

[page 1]

San Diego Unified School District
Independent Citizens' Oversight Committee
Annual Report 2014

Props. S and Z Building Quality Neighborhood Schools

Dear Taxpayers,

I'm pleased to present this annual report of the Independent Citizens' Oversight Committee (ICOC). This is our sixth annual report. The purpose of the ICOC is to inform the public concerning the proper expenditure of bond revenues.

The ICOC is a committee of thirteen. However, there are currently three vacancies and we are seeking volunteers to join us in our oversight activities.

In previous Annual Reports, we talked about the difficulties Prop. S faced in issuing bonds and beginning construction projects. To alleviate this, they proposed and passed the \$2.8 billion Prop. Z in 2012. The first bonds were issued in May 2013. Now both Props. S and Z are moving at a rapid pace. Active construction was underway on nearly a hundred projects, totaling over \$340 million in construction value. The i21 Program to outfit every classroom, student, and teacher with state-of-the-art technology is nearly complete. The District is rapidly replacing HVAC systems across dozens of campuses, with eighteen complete so far. A new elementary school (Salk ES) was completed, as well a tech academy (at Hoover HS), a performing arts center (at CPMA) and numerous upgrades, modernizations, and improvements across the district.

When we include design work, it's over a hundred projects underway, all managed by Facilities Planning & Construction (FPC) and Physical Plant Operations (PPO) divisions. The majority of this work is contracted out — mostly to local businesses. The District maintains an active business outreach program with specific goals to employ minority and emerging businesses. This includes businesses owned by disabled veterans, minorities, and women as well as small businesses. Over half (51%) of the construction work, and nearly half (43%) of the professional services work in 2014 was awarded to businesses in these categories.

Thanks go to departing members Barbara Flannery, and Brian Pollard for their service, and a welcome to our newest members Alisa Reinhardt, Jerry Butkiewicz, and Tashonda Taylor. The ICOC will continue to monitor Props. S and Z programs, and keep our community informed.

Sincerely, Andrew Berg Chair

2014 Highlights

During the year there were a hundred construction projects across 75 school campuses totaling well over \$340 million in construction value. In addition, design work is underway at 34 school campuses. Refer to page [X] for more details.

- Prop. S bond issue of \$65 million.
- Thirty-eight projects were completed, including 18 air-conditioning projects
- An additional 34 projects are under construction, including 16 air-conditioning projects.
- Construction of Salk Elementary School was completed.
- i21 technology suite is nearly complete with 73% of all district classrooms (3,982 of 5,456) fully functional in December of 2014. In January 2015, over 20,000 student devices are scheduled to be deployed to complete the i21 program.

2015 Expectations

The fast pace of construction will continue, fueled in part by expected sale of additional Props. S and Z bonds.

- Begin construction on another 46 projects including:
 - Seven whole site modernization projects.
 - Final equipment installation in new data center at Sierra HS.
- Completed repair work will outpace natural facility deterioration for the first time since 2006; see Deferred Maintenance on page [\[X\]](#) for more info.
- Refresh of i21 equipment purchased in 2009 — over 35,000 student devices and 1,343 principal and teacher devices to be replaced.
- Issue of additional Props. S and Z bonds

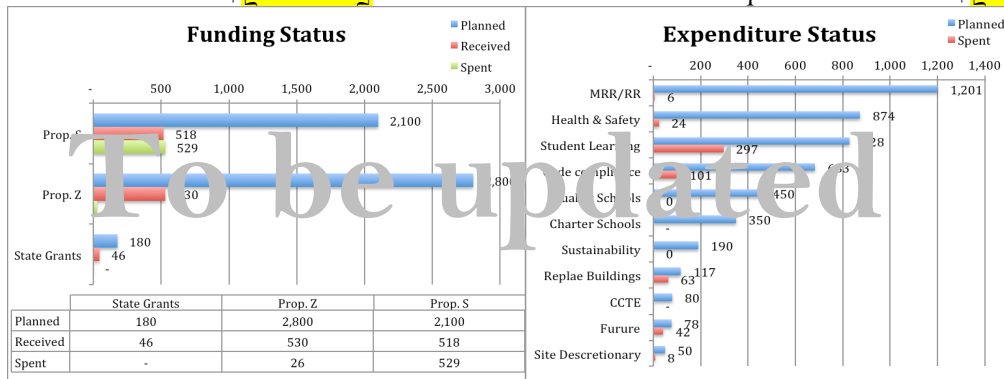
DRAFT

Financial Status [update with latest available numbers]

