

Investment Philosophy

The Independent Citizens' Oversight Committee (ICOC) requested that the San Diego Unified School District (SDUSD) adopt a Proposition S Implementation Strategy that includes the list of projects as printed in the November 4, 2008, "Voter Information Pamphlet" and make it available on the district's website (www.sandi.net/PropS). The ICOC also requested a posting of the financing plan developed by the district's financial advisor plus the district's regularly updated Proposition S (Prop S) Five-Year schedule of projects.

The purpose of this paper is to document the district's Prop S investment strategy for fiscal year 2010-2011 with the goal of securing Board of Education (BOE) approval in November 2010. The ICOC recommends an annual approval by the Prop S Executive Director of the implementation strategy and quarterly updates to the BOE. Once approved in November of each year, the execution philosophy should remain unchanged until November of the following year, with pre-defined adjustments and resets as noted below in this paper. This will ultimately lower costs, churn, and Prop S operating costs; and give parents, students, **tax payers**, the public, the Board of Education, and district staff an opportunity to adopt and pursue a steady vision.

Prop S Background

In approving Prop S, San Diego voters authorized SDUSD to issue general obligation bonds up to a total of \$2.1 billion. The time period during which bonds would be sold is not defined in the voter pamphlet because the timing is dependent upon the net assessed value of property within the SDUSD boundaries. Prop S ballot language promised voters that the current tax rate of \$66.70 per \$100,000 of property value would not be exceeded. Because the district is paying debt service on a previously approved bond measure, Proposition MM, there are limits on how many bonds can be sold within a year.

SDUSD had intended that bonds be sold over a 10-year period; however, reductions in the net assessed value of real property in the district have limited the amount of annual bond revenues. Implementation of Prop S through the sale of bonds totaling \$2.1 billion plus state funds and grant monies is now projected to be 14 years.

The district has identified \$7 billion in facilities needs. It was never anticipated that all the projects identified by the district could be completed through Prop S.

Bond Project List

Projects selected by the Board of Education for implementation through Prop S principally fall within four areas of concentration:

1. Projects that improve student health, safety and security
2. Projects that improve school accessibility and code compliance upgrades
3. Projects that directly enhance student learning and instruction
4. Projects that repair and replace major building systems

The voter pamphlet states that projects “will be completed as needed in accordance with board-established priorities, and the order in which such projects appear on the Bond Project List is not an indication of priority for funding or completion.”

Just because projects were included on the Bond Project List provided to voters does not guarantee that they will be funded or completed under Prop S, due to factors including project cost, the timing of bond revenues, the time it takes for government approvals and environmental review, and input from the public.

The Board of Education may make changes to the Bond Project List consistent with the projects listed in Prop S, including the addition or removal of projects or project elements. In addition to projects specified in the Bond Project List, the bond measure identifies the potential for additional funding sources that may affect the total amount of funds available over the lifetime of Prop S:

1. State matching funds to construct classrooms and schools to accommodate student growth for new housing areas at Marine Corps Air Station (MCAS) Miramar.
2. Funds to retrofit and construct classrooms, labs, and facilities to improve specialized instruction.
3. Matching funds to construct classrooms and schools in the downtown area to meet the educational needs of the district.

Proposition 1D Background

The voter pamphlet permits the district to participate in the State of California Proposition 1D (Prop 1D), the Kindergarten-University Public Education Facilities Bond Act of 2006. This Act was placed on the November 2006 ballot as a result of Governor Schwarzenegger signing Assembly Bill 127 (Chapter 35, Statutes of 2006) into law on May 20, 2006. Prop 1D was approved by the voters, providing \$10.416 billion in general obligation bonds for educational facilities, of which \$7.329 billion is earmarked for kindergarten through 12th grade projects (Office of Public School Construction, <http://www.bondaccountability.opsc.dgs.ca.gov/bondac/proposition/proposition1D.asp>).

