

DRAFT

ANNUAL REPORT 2013

PROP. S AND PROP. Z

REPAIR, RENOVATE, REVITALIZE



2013 HIGHLIGHTS

Last year marked the fifth year of the Prop. S bond program to repair, renovate and revitalize schools within the San Diego Unified School District. During the year there were construction projects on 40 school projects totaling over \$300 million in construction value. In addition, design work is underway at 41 school campuses.

- i21 technology suites were installed in 897 classrooms bringing the total of classrooms equipped with i21 suites to 4,318, 79% of all classrooms
- Data Center building completed
- New Downtown School/Library completed
- New Classroom Buildings at four schools
- Revised 2-Year Plan developed and approved

2014 EXPECTATIONS

Over 41 projects are in design and bid phase. In previous years, the ICOC was reporting schedule delays because of the inability to issue Prop. S bonds as quickly as originally anticipated. Now, with stabilization of the economy and Prop. Z bond authorizations, project timelines have stabilized.

- i21 should be finished with the completion of 1,146 remaining classrooms
- Replacement of first year i21 student devices
- Start whole site modernization on six schools
- Begin construction on two more College Career Technical Education (CCTE) projects
- Stadium upgrades at two more high schools
- HVAC for 2000 classrooms underway

LETTER FROM THE CHAIR

Dear Taxpayers,

The Independent Citizens' Oversight Committee (ICOC) saw a lot of changes last year. The committee was restructured and expanded to oversee expenditures for both Prop. S and Prop. Z bond programs. Committee members may now serve up to three consecutive 2-year terms and the requirements for quorum were modified to be the majority of appointed members. While the ICOC is a committee of 13, there are four vacancies. The District is seeking volunteers.

The first issue of Prop. Z bonds was in May 2013. The District issued a total of \$530 million (\$116 million in short-term bonds and \$414 million in long-term current interest bonds). The short-term bonds will be used to replace existing short-life equipment, and will be paid-off by 2015. No Prop. S bonds were issued in 2013 and nearly all available Prop. S proceeds have been expended. The Board is considering issuing Prop. S bonds next year. The next Prop. Z issue is expected in 2015.

In total 64 projects have been completed by Prop. S and Prop. Z; see page 5 for projects completed in 2013. While the cost of construction is increasing after the economic slow-down, most projects are being completed under budget. Current projections are that there will be sufficient funding to complete all projects listed in the bond measures.

Last year was not without its share of controversy. The CA Fourth District Court of Appeals handed down a decision that said, in part, that Prop. S bond funds could not be used to fund field lighting as part of listed projects to upgrade track, field and athletic courts for accessibility compliance. As a result, the ICOC has modified reviews of project work scopes to insure that all work completed as part of a project is appropriate and consistent with the project as listed in the bonds.

ICOC activities last year included site visits to the Creative Performing Media Arts (CPMA) Middle School, Knox Middle School, and the new e3 Civic High School in the downtown library. An ad-hoc committee was formed to review the Business Outreach Program and search for more ways to improve opportunities and the diversity of contractors, consultants, and workers within the Prop. S and Prop. Z building program.

Thanks to our departing members Jaime Barton, John Daley, John Gordon, Douglas Gray, Michelle Huffaker, Gil Johnson, Leonard Pinson, and Deanna Spehn for their service. The ICOC will continue to monitor Prop. S and Prop. Z programs, and keep our community informed.

Sincerely,
Andrew Berg, Chair

FINANCIAL STATUS

Prop. S authorized the issuance 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 \$46,398,223 in state funding to date.

As of December 2013, a total of \$518,095,751 in Prop. S bonds has been received from three bond issuances. Expenditures total \$535,116,036 against total awarded contracts and commitments of \$560,473,859 (includes State grants). Uncommitted available Prop. S funds and State grants total \$4,020,115.

As of October 2013, a total of \$530,000,000 in Prop. Z bonds has been received from one bond issuance. Expenditures total \$45,559,169 against commitments of \$220,140,168. Uncommitted available Prop. Z funds total \$311,242,382.

