

INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE
ANNUAL REPORT 2011**DRAFT**PROP. S
REPAIR, RENOVATE, REVITALIZE

Dear Taxpayers,

The ICOC 2011 Annual Report chronicles the third year of Prop. S work, a year full of opportunities and challenges. More projects than expected were accomplished in 2011 thanks to a larger than planned bond issuance. While this year's bond issue was large, next year's will be much smaller due to depressed property values. The Board of Education has directed staff to pursue refinancing options for existing bond debt, with a report due in early 2012. In all options presented to date, Prop. S will cost more to finance than expected.

There were major shifts in Prop. S project schedules driven primarily by cash flow and changing Board priorities; 2012 will see more changes as projects are further delayed due to smaller bond issuances.

As stated in past reports, Prop. S funds will not complete all work listed in the 2008 ballot measure. During 2011, Prop. S absorbed a \$30 million impact as the Board redirected and captured redevelopment funds to cover operating budget shortfalls, and planned renovation work at ten schools was reduced to fund a new theater.

The condition of school facilities continues to degrade due to inadequate annual funding of deferred maintenance and major repair and replacement (MRR) programs. The ICOC has expressed concerns about the sustainability of i21 equipment, given past inadequate annual funding of MRR. In addition, a range of concerns have been raised regarding the planned \$19 million data center.

In December, the Board moved quickly to extend the Project Stabilization Agreement (PSA) from five years to the duration of the Prop. S program. The PSA has strong supporters and opponents. Allocating more time for public input on the proposed extension of the PSA would have contributed more to public confidence in the process.

Prop. S projects continue to move forward. New classrooms are opening, new career training facilities are operational, and more students than ever have access to up-to-date technology to enhance learning.

Thanks go to departing members Kevin Alvin, Gregg Cantor, Glenn Hillegas, Daniel Morales, Matt Spathas, and John Stump for their service. The ICOC will continue to monitor Prop. S and report our findings to the San Diego taxpayers.

Sincerely,

Gil Johnson, Chair

2011 HIGHLIGHTS

Last year marked the third 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 16 school campuses totaling over \$150 million in construction value with design work underway at another xxx schools.

- i21 technology suites were installed in 1,323 classrooms, bringing the total of classrooms equipped with i21 suites to 62,632, xx% of all classrooms
- xx new classrooms were constructed at three schools to replace existing classrooms deemed to be inadequate — the work was funded in part by state grants to relieve school overcrowding
- Two schools received air conditioning for the first time
- New technical career classrooms were added to expand career and college preparatory educational programs in a variety of business fields including multimedia, automotive and construction
- One school received stadium upgrades including new tracks, new artificial turfs and playing fields, new concession stands, and toilets as well as providing full Americans With Disabilities Access (ADA)

The Board of Education accelerated numerous projects and more projects than planned were completed. However, about 25% of the projects listed in last year's Five year Look Ahead were delayed due primarily to design issues or limited funding.

2012 EXPECTATIONS

The bonds authorized by voters by Prop. S will be issued at a much slower pace than originally planned due to depressed assessed property values and low projected property tax revenues. As a result, project schedules are being delayed, between \$65 million and \$100 million of construction will move into future years. The i21 program will consume a significant amount of the available Prop. S funds and is not expected to be impacted. As the schedule of many construction projects are in flux, this annual report presents no Five-Year Look Ahead.

- i21 suites are scheduled to be installed in an additional x,xxx classrooms in year 4 of the 5-year program
- Re-scheduling of projects based on a slower pace of bond issuances

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PROJECT STATUS

The 2010 Board of Education decision to issue \$200 million in Prop. S bonds resulted in a significant increase in the amount of Prop. S work that could be funded during 2011. Completed work included new facilities at six schools in addition to i21st technology suites installed in 1,323 classrooms during the 3rd year of the program. The 5-year i21 program is installing interactive smart boards, DVD players, wireless networking and voice amplification systems in all District classrooms and will provide netbooks for use by every teacher and student.