This program provides 50 percent matching funds for new construction projects, modernization, career technical education, charter schools, and joint use projects. SDUSD considers this source of funds key and essential to the successful completion of Prop S projects, and has aggressively participated in the program. The Office of Public School Construction (OPSC) established rules for the execution of these projects. Funds are made available to school districts and are awarded based on criteria established by OPSC. All projects must receive statutory approval from the Division of the State Architect (DSA) before being submitted for funding (apportionment). In the case of Career Technical Education (CTE) grants, OPSC allows for preliminary approval. A district has 12 months to complete construction drawings and receive DSA approval, or the preliminary apportionment will be revoked.

The selection of projects starts with school sites submitting applications to the district’s College, Career and Technical Education Department (CCTE). Sites advocate for projects that they feel will contribute to the academic and future professional goals of their students. The proposed projects are then vetted through CCTE, Finance Department, Facilities and Planning Department, and the

Office of the Superintendent for approval. The Board of Education formally approves the projects submitted to OPSC.

OPSC periodically requests applications for CTE Prop 1D projects. Since 2008, there have been three rounds of CTE grants. The district has received \$17,771,399 in state matching funds for 12 projects, and has three projects awaiting fund release of \$6,184,585. SDUSD submitted 12 applications in the third round, and the State Allocation Board approved the seven highest scoring projects in October 2010. The district received unfunded approval of \$9,238,360 for those seven projects. The total amount of matching state funds for all 22 CTE projects is \$33.2 million.

Project Prioritization

District staff has provided the Board of Education, ICOC, and the public with regular updates on the scope, budget, and prioritization of Prop S projects. The updates began with publicly noticed meetings on July 8, 21, and 23, 2008, prior to the voter approval of Prop S. There have also been six publicly noticed Board of Education workshops since January 26, 2009. ~~In addition, district staff has also met individually with Board of Education members on several occasions since February 2009 to review the status of Prop S projects. At each of these meetings, the district staff provided an updated Bond Project List and the opportunity for comment and direction from both the public and the Board of Education.~~

District staff employed a four-step process for developing the budget, project list, and schedule for each project site, including:

1. Facility Analysis. In 2002, SDUSD engaged 3DI, Inc., an independent contractor, to conduct a district-wide ~~facility condition~~ assessment of ~~the major repair and replacement needs of~~ all school sites. This assessment was updated and validated in 2006 and 2007 by AECOM, Inc. In 2008, the data was further validated. ~~Data is also confirmed prior to the start of design. The assessment includes technology and security, space standards, key needs and conditions, structural evaluations, building replacement, compliance with Americans with Disabilities Act (ADA), food service facility, and an evaluation of athletic and physical education facilities with a focus on accessibility and safety.~~

2. Site-Specific Upgrade Analysis. District staff, under direction by the Board of Education, selected high schools as the first priority in the Prop S program. Consistent with Board of Education direction, the Prop S program is focused on stadium upgrades, site modernization, Career Technical Education projects, Overcrowded Relief Grant projects, site discretionary, and technology improvements (i21 Interactive Classroom Initiative) in all district schools.

3. Project Prioritization. To ensure that the district has a transparent and objective project prioritization process, SDUSD developed a prioritization algorithm with eight weighted variables. These variables include school type, how long it has been since the last major renovation at the site, the facilities condition index, Academic Performance Index ratings, the number of portable classrooms on the site, a small-school factor, eligibility for state matching funds, and climate zone. Based on this algorithm, the 170 schools with modernization projects were ranked. Board of

Education members were provided the opportunity to comment on the order of school site projects in their respective sub-districts in February 2009, and again in August 2010.

4. Execution Schedule. Based on the above, a dynamic five-year project implementation schedule has been developed. The schedule is dependent upon the overall site ranking, revenues available through the sale of bonds, departmental cash flow, and the speed in which the Division of the State Architect reviews SDUSD architectural drawings. In some cases, projects may be “split” to accommodate cash flow. Please note that the district has elected to schedule Prop 1D grant projects early in the program due to funding availability and state matching grant requirements. The Board of Education has prioritized implementation of an aggressive technology program through the i21 project.