Prop. S authorized issue of \$2.1 billion in general obligation bonds; Prop. Z authorized \$2.8 billion. Some projects listed in the propositions depend in part on state grants — the district currently anticipates receiving a total of \$180 million in state grants. The district has received \$46 million in state funding to date.

As of [December] 2014, \$583,191,477 in Prop. S bonds have been received from five bond issuances. The next bond sale is expected in 2015. Expenditures total \$[.XXX.] against total awarded contracts and commitments of \$[.XXX.] (includes State grants). Uncommitted available Prop. S funds and State grants total \$[.XXX.]

As of [December] 2014, \$530,000,000 in Prop. Z bonds have been received from one bond issuance. The next bond sale is expected in 2015. Expenditures total \$[.XXX.] against commitments of \$[.XXX.]. Uncommitted available Prop. Z funds total \$[.XXX.]



Prop. S committed to not raise property taxes above \$66.70 per \$100,000 of property valuation to pay for both Prop. MM and Prop. S bonds. Property value decreases in recent years together with this commitment slowed the issue of new Prop. S bonds. In January the Board authorized another refinancing of Prop. MM bond debt. Savings from the refinancing enabled more Prop. S bonds to be issued without exceeding promised tax rates¹. In April 2014 the district held a bond sale for two series of Prop. S bonds; Series F, short-term bonds for \$15 million and Series G for \$50 million.

[data depicted above]	Planned Prop. S	Planned Prop. Z	Total Expended
Major Repair/Replacement (MRR) and Repair/Replacement (R) Projects	\$ 11 M	\$ 700 M	\$ 6 M
Health, Safety & Security	\$ 4 M	\$ 42 M	\$ 24 M
Student Learning & Instruction	\$ 3 M	\$ 355 M	\$ 297 M
Accessibility & Code Compliance	\$ 458 M	\$ 225 M	\$ 101 M
Quality Neighborhood Schools	—	\$ 450 M	\$ 0.07 M
Specific Charter School Projects	—	\$ 350 M	—
Energy Efficiency & Sustainability	—	\$ 190 M	\$ 0.04 M
Replacement/Qualifying Buildings	\$ 11 M	—	\$ 63 M
College, Career & Technical Education (CCTE)	—	\$ 80 M	—
Accommodate Future Enrollment	\$ 78 M	—	\$ 42 M
Site Discretionary	\$ 20 M	\$ 30 M	\$ 8 M

Prop. Z as approved by voters was a tax increase and the Board committed to not issuing any CABs as part of the Prop. Z program. Only one bond issue has been made. The issue had multiple parts, including short-term bonds to purchase technology equipment, and long-term bonds to fund capital improvements. The next expected Prop. Z bond issue will be in 2015 for about \$500 million.

¹ Refinancing consisted of issuing new Prop. MM bonds at a more favorable rate, series R-3 for \$199.3 million, to pay off higher rate Prop. MM bonds resulting in lower bond debt and payments.