Prop. S committed to not raising 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. The District reviews opportunities annually to refinance bond debt to lower the total cost of bonds to taxpayers. The Board is considering another refinancing of Prop. MM bond debt. Savings from the refinancing should enable a Prop. S bond issue in 2014 without exceeding promised tax rates. The Board held a public meeting in December to consider issuing of about \$17 million in short-term bonds to fund technology projects, and \$50 million in 25-year Capital Appreciation Bonds (CABs) to fund capital projects. On January 7, 2014, the Board authorized the refunding of Prop. MM debt and issue of new Prop. S bonds.

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. Currently 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. It's expected that about \$500 million in Prop. Z bonds can be issued every two years. The next expected Prop. Z bond issue will be in 2015.

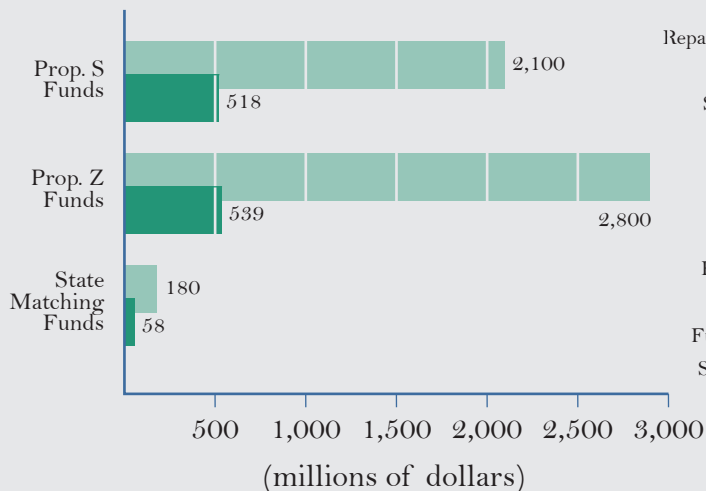
PROP. S AND PROP. Z BOND ISSUANCES

	Proceeds	Total Cost	Paid Off	Cost per Dollar
2009 Prop. S multiple series	\$170 million	\$444 million	2033	\$2.61
2010 Prop. S multiple series	\$200 million	\$1.318 billion	2047	\$6.59
2012 Prop. S multiple series	\$150 million	\$768 million	2051	\$5.12
2013 Prop. Z Series A	\$52.5 million	\$52.7 million	2014	\$1.004
2013 Prop. Z Series A-1	\$3.0 million	\$3.0 million	2014	\$1.005
2013 Prop. Z Series B	\$60.5 million	\$62.1 million	2015	\$1.026
2013 Prop. Z Series C	\$414.0 million	\$823.5 million	2042	\$1.989

weighted average **\$3.31**

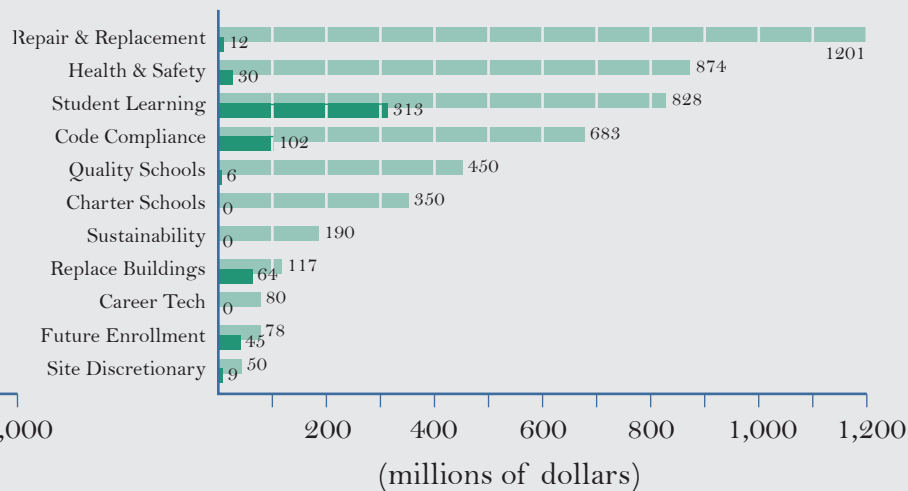
FUNDING STATUS

Planned ■
Received-to-Date ■



EXPENDITURE STATUS

Planned ■
Spent-to-Date ■



MORE INFORMATION IS AVAILABLE IN THE OCTOBER–DECEMBER 2013 QUARTERLY REPORT ON THE ICOC WEBSITE.

