

San Diego Unified School District



Independent Citizens’ Oversight Committee (ICOC)

Quarterly Status Update April – June 2012

Prop. S ICOC Quarterly Status Update: April – June 2012

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Proposition S

Independent Citizens' Oversight Committee

Quarterly Status Update

April – June 2012

Summary

As of June 30, 2012, \$551 million has been received for Prop. S projects from three bond issuances and \$31 million in retained state matching funds. \$382 million has been expended against contract commitments of \$393 million, leaving an uncommitted balance of \$10 million.

At the Board of Education Construction Workshop on June 19th a proposal for a new capital facilities bond was presented and hearings to consider placement of a new capital bond on the November 2012 ballot were scheduled for July meetings. The presentation included information regarding a revised analysis of the condition of school facilities and changes in the Major Repair and Replacement (MRR) plan.

The MRR ad hoc committee is in the process of reviewing the district's MRR plan. The revised plan establishes a consolidated Annual Maintenance Plan (AMP) that will account for the positive impact that capital improvement work has on MRR – the intent of the new annual plan is continuing facility assessments and evaluations to better measure the condition of school facilities using the Facility Condition Index (FCI). The new methodology resulted in a major shift in the projected FCI. The condition of school facilities will actually be worse after completion of Prop. S work.

Expectations that Prop. S-funded projects would improve the condition of school facilities will not be met. The ICOC is interested in learning about the new methodology being used in the MRR plan and better understanding the major shift in projected costs.

Other ICOC activities during this quarter include the following:

- Issuing the Jan – Mar 2012 Quarterly Status Update
- The ICOC accepted the review schedule for the independent financial audit and performance audit
- The ICOC elected new officers
- The ICOC addressed the Board of Education on June 5, 2012

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.

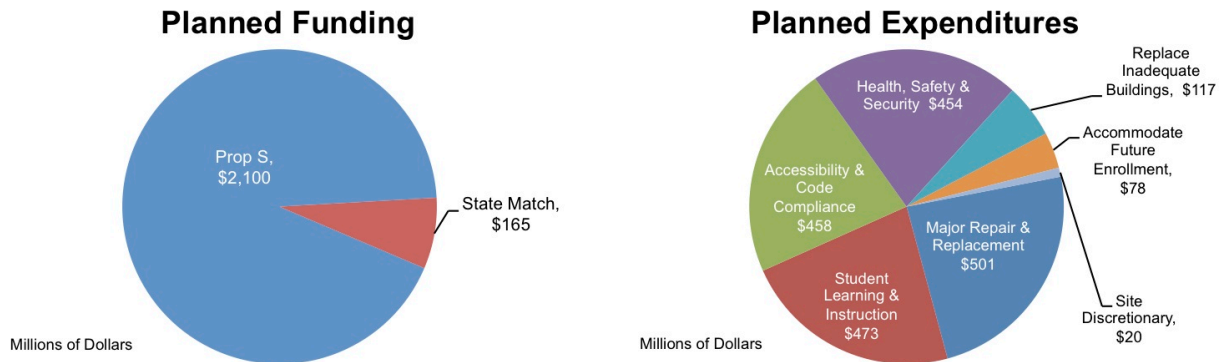
ICOC

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

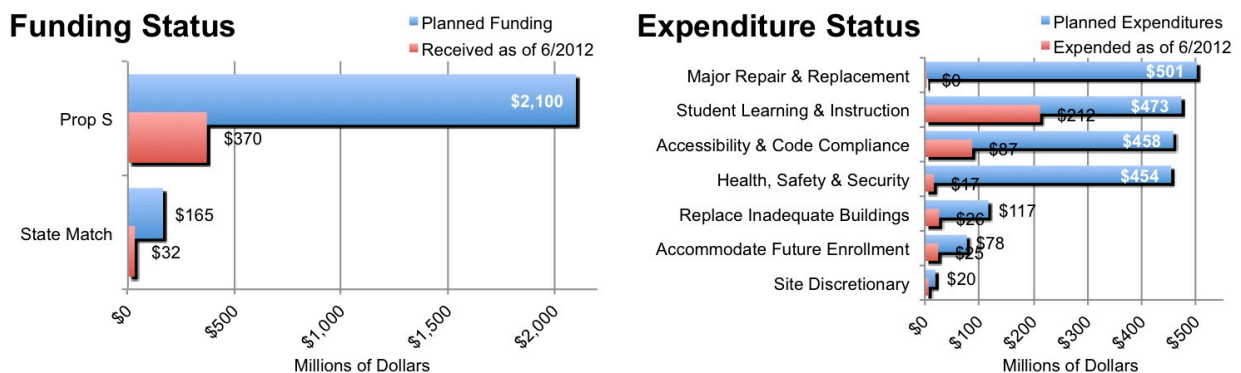
Prop. S authorized the issuance of \$2.1 billion in general obligation bonds. As stated in the bond measure, projects listed in Prop. S depend in part on state grants — currently the district anticipates receiving \$165 million in state funds.