In 2011 the Board of Education added \$10 million of tenant renovations for the new Downtown School/Library to the Prop. S program. In addition, the Board redirected another \$20 million in redevelopment funds that had been earmarked for the Downtown School/Library to cover operating budget shortfalls. The Board also reduced the



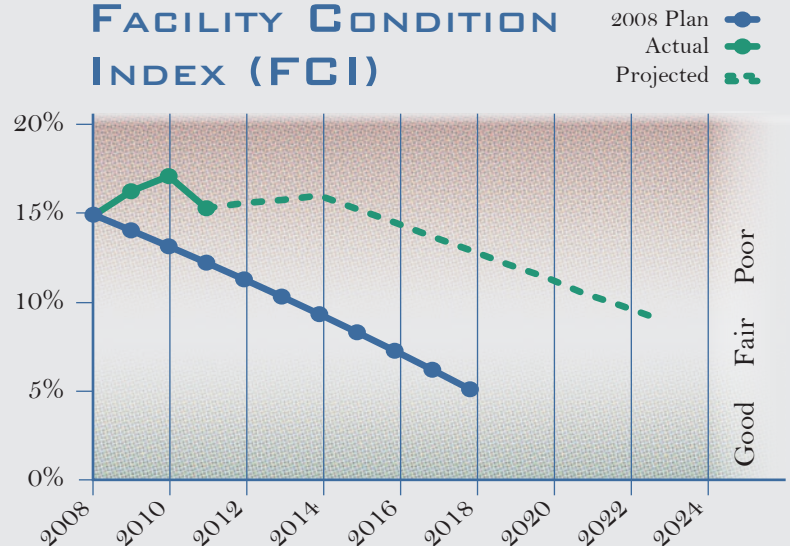
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DEFERRED MAINTENANCE

Prop. S earmarked \$501 million for Major Repair and Replacement (MRR) work to improve the condition of schools throughout the District. By December 2011 only \$xx,xxx of MRR work was completed. 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 includes repair work with an expected useful life of less than 20 years, while all MRR work has an expected useful life exceeding 20 years. Per Board policy, Deferred Maintenance work should be funded by recurring funding sources while MRR may be funded by long-term debt (including bonds) when sufficient recurring funding sources are not available.

The Prop. MM program, which was completed in 2008, used \$301 million for MRR work to improve the condition of District schools. Since 2008, there has been a measurable

FACILITY CONDITION INDEX (FCI)



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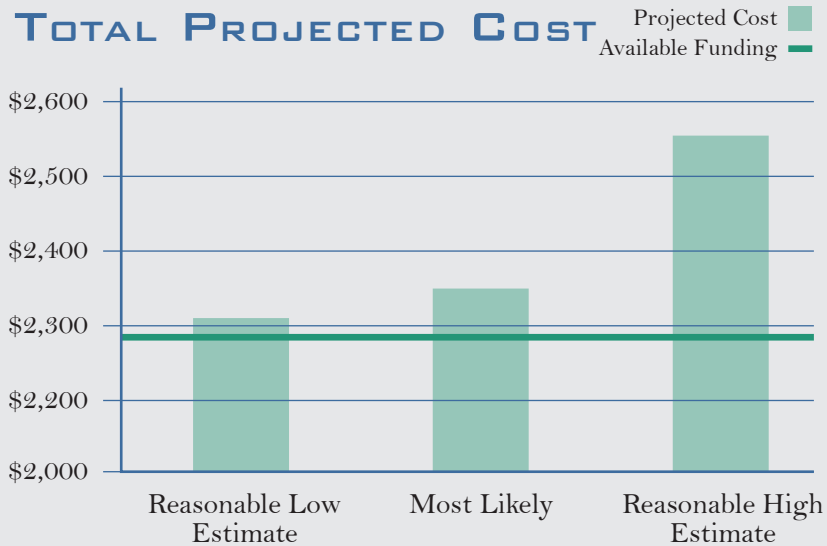
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budgets of whole site renovation projects at the 10 schools in the Henry High School cluster by 4% to fund a new theater for the Patrick Henry Performing Arts Center.