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Breaking ground for Kearny HS slope repair



Modernization at Knox MS

PROJECT STATUS

Previous Annual Reports talked about delays of projects due to the inability to issue Prop. S bonds as quickly as originally planned. Passage of Prop. Z by voters in 2012 authorized new taxes that are expected to provide a stable and predictable source of funding for the foreseeable future. In December the Board approved a revised 2-year plan based on currently available funds.

Prop. S and Prop. Z projects are being completed based on a common set of priorities, with an emphasis on facility condition and needed major repair and replacement (MRR) work. In addition, Prop. Z set aside \$300 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



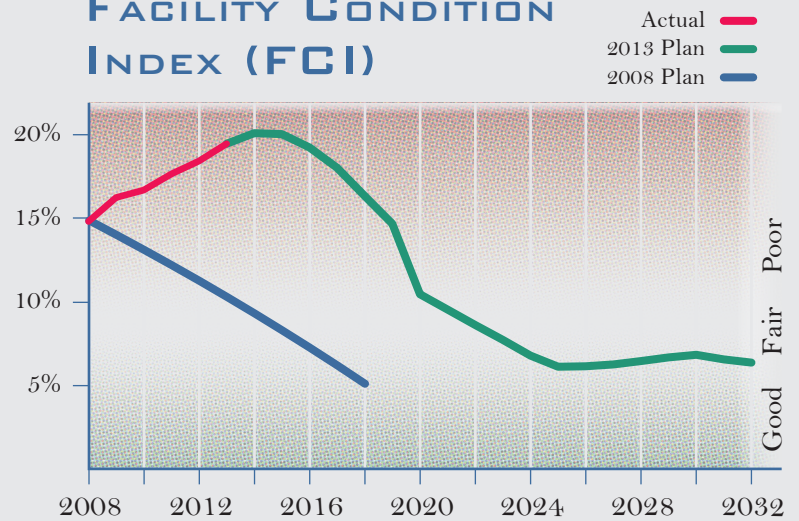
Dr. Peter Salk at the ground breaking for Peter Salk ES

DEFERRED MAINTENANCE

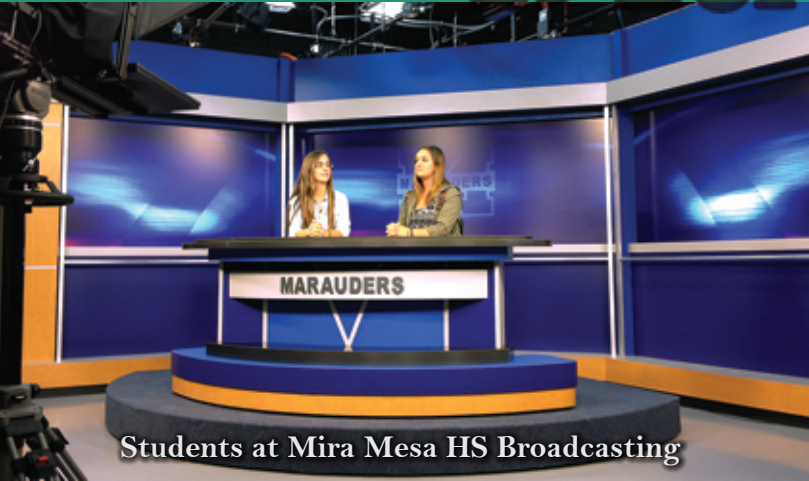
The review of the District's Deferred Maintenance and MRR programs is a task assigned to the ICOC by the state's Education Code and by a policy adopted by the Board of Education. Deferred Maintenance refers to any major recurring maintenance, repair or replacement work, while MRR refers to recurring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