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.



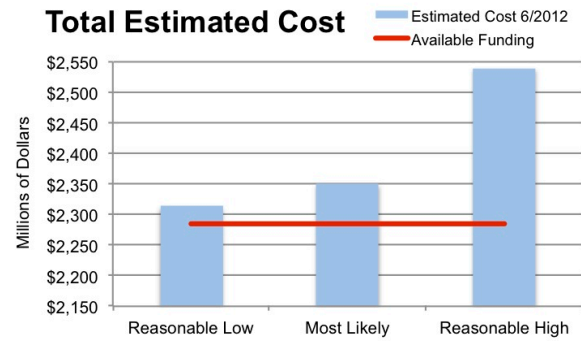
As of June 30, 2012, a total of \$519,996,405 in Prop. S bonds has been received from three bond issuances. The latest bond issue was in May 2012 adding \$149,998,824 to the above total. The district has received/retained \$31,109,887 in state funding to augment Prop. S projects. Expenditures to date total \$382,247,632 against total obligations of \$392,533,001. 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 June 30, 2012, there is a total of \$158,573,732 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.



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.

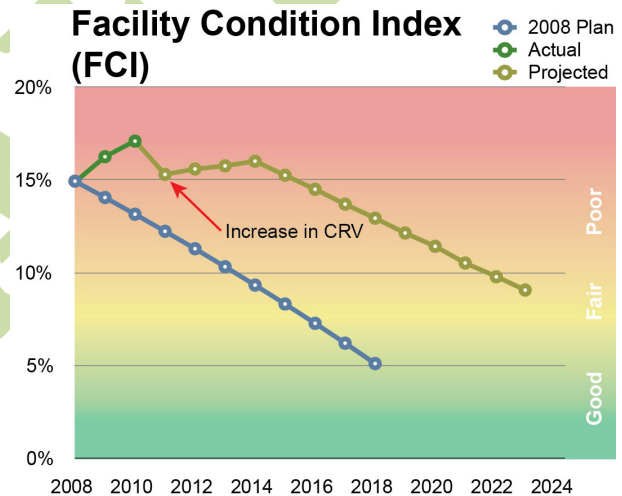
Total Estimated Cost



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 \$250 million shortfall. The Most Likely projects a \$60 million shortfall.

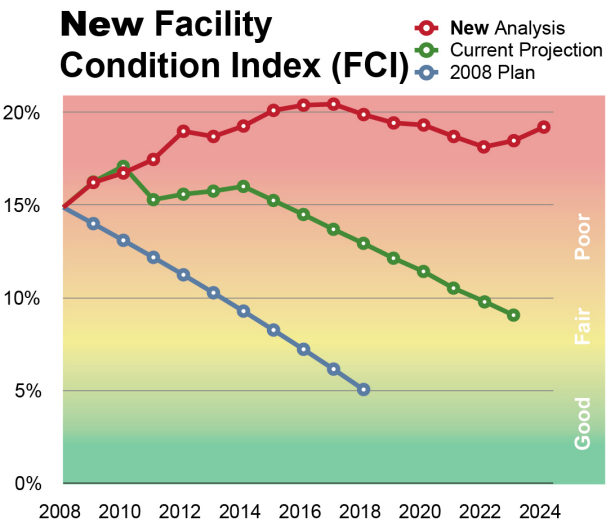
Physical Plant & Operations (PPO) has been using the FCI index to track the condition of district schools. In previous years, Prop. MM used \$301 million to complete MRR work and bring the FCI of District schools from 25% to 15%, which is still considered poor condition. The Prop. MM bonds used for this 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.

