

San Diego Unified School District



Independent Citizens' Oversight Committee (ICOC)

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Quarterly Status Update October–December 2010

Prop. S ICOC Quarterly Status Update: October – December 2010

Summary	Page 1 of 12
Financial Status	Page 2 of 12
Status of Projects	Page 5 of 12
ICOC Activity Summary	Page 6 of 12
ICOC Activity Detail	Page 7 of 12

Proposition S

Independent Citizens' Oversight Committee

Quarterly Status Update

October–December 2010

Summary

This quarterly report is a summary of information reviewed by the ICOC and actions taken by the ICOC. The ICOC will provide quarterly reports throughout the life of the program, with an annual report in March of each year. Additional reports to the public and Board of Education (BOE) may be issued if appropriate.

As of the end of calendar year 2010, nearly \$400 million is available for Prop. S projects from two bond issues plus \$29.7 million in state grants. A total of \$150 million has been expended.

The Board of Education has designated a 5-year implementation schedule of i21 technology as a priority, and i21 projects valued at over \$80 million are underway to install digital technology systems in District classrooms. i21 technology is currently in use in 1,309 classrooms including the distribution of over 35,000 netbook computers. Fourteen construction projects valued at \$47.1 million are underway, and various other projects are in the design phases, consistent with the 5-year implementation schedule.

In October 2010, the District's bond financial advisor, Mark Young, presented to the ICOC two opposing scenarios for the issuance of bonds: bonds with 25-year maturities and bonds with 40-year maturities. Use of the 40-year maturity bonds allow the Prop. S program to complete seven years sooner, avoiding construction cost increases in order to get more work done. However, there is also a substantial difference in the total debt service to be paid by taxpayers. The 25-year maturities are projected to cost taxpayers \$8.6 billion over 44 years, while the 40-year maturities are projected to cost \$12.2 billion over 50 years.

ICOC Activities during this quarter included:

- The Construction Subcommittee completed walk-throughs of construction on two campuses.
- The ICOC Quarterly Report for April–June 2010 was issued in October and the ICOC Quarterly Report for July–September 2010 was issued in November. In addition, the ICOC and District staff jointly developed a Prop. S Implementation Strategy (completed in December 2010, it was issued in January 2011).

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.

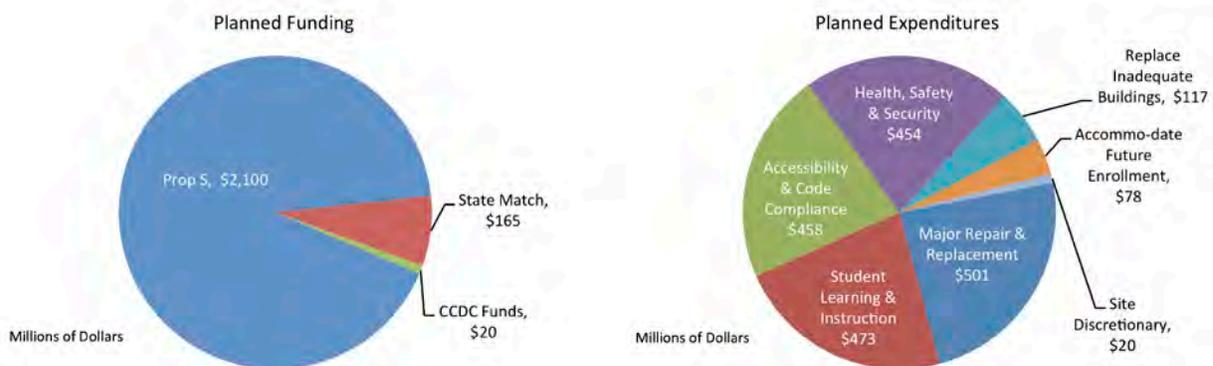
ICOC

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 can not be used for teacher or administrative salaries.

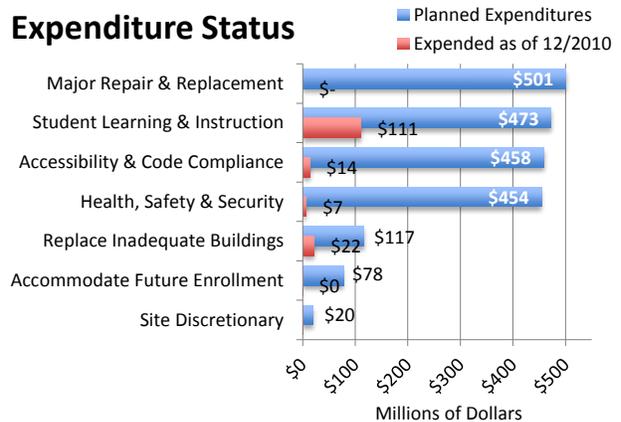
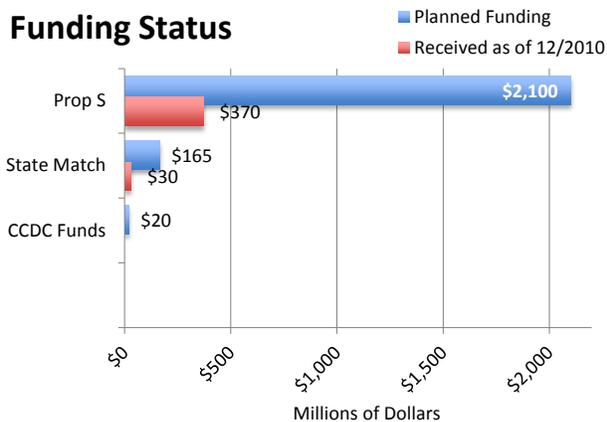
Financial Status