The condition of school facilities in the District has been deteriorating at a faster rate than they are being repaired. The Facility Condition Index (FCI) is a nationally recognized measurement of the condition of capital assets (buildings and property improvements). It is calculated by dividing the cost of needed repair and maintenance by the facility's current replacement value (CRV), and is expressed by a percentage. The lower the percentage is, the better the condition of the facilities being measured. Teams of architects and engineers

FACILITY CONDITION INDEX (FCI)



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Students at Mira Mesa HS Broadcasting



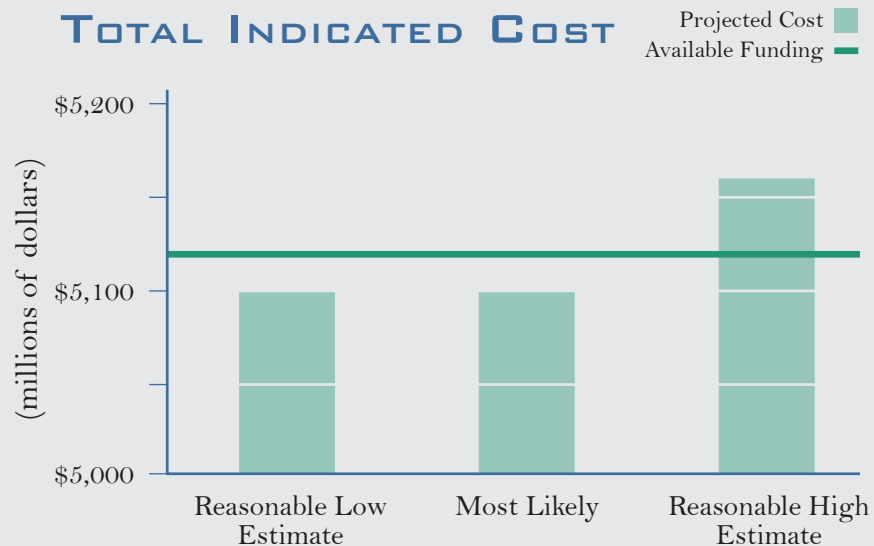
Students using graphic production technology at Mira Mesa HS career technical

on the CSFC and provides a coordinating link between these two committees.

In addition to completing the Data Center building, the new downtown school/library, and new classroom buildings at four schools, there are 41 projects in various stages of design. Whole site renovation projects at six campuses should begin construction next year.

The 5-year i21 program is nearing completion. It installs interactive smart boards, DVD players, wireless networking and voice amplification systems in all District classrooms and will provide student devices for use by every teacher and student. To date 4,432 classrooms have been equipped with the i21 suite of equipment, which includes 5,934 teacher devices and 120,228 student devices. The wireless infrastructure

TOTAL INDICATED COST



conduct on-site facility condition assessments (FCAs). District policy calls for FCAs of schools on a 5-year cycle, since 2008 these teams have assessed 74 of the District's 197 facilities. The estimated cost of currently needed repair, replacement, and renovation is estimated at \$1.1 billion, this amount has been growing in recent years. Likewise, the District wide FCI has been increasing and is currently 21.7%. The condition of District school facilities is poor.

The amount of annual funding needed to offset natural deterioration is currently \$107 million; this is based on 2% of current replacement value (CRV). Current annual funding is about \$16 million, only 15% of what's currently needed.

Looking into the future, the cost of repairs needed to offset natural deterioration can be expected to increase. Taking this and natural deterioration into account, the draft 2012 Annual MRR Plan estimates that \$3.8 billion is needed over the next 18 years to address current needs and improve condition of District schools to



The ICOC touring the CPMA Kroc Performing Arts Center

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New classrooms at Encanto ES

that supports teacher tablets and student devices includes over 15,000 access points. A new data center has been built, and is expected to become operational during 2014. The ICOC has also 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; however, training on using the new technology to teach is funded through the District's annual budget.