Facility Condition Index (FCI)



The district's Facilities Planning department introduced a new Annual Maintenance Plan (AMP) at the June 19 Board Meeting. It combines four programs: corrective maintenance repairs; emergency & emergent repairs, and equipment/material replacement; preventive maintenance; and MRR/RR. Along with the consolidation of maintenance programs comes a new approach to the FCI. The index now considers more variables when determining the condition of facilities, such as annual deterioration of capital assets and cost inflation of repair work. The new approach is more rigorous and is being presented as more accurate than previous approaches used during Prop. MM and initially during Prop. S. It shows that past analysis significantly underestimated the cost of improving the condition of district schools.

New Facility Condition Index (FCI)



Even with completion of the \$501 million of MRR-targeted work in Prop. S, district facilities will continue to degrade — conditions will be worse off than when Prop. S was enacted. Historically, every time the district has found a better method of analyzing facility condition, the projected MRR costs were substantially worse than the previous method predicted. This is not inconsistent with the ICOC expectations and expressed concerns. The ICOC has reiterated to the Board and the public that delaying the MRR work called for in Prop. S would have repercussions. Even though \$501 million was slated to address MRR, virtually none of it has been spent as higher priority work was completed first. The difference between the 2008 target FCI of 5% and the new projected FCI of 21% in 2018 represents a change of about \$840 million. The ICOC looks forward to learning about the new plan and better understanding the major shift in projected costs.

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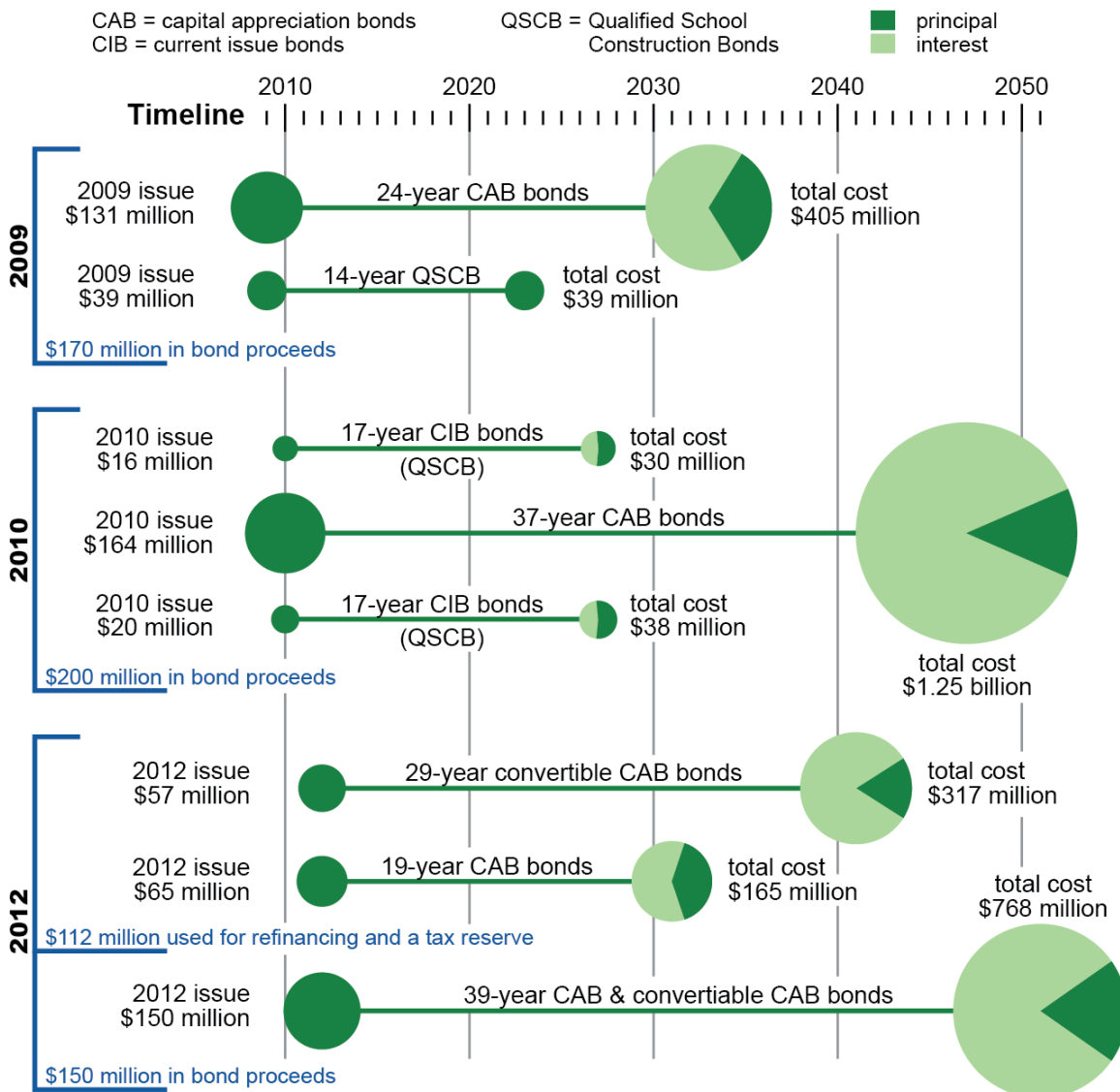
Bond Update