To provide flexibility in completing projects, the five-year implementation plan includes designing projects that are not scheduled until future years so that multiple “shovel-ready” projects can be submitted for funding that may become available. This allows the district to respond to unanticipated revenue sources and take advantage of a continued favorable bidding climate. In the future, projects that are ready for bid and award can be brought forward earlier to be included in the implementation schedule. Additional funds would also allow projects to proceed expeditiously. However, if revenue were less than planned, projects would remain in the currently adopted sequence and would not be awarded until fund balances permit.

Five-Year Execution Strategy

Revenues and Expenditures from 01 July 2011 to 31 June 2015

In general and based on the above, SDUSD intends to match annual revenues, end of year revenues, and matching funds to approved projects on the Bond Project List and new projects as directed by the Board of Education.

Based on advice from Gardner, Underwood and Bacon, LLP, district staff estimates a minimum revenue stream of \$140 million per year through the sale of General Obligation Bonds and other financial instruments for the next five years, end of year reserves carried forward of \$72.1 million including matching Prop 1D funds of \$8.2 million. Please note that there are no unobligated retained funds in the Prop S account. Based on these revenue sources district staff estimates that total revenues available for the period from 01 July 2010 to 01 July 2016 will be approximately \$884.2 million.

Program Expenditures

District staff has developed a fully cost-loaded Bond Project Schedule for ~~whole site modernization projects at 170 school sites, the construction of two co-located elementary schools potentially sharing core facilities at MCAS Miramar, as well as future projects at Central Elementary and Wilson Elementary Schools, and the downtown library charter high school project.~~ all work included in the Bond Project List. The district’s legal office reviews proposed project modifications to the Bond Project List to determine that the projects can be supported within the framework of

the bond language. The total cost of completing these projects is estimated to be in the range of \$2.28 billion to \$2.4 billion over the life of the Prop S program.

Program deficits are now estimated to be \$16.7 million. This estimate is based on current economic and business conditions, but changes in the economic climate could further affect the proposed implementation schedule. There are a number of factors that could significantly increase the cost of construction, including inflation in the cost of materials and labor costs, as well as potential increases in the sales tax. With a revenue ceiling of \$2.1 billion in bond revenues and an estimate of \$200 million flowing to SDUSD through Prop 1D eligibility, projected expenditures cannot exceed a total of \$2.3 billion. with a total need of \$7 billion in district projects.

Program and Project Reserves

~~SDUSD has included an additional five percent in total program reserve as well as a ten percent project contingency fund. The program reserve is set aside to cover possible increases in scope or the addition of unanticipated project expenditures outside of project allowances. These reserves are factored into the fully cost loaded program estimated costs.~~

Reprogramming Authority

The policy should be to operate with a defined, limited reprogramming authority throughout the year following the annual November adoption of the implementation strategy in October/November.

Reprogramming is defined as deviations to the approved project execution list, beyond the project start, of more than one year. The reprogramming is related to temporary, less than one year in duration cash flow issues, which should be minimal since typically the bonds are sold in August of each year, or due to any of the following:

- A recommendation by the Prop S Executive Director and staff that an intra-year change will be more effective due to contractor execution, disruption of school operations, special environmental issues, or cost savings, that must be fully described in the recommendation to the BOE.
- Immediate health, life and safety requirements and concerns noted by the district's facility audit process.
- Operating budget considerations, e.g., the timing of personnel or financial resources that are made available.
- If special, out-of-term district operating budget decisions close facilities or programs after the typical budget year, staff will cease design and issue stop work orders immediately.

Should project timing move from one year to the next for any reason, or any series of outyears, or if financial resources either expand or contract, if population changes so dictate, or if natural emergencies so intrude and render part of the district's asset base unusable, staff will consider these factors in the next year's Prop S Investment Strategy Proposal.

Whole-site Prioritization Matrix

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Staff will maintain and update its facility condition index and other facility scoring systems with more current data as it becomes available. District staff will also work toward creating a reserve of DSA approved projects, consistent with the Prioritization Matrix, which can be advanced or held back from bid and contract award in response to funding availability.