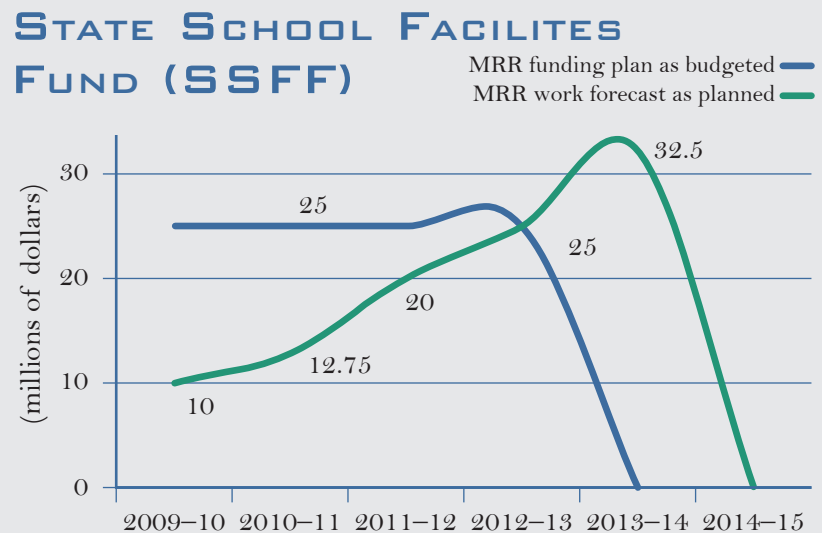
While the cost of construction remains at an historical low, even after modest increases in the last year, projects will be affected by the decrease in property values that has resulted in significantly decreased revenues. This will result in a slow down in completing projects on the original Prop. S project list provided to voters in November 2008. Doing less work now, when construction costs are at an historic low, and doing more work later after construction costs increase will significantly increase Prop. S costs. The District's Prop. S management team maintains a risk-adjusted cost projection to complete all listed



deterioration in the condition schools as result of inadequate Deferred Maintenance and MRR funding. The current MRR Plan, presented to the Board in 2011, estimates that the condition of District schools will not be returned to the 2008 condition until 2015, and the goal established at the beginning of Prop. S to improve district schools to a "good" condition will not be achieved.

FCI is a 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.

Deterioration of the condition of the District's capital assets has been impacted by current economic conditions. Over the last five years, District total operating revenues (recurring funds) have decreased over \$500 million, a 20% reduction, while student enrollment increased slightly (after



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COMPLETED PROJECTS

Alternative Learning for Behavior & Attitude (ALBA)
Classroom Conversion at North Park
Cherokee Point ES Heating ,Ventilation, and Air
Conditioning
Clairemont HS Autoshop
Ellen Browning Scripps ES Heating ,Ventilation, and
Air Conditioning
Garfield HS Culinary Program
Hoover HS Overcrowded Relief Grant Classrooms
i21 Suite for Classrooms 1st Year
i21 Suite for Classrooms 2nd Year
Ibarra Elementary School Air Conditioning Upgrade
Kearny HS Construction Tech Academy
Language Academy Teacher's Lounge Upgrades
Madison HS Automotive Program, Multi-Media
Program, Stadium Upgrades
Mira Mesa HS Track & Field Improvements
Mission Bay HS Café School Store
Morse HS Track & Field
Muirlands MS ADA Ramp Upgrade & Synthetic
Baseball Field
Point Loma High School Music Room, New
Overcrowded Relief Grant Classrooms
San Diego HS Business Management, Culinary
Program, Multi-Media Studio, Overcrowded Relief
Grant Classrooms, Track & Field Improvements

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Prop. S work referred to as the Total Indicated Cost or TIC. The TIC projects that there will be a \$20 million to \$240 million funding shortfall in completing all work originally provided to voters in the November 2008 ballot, plus projects added by the Board of Education since then. At this point, it is difficult to determine exactly how much of the work listed in Prop. S will be completed.