The first quarter status report stated that the district had refinanced earlier debt in order to issue further Prop. S bonds and keep payments below allowed taxable rates, including establishing a \$57 million reserve fund. Three options were presented by bond advisers Feldman, Rolapp and Associates: 25-year bonds, 30-year bonds, and 40-year bonds. Shorter-term bonds would result in less payments overall, but also less work completed. Longer-term bonds would cost more, but allow more work. The district opted to issue \$150 million in 39-year bonds. The chart below shows the bond issuances to date, their proceeds and accumulated interest over time.

2012 Options Presented by Bond Advisers

	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

Actual Bond Issuances



Status of Projects

During this quarter, fifteen active construction projects budgeted at over \$93 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 \$91 million is 2.2% under budget and the current change order rate is 1.2%. 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 bonds will be issued.

Active projects are shown to the right:

- 1) The following projects were completed this quarter:
 - Meads High School Heating, Ventilation and Air-conditioning
 - Point Loma High School Weight Room
 - Sessions Elementary School Parking Lot and Drop-Off/Pick-up Upgrades
 - University City High School Lighting and Scoreboard

- 2) The following project was started this quarter:
 - ALBA Phase 3 Site Improvements
 - CPMA Kroc Modernization and Performing Arts Center
 - Encanto Elementary School Classroom Building
 - Euclid Elementary School Classroom Building
 - Knox Middle School Modernization and Classroom Building
 - Mira Mesa High School Broadcast and Design Program
 - Zamorano Elementary School Classroom Building

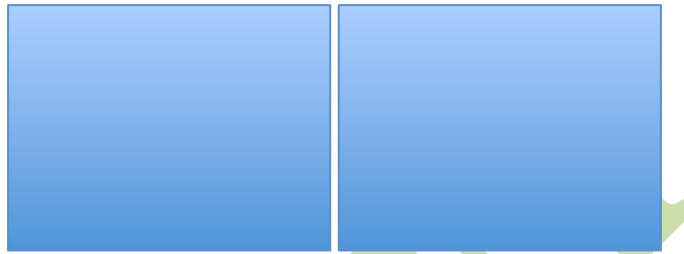
Project	Construction Budget	% Complete
Accessibility & Code Compliance		
Replace Inadequate Buildings		
Encanto ES: Classroom Building	5,727,897	0.0% 2)
Euclid ES: Classroom Building	7,153,521	0.0% 2)
Knox MS: Modernization/Classroom Building	17,554,597	1.0% 2)
Zamorano ES: Classroom Building	8,984,396	0.0% 2)
Health, Safety & Security		
ALBA Phase 3 Site Improvements	667,270	0.0% 2)
Meads HS HVAC	1,552,041	96.0% 1)
Sessions ES Parking Lot & Drop/Pick-Up Upgr	1,944,272	92.0% 1)
Student Learning & Instruction		
CPMA Kroc Modernization/Performing Arts	19,034,448	0.0% 2)
Data Center 2 at Serra HS	18,883,489	7.5% *
Yr-3: i21 Interactive Suite @ 881 CR's	40,436,247	47.7% *
Infrastructure/Connectivity @ 76 sites	78,188,691	5.6% *
Hoover HS Athletic Facilities	9,683,346	89.0%
Mira Mesa HS Broadcast/Design	3,709,392	0.0% 2)
Morse HS Child Development Program	3,286,457	74.0%
Point Loma HS Motion Picture/Music Room	5,772,699	96.0%
Point Loma HS Weight Room Building	931,989	95.0% 1)
Multiple Categories of Work		
Scripps Ranch HS Technology Buildings	5,866,116	94.0%
University City HS Lighting/Scoreboard	1,463,799	85.0% 1)