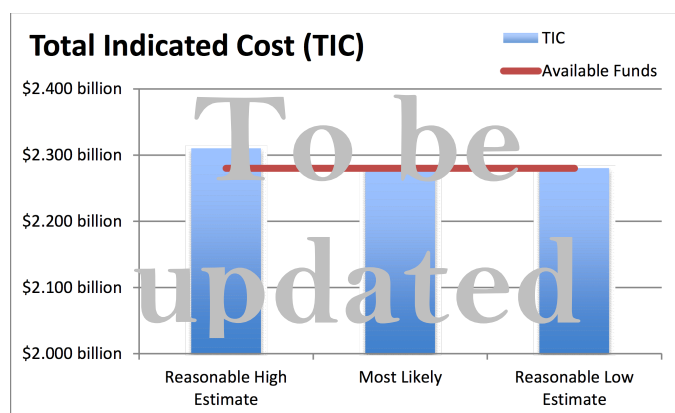
Project Status

Props. S and Z projects are being completed based on a common set of priorities with an emphasis on facility condition and need major repair and replacement (MRR) work. The pace of project work has increase substantially reaching \$1 million per day. Nearly 100 bond funded projects across 75 campuses were underway during 2014. See the list of completed major projects on page [X] of this report. The District's School Facilities Projects website has bond project information for all District school sites [link: <https://fpcprojects.sandi.net>].

Prop. Z set aside \$350 million for completion of charter school projects, and the Board established the Charter School Facility Committee (CSFC) to make recommendations regarding the acquisition, construction, reconstruction, rehabilitation, or replacement of charter school facilities. One member of the ICOC also sets on the CSFC and provides a informal coordinating link between these two committees. Through November 2014 \$10.5 million has been spent on charter school projects. See the CSFC website [link: <http://www.sandi.net/Page/50499>] for access to CSFC meeting information and instructions to charter schools on how to apply for these funds. [link: to latest project status: <http://www.sandi.net/cms/lib/CA01001235/Centricity/Domain/15662/Project%20Status%20report%20-%20Handout%203.0.pdf>]

The 5-year i21 program is in the process of final closeout. The program installed interactive smart boards, DVD players, wireless networking and voice amplification systems in all District classrooms and provided digital devices for every teacher and student. All 5,456 District classrooms have been equipped with the i21 suite of equipment, which includes 5,934 teacher devices and 120,228 student devices. The wireless infrastructure that supports these digital devices includes over 11,000 wifi access points. The newly built data center is operational and will be fully outfitted and equipped during 2015. The ICOC has been monitoring the tracking of teacher training and adoption of the new technologies into everyday teaching and learning activities. Teacher training on how to operate the new equipment is funded by bond proceeds. Training on using the new technology to teach more effectively is funded through the District's annual operating budget. Over 20,000 man-hours of training was provided during 2014. The i21 equipment refresh program will begin in 2015. Student and teacher digital devices purchased 5 years ago, when i21 started, will be replaced using funds from short-term bonds that will be paid off by taxpayers before the devices need to be replaced again.

The District's management team maintains a risk-adjusted cost projection to complete all Props. S and Z work. This cost projection is referred to as the Total Indicated Cost or TIC. The TIC currently projects that there will be enough funding to finish all work listed in the ballot language of Props. S and Z.



Deferred Maintenance

Review of the District's Deferred Maintenance and Major Repair and Replacement (MRR) programs is a task assigned to the ICOC by the state's Education Code and Board policy. Deferred Maintenance refers to any major recurring maintenance, repair or replacement work, while MRR refers to repair or replacement work with an expected useful life exceeding 20 years.

The current condition of District school facilities is poor — repair work is not keeping pace with normal deterioration. The Major Repair and Replacement Plan (MRR Plan) lays out how the condition of District facilities will be improved. In 2015 repairs should out pace deterioration and result in measurable improvement.

Board policy, requires that the MRR Plan regularly report: 1) the condition of District schools, 2) long-term funding needs for Deferred Maintenance and MRR work, 3) the adequacy of annual recurring funding available, and 4) status of debt funding mechanisms used. In addition, policy requires that all related work be coordinated with capital expansion and improvement work in order to leverage all available funding.

The condition of facilities is measured using the Facility Condition Index (FCI). The FCI is calculated by dividing the cost of needed repair and maintenance by the facility's current replacement value, and is expressed by a percentage. The lower the percentage is, the better the condition of the facilities being measured.