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a dip in 2009). There has been no decrease in the capital assets maintained by the District. The annual MRR budget of \$25 million is currently being funded by state grants generated by Prop. MM work and held in the State School Facilities Fund, rather than recurring funding sources. The current MRR Plan reports that while annual budgets have been maintained, actual expenditures of these budgeted monies has been constrained for three years in an effort by the Board of Education to preserve cash assets, preserve the District's credit rating, and increase the ability for short-term borrowing to cover operating costs as other funds are depleted due to budget cuts and funding deferrals by the state.

The ICOC will continue to carry out the assigned task to review these important programs and report their status. The long-term challenge of identifying adequate annual funding of Deferred Maintenance and MRR programs to preserve District capital assets valued at over \$4.1 billion remains unresolved.

PROJECTS IN PROCESS

Chollas-Mead ES Heating ,Ventilation and Air
Conditioning
Clairemont HS Stadium Improvements (Phase 2)
Hoover HS Athletic Facilities, Green Workshops
Infrastructure Connectivity: 76 sites
i21 Suite for Classrooms 3rd Year
Jefferson ES Playground Expansion/Child Development
Center
Morse HS Autobody Program, Child Development
Program, Culinary Program, Stadium Upgrades
Normal Heights ES Heating ,Ventilation and Air
Conditioning
Point Loma HS Motion Picture Facility, Weight Room
Building
Scripps Ranch HS Sustainable Technology Buildings
Serra HS Data Center for the i21 Program
Sessions ES Parking Lot and Drop-Off/Pick-Up
Upgrades

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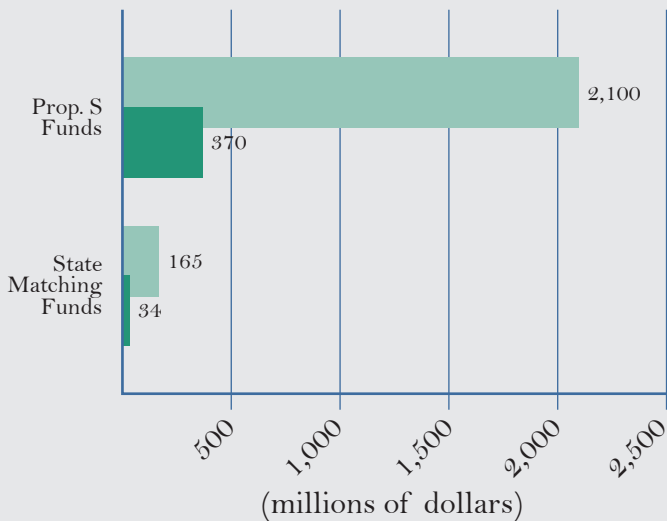
FINANCIAL STATUS

As of December 2011, a total of \$413 million in Prop. S bond revenues and state grants have been received. With expenditures totaling \$xxx million and \$xxx million committed to construction, design, planning, and management, there is \$xx in unobligated available cash.

The Prop. S program has been, and will continue to be, impacted by current economic conditions. Prop. S committed to not raising property taxes above the current rate of \$66.70 per \$100,000 of property valuation. School property taxes pay for outstanding Prop. MM and Prop. S bonds. The Prop. MM bonds should be paid off by 2029. Historically, property values increase over time and Prop. S was based on conservative assumptions that property values would continue to rise. However, property values have decreased over the last 3 years despite a minor increase last year. This means that tax revenues will not be sufficient to cover debt service payments on any additional Prop. S bonds unless the existing bond debt is refinanced to lower the current annual payments. Options presented by District staff and Bond Counsel to the Board of Education in December predict that additional Prop. S bonds can continue to be issued; however, the bonds will take longer and cost taxpayers more to pay off. Project schedules are being shifted to accommodate expected changes in funding cash flow.