Prop. S authorized the issuance of \$2.1 billion in general obligation bonds. Completion of projects listed in the Prop. S ballot language is dependent on the receipt of \$165 million in matching state funds. To date, a total of \$29.7 million in state funds have been received. In addition, \$20 million of Center City Development Corporation (CCDC) funds have been added to the Prop. S program budget. There is a potential for additional state funds through the Career Technical Education (CTE) program; however, receipt of these funds is uncertain and they are not included in the total planned funding for the Prop. S program shown below.

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 the end of calendar year 2010, a total of \$369,997,581 in Prop. S bonds have been received from two bond issues, which has not changed since the July–September status report. The district has received \$29,695,300 in state grants for Prop. S projects to date. Expenditures to date total \$153,613,104. When compared to the 5-year plan, the program is on budget but slightly behind schedule.



In August 2010, the District issued \$200 million in Prop. S general obligation bonds with 40-year maturities; this was the second bond issue. The first issue of bonds had 25-year maturities.

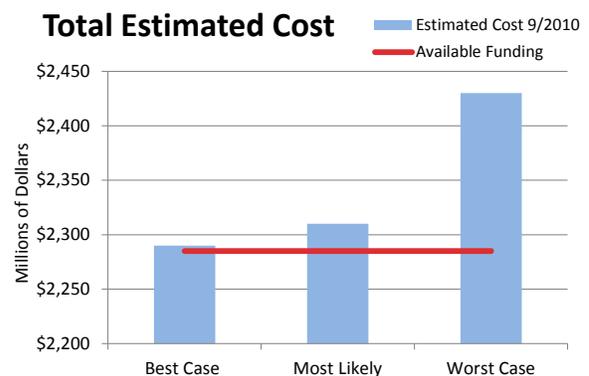
In October 2010, the District's bond advisor, Mark Young, provided an updated analysis that included opposing scenarios of using 25-year maturity and 40-year maturity bonds for all future bond issues. The analysis for both scenarios assumed that assessed property values would return to an average annual increase rate of 5% by 2015; this assumption is supported by a 20-year average increase rate of 5.6% (the 20-year period includes the slow growth rate through the 1990s and the recent down turn in assessed values). In addition, the analysis of both scenarios used a 20-year average for assumed borrowing rates.

	Original Plan		Updated Analysis	
	25 Year Maturities	25 Year Maturities	25 Year Maturities	40 Year Maturities
Total Proceeds	\$2.1 billion	\$2.1 billion	\$2.1 billion	\$2.1 billion
Average Annual Issue	\$200 million	\$96.1 million	\$157.3 million	\$157.3 million
Last Bond Issue	2023	2028	2028	2021
Date of Final Payment	2044	2053	2053	2059
Total cost to Taxpayer	\$5.9 billion	\$8.6 billion	\$8.6 billion	\$12.2 billion

Prop. S promised voters that the combined tax rate to pay off Prop. MM and make payments on Prop. S bonds would not exceed \$66.67 per \$100,000 valuation. Once Prop. MM bonds are paid off in about the year 2029, tax rates will lower to \$60.00 per \$100k in accord with the limits of Prop. 39, under which Prop. S was passed.

Prop. S has been significantly impacted by the devaluation of properties. It was originally expected that the Prop. S would be completed in 14 years and that each dollar of Prop. S funds would cost taxpayers \$2.80 paid off over 35 years. Current projections are that each dollar will cost taxpayers between \$4.10 and \$5.80 paid off over 44 years to 50 years based on the above assumptions.

Consultants on the District's Prop. S management team maintain a risk-adjusted cost estimate to complete all Prop. S listed work. There has been no change in the projections since the July–September 2010 report. The estimates are depicted on the right. They continue to predict there will not be enough funding available to complete all the projects listed in Prop. S.