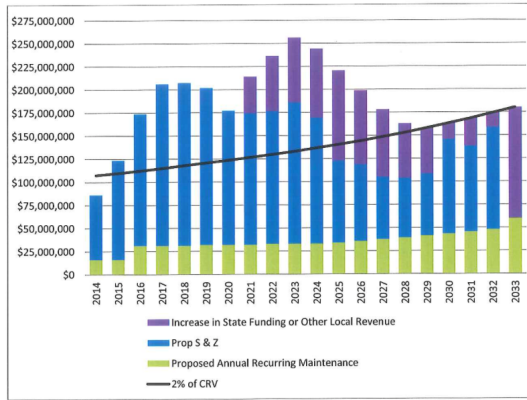
The aggregate FCI of all District schools is 22%; this is considered poor. The MRR Plan projects that Prop. S and Prop. U work, in conjunction with a 100% increase in funding from the annual operating budget, will improve conditions to an FCI of 15% within six years. It will take another seven years, more funding increases from the annual operating budget, and additional funding sources yet to be identified to improve aggregate conditions to 'good' (FCI of 6%).

The cost of maintaining pace with normal deterioration of all District facilities (annual need) is about \$107 million each year. The annual operating budget has only \$16 million available to meet this need. In addition, there is a \$1.1 billion need accumulated from previous years. Available annually recurring funding cannot fully address Deferred Maintenance and MRR needs.

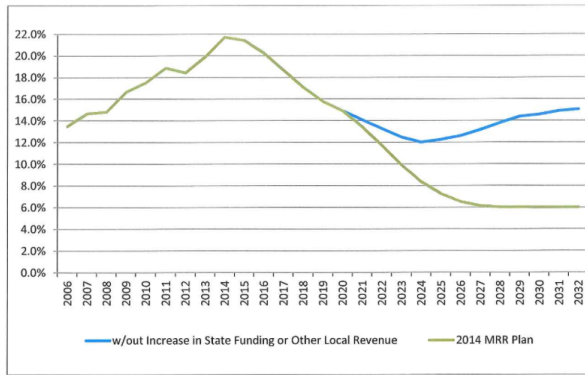
In total, \$3.763 billion is needed to catch-up, improve and to keep District facilities in a 'good' condition through the year 2032 when revenues from Props. S and Z will be exhausted. Included in this figure is needed repair and replacement work that will be completed, or eliminated, by planned capital expansion and improvement work. The total debt service cost (cost to taxpayers) to complete repair and replacement projects (not including costs for any expansion and improvement project work) will exceed \$4 billion; assuming that \$668 million of this amount can be met with additional revenue that is not borrowed money.

In 2033, the annual need to maintain pace with deterioration will be about \$175 million. The long-term challenge of securing an adequate source of annual funding to meet continuing Deferred Maintenance and MRR needs remains unresolved.

Proposed Annual Recurring Maintenance Funding Plan



2014 MRR Plan FCI Projections



replace 2% CRV w/ "Annual Need"
 replace Other Revenue with "Additional Needed Funding"

label/color-code: Poor, Fair, Good ranges
 replace: 2014 MMR with "Know Funding"
 Other Revenue with "Additional Needed Funding"

DRAFT

Completed Projects

Audubon K-8 Slope Repair
Boone/Washington K-2 Exiting
Improvements
Chavez/Jefferson/Rosa Parks Exiting
Improvements
Chollas ES Modernization
Clark MS Exterior Paint
CPMA Kroc Modernization & Performing
Arts Center
Cubberley ES Storm Drain Repair
Dana MS Turf Baseball Field
Emerson Bandini ES Turf Field
Euclid ES Classrooms
Fulton K-8 Turf Field
Hoover HS Tech Academy
Jefferson ES Entrance
Kearny HS Exterior Paint
Knox MS Modernization
Loma Portal ES Turf Field
Salk ES New School
SCPA Theater Upgrade
Scripps Ranch HS Exterior Paint
Standley MS Elect. Upgrades

Completed HVAC Projects:

Audubon K-8
Boone ES
Dingeman ES
Fulton ES
Gage ES
Hage ES
Hardy ES
Hearst ES
Language Academy
Lewis MS
Marvin ES
Mason ES
Miramar Ranch ES
Nye ES
Scripps Ranch HS
Valencia Park ES
Webster ES
Zamorano ES