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, often monthly. The ICOC has worked with District staff to develop and refine routine reporting formats for bond expenditures and status, consistent with bond accountability requirements imposed by Prop. 39, 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 elected new officers at their June 2012 meeting. Andy Berg was elected ICOC Chair. Vince Hall was elected Vice Chair.



Photos with captions

The ICOC subcommittees conducted meetings and activities:

- The Audit Subcommittee reviewed the audit schedule in advance of the annual audits
- The Construction Subcommittee forwarded Construction Management, i21 Update, and Small Business reports to the full ICOC
- The Executive/Governance Subcommittee put together a report for the Board of Education
- The ICOC chair presented the bi-annual update and Jan–Mar 2012 ICOC Quarterly Status Update to the Board of Education on June 5
- The Finance, Planning and Controls Subcommittee reviewed the financial reports
- The MRR Ad-hoc committee received a presentation on the 2013 MRR plan and forwarded that to the Construction Subcommittee

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 at a public meeting and posted on the ICOC website (<http://www.sandi.net/props/icoc>).

Actively Review Proper Expenditure of Bond Funds

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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: April 2012 and May 2012
 - ICOC: April 2012 and June 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: No activity this quarter
- Business Outreach Program This program is routinely reviewed and monitored by the ICOC.
 - The Business Outreach Narrative is reviewed quarterly by the ICOC
 - ICOC: May 2012
 - Construction Subcommittee: May 2012
 - Business Outreach Program Events Overviews are reviewed periodically
 - Construction Subcommittee: June 2012
- Project Stabilization Agreement (PSA)
 - Construction Subcommittee: June 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: May 2012 and June 2012
 - Construction Subcommittee and ICOC review the Construction Management report monthly; it provides a status summary of ongoing construction projects.
 - Construction Subcommittee: May 2012 and June 2012
 - ICOC: May 12
 - i21 Program Summary is reviewed by the Construction Subcommittee and ICOC on a monthly basis.
 - Construction Subcommittee: May 2012 and June 2012
 - ICOC: No specific activity this quarter.
 - Special Reports
 - The i21 Third Quarter Update was received by the Construction Subcommittee: May 2012
 - The i21 Third Quarter Update was received by the ICOC: May 2012
- 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

- The ICOC presented an update with concerns and advice to the Board of Education on June 5, 2012
 - ICOC: June 2012

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 June 2012
 - ICOC: Kate Sessions Elementary School June 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: May 2012

Receive & Review Annual Performance Audit

Receive & Review Annual Performance Audit

- Prop. 39 bonds require an annual, independent performance audit.
 - The ICOC reviewed and accepted the Audit Review Schedule: June 2012

Receive & Review Annual Financial Audit

Receive & Review Annual Financial Audit

- Prop. 39 bonds require an annual, independent financial audit.
 - The ICOC reviewed and accepted the Audit Review Schedule: June 2012

Receive & Review Deferred Maintenance (DM) Plan

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

- On May 3, 2012 the Construction subcommittee reviewed the annual MRR Plan: May 2012

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:

- <http://www.sandi.net/props/icoc>

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](#)
- [Quarterly Status Update for January – March 2012](#)

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: [April 2012](#), [May 2012](#), and [June 2012](#)

ICOC Presentations to the Board of Education

- The ICOC presented an update with concerns and advice to the Board of Education on June 5, 2012
 - ICOC: [June 2012](#)