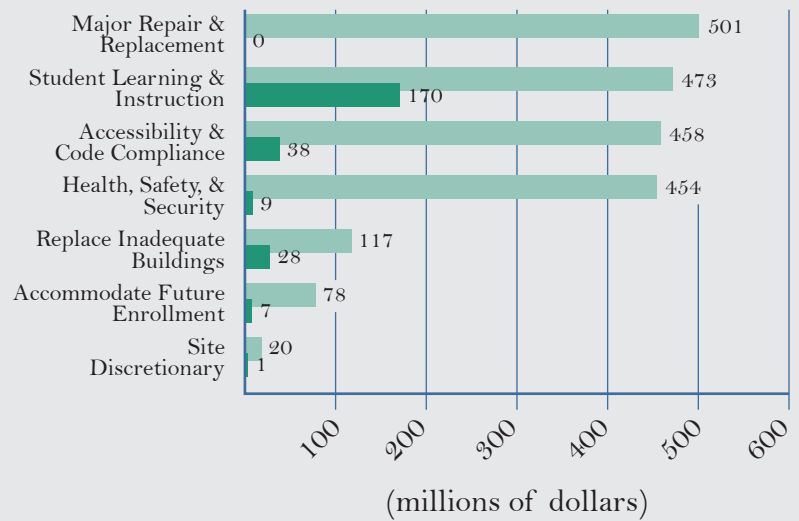
FUNDING STATUS

Planned ■
Received-to-Date ■



EXPENDITURE STATUS

Planned ■
Spent-to-Date ■



MORE INFORMATION IS AVAILABLE IN THE OCTOBER–DECEMBER 2011 QUARTERLY REPORT ON THE ICOC WEBSITE.

FINANCIAL AUDIT

The required annual financial audit of the Prop. S program was conducted by Christy White Accountancy Corporation in accord with Government Auditing Standards issued by the Comptroller General of the United States. The purpose of a financial audit is to obtain reasonable assurance that the financial statements regarding Prop. S are free of material misstatement. The auditor issued an opinion (without any qualifications) that the Prop. S financial statements present fairly, in all material respects, the financial position of the Prop. S bond fund as of June 30, 2011 and conformed with generally accepted accounting principles.

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PERFORMANCE AUDIT



THE 2011 ICOC

- Jamie Barton
- Andrew Berg
- John Gordon
- Douglas Gray
- Vince Hall
- Michelle Huffaker
- Gil Johnson
- Leonard Pinson
- Brian Pollard
- Kim Schoettle
- Deanna Spehn

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The required annual performance audit of the Prop. S program was conducted by an independent auditor, Christy White Accountancy Corporation, in accord with Government Auditing Standards issued by the Comptroller General of the United States. The purpose of the performance audit is to confirm that the use of Prop. S funds were for approved Prop. S purposes. The auditor issued an opinion (without any qualifications) that the Prop. S program complied in all material respects with the requirements of Prop. S and with applicable sections of the California Constitution and Education Code. The audit noted several key good practices including an active and involved citizens' oversight committee, the use of well qualified District staff and independent contractors to manage the program, and promotion of an open door policy including a fraud hotline to reduce the risk of fraud and misappropriation of funds.

The following areas for improvement were also noted: an internal audit function to monitor Prop. S funded projects has not yet been fully staffed and implemented, and procedures for processing requisitions and purchase orders for professional services should be improved.

In addition, the performance audit included a review of the effectiveness and efficiency of several special interest items, including the sustainability of i21 equipment being provided by Prop. S. The audit indicated that the 5-year district operating budget allocates up to \$30 million per year for routine repair and replacement of about \$343 million in new technology equipment. However, the ICOC remains concerned about sustainability of the new equipment noting that the District has been unable to provide recurring funding of \$25 million per year for the major repair and replacement of over \$4 billion in existing capital assets.



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ICOC OVERSIGHT

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

The ICOC is comprised of 11 volunteers appointed by the Board of Education. The ICOC has established four standing subcommittees to carry out oversight activities. 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 Prop. S ballot language.

VISIT THE ICOC WEBSITE AT WWW.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 Eugene Brucker Education Center auditorium, 4100 Normal Street, San Diego, California, 92103 unless otherwise noted. SEE WEBSITE FOR THE SCHEDULE AND LOCATION OF ICOC SUBCOMMITTEE MEETINGS.