Projects in Process

Bell MS Modernization
Clairemont HS Academy of Business
Technology
Encanto ES Modernization
Euclid ES Special Education Remodel
Hamilton ES Modernization & New
Classroom
Henry HS Theater, Production, &
Modernization
Kearny HS Athletic Facilities
Improvements
Kearny HS Track & Football Field
Mission Bay HS Athletic Facilities
Improvements
Mission Bay HS Track & Field
O'Farrell Charter HS Buildings & Gym
Pershing MS Modernization
Salk ES Solar Carports
San Diego HS P.A. System
San Diego HS Science Tech Classrooms
Univeristy City HS Athletic Facilities &
Parking Upgrades
University City HS Athletic Field
Whittier K-12 Turf Field

HVAC Projects in Progress

Angier ES
Benchley/Weinberger ES
Carver ES
Foster ES
Holmes ES
Johnson ES
Kumeyaay ES
Lee ES
Marshall ES
Millennial Tech MS
Mira Mesa HS
Oak Parks ES
Paradise Hills ES
Perry ES
Rosa Parks ES
SCPA

[page 6]

Audits

[..subject to change based on review of completed audits..] The required annual audits of the Props. S and Z programs were conducted by an independent auditor, Christy White Accountancy, in accord with Government Auditing Standards issued by the Comptroller General of the United States.

Performance Audits

[..subject to change based on review of completed audits..] The purpose of the performance audits is to confirm that the use of Props. S and Z funds were expended only on the specific projects listed in the bonds. The auditor issued an opinion that the Props. S and Z programs complied in all material respects with the requirements of the bond measures and with applicable sections of the California Constitution and Education Code.

[..make sure to mention that Performance Audit scope exceeds minimum scope specified in EdCode/CA-Constitution..].

[..add specifics based from completed audits..]

Financial Audits

[..subject to change based on review of completed audits..] The purpose of the financial audit is to obtain reasonable assurance that the financial statements regarding Props. S and Z are free of material misstatement. The auditor issued an opinion that the Props. S and Z financial statements present fairly, in all material respects, the financial position of the Props. S and Z bond funds as of June 30, 2013 and conformed with generally accepted accounting principles.

[..add specifics based from completed audits..].

ICOC Oversight

The Independent Citizens' Oversight Committee is the legally required committee that actively reviews the proper expenditure of Props. S and Z funds and regularly informs the public and the Board concerning Props. S and Z expenditures. All ICOC meetings are publicly noticed and open to the public.

The ICOC is comprised of thirteen volunteers appointed by the Board of Education. The ICOC has established three standing subcommittees to carry out oversight activities. The funding source and scope of each project is reviewed to determine that work being completed by the project was listed in the appropriate bond. ICOC members conduct walk-through inspections of construction sites, review planning and financial status reports, and examine audit reports to verify that the District is using bond dollars effectively, responsibly, and in compliance with the ballot language in Props. S and Z.

Visit the ICOC website at www.sandi.net/props/icoc for more information.

COPIES OF PAST ANNUAL REPORTS, QUARTERLY REPORTS, PERFORMANCE AUDITS, AND FINANCIAL AUDITS, AND ARE AVAILABLE ON THE ICOC WEBSITE.

2014 ICOC Members

David Akers
Andrew Berg
Jerry Butkiewicz
Miles Durfee
Matt Kriz
Mike Magallanes
William Ponder
Alisa Reinhardt
Kim Schoette
Toshonda Taylor
Vacant
Vacant
Vacant

ICOC Contacts

Phone: 858-637-3609

Email: icoc@sandi.net

Web: www.sandi.net/props/icoc

ICOC meetings are open to the public and are typically held at 4:00 p.m. on the third Thursday of the month at the Physical Plant and Operations (PPO) Training Room A center, located at 4860 Ruffner St., San Diego, unless otherwise noted in the posted agenda. See website for the schedule and location of ICOC Subcommittee meetings.