for specific Major Repair and Replacement (MRR) work. It was a major focus of Prop. MM, too. The ICOC's duty is to review the the Deferred Maintenance (DM) Plan and the MRR Plan.

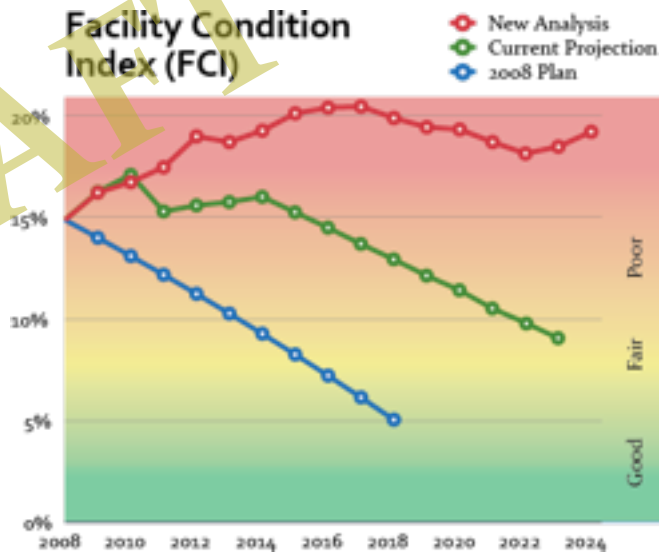
The District measures the condition of facilities with a Facilities Condition Index (FCI). In its simplest form, the FCI is derived by dividing the cost of needed repairs by the replacement value of district property — the lower the percentage the better the facility condition. By 2008, Prop. MM work had brought the FCI down to 14.4%, which is still considered poor condition. One goal of Prop. S was to bring the FCI down to 5% (good condition) over the course of ten years.

The ICOC has reported that the 2008 goal will not be met.

Last quarter, the district prepared a new analysis of DM and MRR needs and presented it on June 19th at a Board Construction Bond Workshop. As part of the new analysis, AECOM Technology Services conducted a facility condition assessment. The ICOC was briefed on August 30.

They developed a new FCI chart with more rigorous analysis of needed repairs (including cost inflation or repair work, addition of new facilities, continued deterioration of existing facilities, repair and replacement work, and the fact that capital improvement work may eliminate the need for some work). The new analysis predicts that facility conditions will continue to decline, even after all Prop. S work is completed.

Facility Condition Index (FCI)



By 2025, the FCI will reach 22.4%, equal to the very poor facility conditions that existed before Prop. MM began. The cost to improve facilities to a 5% FCI is projected to be \$2.6 billion by 2029. Even then, there will be a continuing annual need of \$132 million to maintain facilities at 5%.

At the June 19th board workshop a recommendation for a new construction bond was made: Prop. Z. The new bond would be used in conjunction with completion of Prop. S and over \$400 million in other funding to accomplish the MRR and DM work needed to improve school facility conditions to 5% FCI.

If Prop Z is approved by voters, there will be a plan in place to improve the condition of capital assets of the district and protect taxpayer investments.

Financial Summary

Status

Prop. S authorized the issuance of \$2.1 billion in general obligation bonds. As stated in the bond measure, projects listed in Prop. S depend in part on state grants — currently the district anticipates receiving \$165 million in state funds.

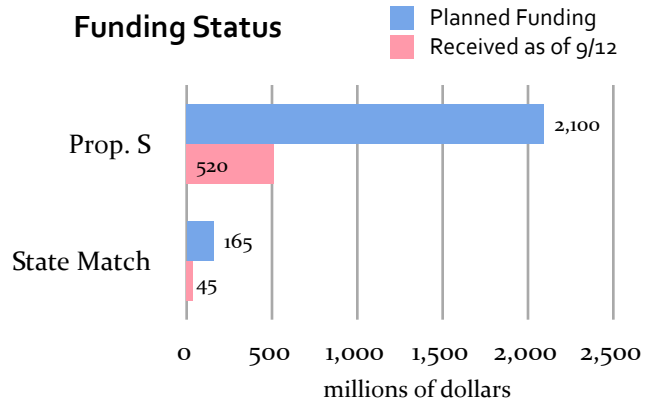
As of August 31, 2012, a total of \$519,996,405 in Prop. S bonds has been received from three bond issuances. The district has received/retained \$44,774,890 in state funding to augment Prop. S projects. Expenditures to date total \$388,721,843 against total obligations of \$538,909,452. The 5-year plan will be revised due to the need to lower the size of future bond issuances and prolong the program. As of August 31, 2012, there is a total of \$25,861,843 in uncommitted funding.

The May 2012 bond issuance enabled the award of contracts previously on hold due to Prop. S cash flow issues. The high fund balance will decline as work is performed against awarded contracts.