The District's management team maintains risk-adjusted cost projections to complete all listed Prop. S and Prop. Z work, referred to as the Total Indicated Cost or TIC. Both TIC projections predict there will be enough funding to finish all work listed in the ballots. The graph to the left combines both projections.

an FCI of 6% (good condition). The plan calls for \$1.2 billion for specific repair and replacement work called for in the ballot language of Prop. S and Prop. Z. Other project work called for in the bond language will address or eliminate another \$1.1 billion in needed Deferred Maintenance and MRR work. In addition, the not yet finalized draft plan calls for \$688 million of District funds over the next 20 years, plus another \$784 million in to-be-determined added long-term debt or state funding.

Approximately 24% of long term-debt incurred by Prop MM, Prop S, and Prop Z is, or will be, needed to address Deferred Maintenance and MRR needs. To date, \$1.3 billion in long-term debt has been incurred to address MRR. Over the next 19 years another \$1.7 billion in Prop. S and Prop. Z long-term debt will be incurred to address this recurring need.

The long-term challenge of securing an adequate source of annual funding to meet continuing Deferred Maintenance and MRR needs remains unresolved.

COMPLETED PROJECTS

- Boone/Washington Exiting
- Dana MS Roofing
- Downtown Charter HS
- Encanto ES Classrooms
- i21 Interactive Suites - Year 4
- Language Academy K-8: New Building and Building Addition
- Marston MS Woodshop Vents
- Mira Mesa HS Broadcasting
- Pacific Beach MS Exterior Paint
- Point Loma HS Concessions
- Serra HS Data Center 2

PROJECTS IN PROCESS

- Balboa/Miramar Ranch/Vista Grande Exiting Improvements
- Chollas ES Modernization
- Chavez/Jefferson/Rosa Parks Exiting Improvements
- CPMA Kroc Performing Arts
- Euclid ES Classrooms
- Hamilton ES Modernization
- Henry HS Theater/Production and Modernization
- Hoover HS Tech Academy
- HVAC in 2,000 classrooms
- i21 Interactive Suites - Year 5
- Infrastructure/Connectivity
- Jefferson ES Entrance
- Kearny HS Slope Repair and Stadium
- Knox MS Modernization
- Language Academy New Building
- Millennial MS 3-story Classrooms
- Mission Bay HS Stadium
- Salk ES New School
- San Diego HS Electrical Upgrades
- SCPA Theater Upgrade
- Webster ES HVAC

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AUDITS

The required annual audits of the Prop. S and Prop. 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 Audit

The purpose of the performance audits is to confirm that the use of Prop. S and Prop. Z funds were expended only on the specific projects listed in the bonds. The auditor issued an unqualified opinion that the Prop. S and Prop. 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.

Financial Audit

The purpose of the financial audit is to obtain reasonable assurance that the financial statements regarding Prop. S and Prop. Z are free of material misstatement. The auditor issued an unqualified opinion that the Prop. S and Prop. Z financial statements present fairly, in all material respects, the financial position of the Prop. S and Prop. Z bond funds as of June 30, 2013 and conformed with generally accepted accounting principles. The audit had one finding regarding accruals. District staff has taken action to correct the issue.

THE 2013 ICOC

- David Akers
- Andrew Berg
- Miles Durfee
- Barbara Flannery
- Matt Kriz
- Mike Magallanes
- Brian Pollard
- William Ponder
- Kim Schoettle
- Vacant
- Vacant
- Vacant
- Vacant

CONTACT

Phone: 858-637-3609
 Email: icoc@sandi.net
 Web: sandinet/props/icoc



Ribbon cutting at Hoover HS softball field

ICOC OVERSIGHT

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

The ICOC is comprised of 13 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 Prop. S and Prop. Z.

VISIT THE ICOC WEBSITE AT SANDI.NET/PROPS/ICOC FOR MORE INFORMATION.

COPIES OF THE PERFORMANCE AUDIT, THE FINANCIAL AUDIT, QUARTERLY REPORTS, AND THE ICOC REVIEW OF THE MRR PLAN ARE AVAILABLE ON THE ICOC WEBSITE.

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, or if you are interested in serving on the ICOC.