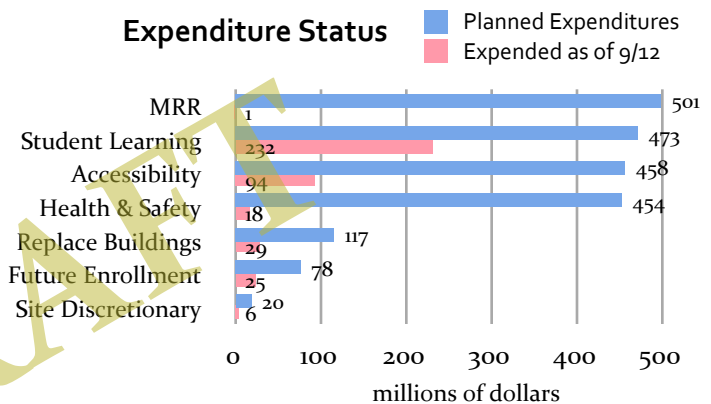
Total Indicated Cost

The district's Prop. S management team maintains a risk-adjusted cost estimate to complete all Prop. S listed work. The Total Indicated Cost (TIC) on the right shows the available funds v. the cost to complete all work. The single most influential risk factor in this estimates is time — the longer it takes to complete construction work, the higher the cost.

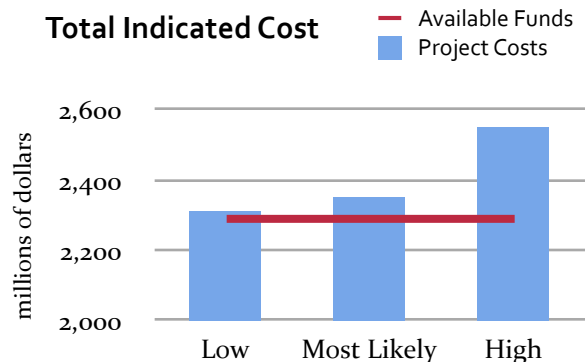
The Reasonable Low TIC assumes all construction is completed by 2022 and projects a \$20 million shortfall. The Reasonable High TIC estimate assumes all construction is completed by 2034 and estimates a \$260 million shortfall. The Most Likely projects a \$60 million shortfall.



[data depicted above]	Received	Planned
Prop. S Funds	\$ 520 M	\$ 2,100 M
State Matching Funds	\$ 45 M	\$ 165 M



[data depicted above]	Expended	Planned
Major Repair & Replacement (MRR)	\$ 0.5 M	\$ 501 M
Student Learning & Instruction	\$ 232 M	\$ 473 M
Accessibility & Code Compliance	\$ 94 M	\$ 458 M
Health, Safety & Security	\$ 18 M	\$ 454 M
Replace Inadequate Buildings	\$ 29 M	\$ 117 M
Accommodate Future Enrollment	\$ 25 M	\$ 78 M
Site Discretionary	\$ 6 M	\$ 20 M





Documents Reviewed and Available Online

Document	Reviewed	July	Aug	Sept
Review Expenditure of Bond Funds				
Monthly Controls Status Report	ICOC, Fin	●	●	●
A monthly report of Prop S financial information: planned v. actual, funds v. expenditures				
Staffing Plan	ICOC			
Status updates of staffing changes approved by the Board and designed to lower costs				
Business Outreach Narrative	ICOC		●	
Business Outreach Program Events	Con		●	●
Project Stabilization Agreement (PSA)	Con			●
Labor Compliance Program	ICOC			
Joint-Use Efforts	ICOC			
Project Management Report	Con	●	●	●
A 5-year implementation plan with scheduled milestones of planned projects				
Construction Management Report	ICOC, Con	●	●	●
Status summary of ongoing construction projects				
i21 Program Summary	Con	●		●
i21 Fourth Quarter Update	ICOC, Con		●	
BOE Look Ahead Report	ICOC, Fin			
A report designed to keep the ICOC informed of items submitted to the Board				
Inspect Schools & Grounds				
No activity this quarter				
Review Efforts to Reduce Costs				
Cost Savings Measure Matrix	ICOC, Con	●		
Receive & Review Annual Performance Audit				
Performance Audit expected Dec 2012		Previous FY 11-12: ●		
Receive & Review Annual Financial Audit				
Financial Audit expected Dec 2012		Previous FY 11-12: ●		
Receive & Review Deferred Maintenance Plan				
No activity this quarter				

- ▶ Fin: Finance/Audit subcommittee
- ▶ Con: Construction subcommittee
- ▶ Gove: Executive/Governance subcommittee

The ICOC conducts regular oversight to actively review the proper expenditure of bond funds. Documents are typically prepared by district staff and reviewed by the ICOC. Audits are performed by independent auditors. The ICOC prepares school & grounds inspection reports, quarterly status updates and annual reports.

INFORM THE PUBLIC ON BOND FUNDS

ANNUAL REPORTS

- ▶ 2009 ICOC Annual Report
- ▶ 2010 ICOC Annual Report
- ▶ 2011 ICOC Annual Report

QUARTERLY STATUS UPDATES

- ▶ Start – December 2009
- ▶ January – March 2010
- ▶ April – June 2010
- ▶ July – September 2010
- ▶ October – December 2010
- ▶ January – March 2011
- ▶ April – June 2011
- ▶ July – September 2011
- ▶ October – December 2011
- ▶ January – March 2012
- ▶ April – June 2012

DISTRICT COMMUNICATIONS

- ▶ Monthly Communications Report
 - ▶ July 2012
 - ▶ August 2012
 - ▶ September 2012

ICOC WEBSITE:

WWW.SANDI.NET/PROPS/ICOC