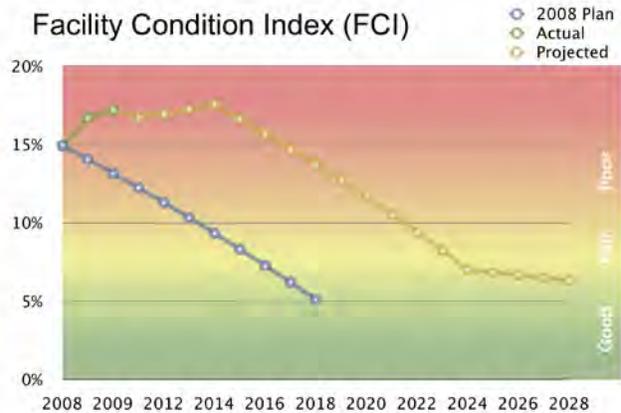


While there are many risk factors taken into account in preparing these cost estimates, the primary factor is length of the Prop. S program. The best case scenario assumes the completion of all projects as early as 2019, while the worst case scenario assumes completion in 2024. It should be noted that the above financial analysis

currently predicts that if only 25-year maturities are used for future bond issuances, the last bond issue will not occur until 2028.

The Facility Condition Index (FCI) is a meaningful measurement of the condition of existing school facilities. The FCI is calculated by dividing the cost of needed repair and maintenance work by a facility's replacement value, and is expressed by a percentage. The lower the percentage is the better the condition of facilities.

The chart to the right tracks the impact of \$501 million in Major Repair and Replacement (MRR) work planned to be done using Prop. S funds. Planned Prop. S MRR work is designed to improve the condition of schools so that an FCI between 5% and 7% is achieved, which is considered to be a good condition.



This chart reflects the latest FCI calculation presented in the 2011 MRR Plan prepared by the Physical Plant Operations (PPO) last quarter. However, this chart does not reflect the potentially positive impact that larger bond issues may have on reducing the FCI sooner than shown. As reported in the ICOC Review of the 2011 MRR Plan, recurring funds available for MRR in the near future are projected to be inadequate to prevent a degradation of the condition of existing school facilities prior to the start of planned Prop. S MRR work.

It should be noted that while the largest portion of Prop. S is earmarked for MRR work, no Prop. S funded MRR work has been completed as of the end of the 2010 calendar year.

Status of Projects

During this quarter, 14 active construction projects valued at over \$47 million were underway. In addition, two phases of the i21 program valued over \$80 million and \$98 million in infrastructure improvements needed to support the i21 program are underway.

Project	Construction Cost	% Complete
Accessibility & Code Compliance		
Replace Inadequate Buildings		
Point Loma HS ORG - Classrooms	3,775,600	95.0%
San Diego HS ORG - New Classrooms	5,378,900	44.0%
Health, Safety & Security		
Cherokee Point ES Furnish & Install Chiller	1,042,355	56.0%
Ibarra ES Furnish & Install Chiller	603,129	85.0%
Student Learning & Instruction		
A.L.B.A. School Classroom Conversion	994,775	75.0%
Clairemont HS Autoshop	2,605,500	36.0%
Yr-1: i21 Interactive Suite @ 1,309 CR's	46,213,245	81.7% *
Yr-2: i21 Interactive Suite @ 1,235 CR's	40,298,963	7.8% *
Infrastructure/Connectivity @ 76 sites	98,155,569	1.9% * †
Hoover HS Green Workshops	3,854,000	15.0%
Madison HS Automotive Program	3,314,000	99.0% 1)
Madison HS Multi-Media Center	2,625,820	27.0%
Morse HS Autobody Program	3,291,000	57.0%
Morse HS Culinary Program	3,091,000	57.0%
Multiple Categories of Work		
Jefferson ES Playground Exp & CDC Add	2,736,734	0.0% 2)
Madison HS Upgrade Stadium Complex	5,998,000	18.0%
Morse HS Upgrade Stadium Complex	7,790,000	15.0%

NOTE: * The listed dollar amount for i21 and related projects reflect the full budget amount, rather than the construction cost shown in other projects.

NOTE: † In previous quarterly reports, the construction costs and % complete were listed in error for Infrastructure/Connectivity. Current data reflects the Dec 2010 i21 Program Summary.

- 1) Projects completed this quarter include:
 - Madison High School Automotive Program
- 2) Projects started this quarter include:
 - Jefferson Elementary School Playground Expansion and Child Development Center Addition



ICOC Activity Summary

The ICOC meets monthly and subcommittees meet as needed, usually monthly. The ICOC has worked with District staff to develop and refine routine reporting on bond expenditures and program status in order to meet the Prop. 39 requirements for California bond accountability, Prop. S requirements as defined by the ballot measure approved by the voters in November 2008, and San Diego Unified School District policy. Subcommittees review recurring reports in detail and forward appropriate materials to the full ICOC either as information or action items.

The fiscal year 2009–2010 performance and financial audits of Prop. S are being conducted by the independent auditing firm Christy White Accountancy. The ICOC's review of the fiscal year 2008–2009 audits issued in March of this year recommended that the annual bond audits be completed in conjunction with the district audit which was completed in December — the bond audits were not completed prior to the end of the 2010 calendar year. (Note: The ICOC received the completed annual bond audits at a special meeting in February 2011. More information will follow in the next Quarterly Status Update.)

Following last quarter's issuance of the ICOC Review of the 2011 Major Repair and Replacement (MRR) plan, the Construction Subcommittee formed an Ad Hoc Committee on MRR, in order to look into the condition of existing schools and how fast they are deteriorating. While the 2011 MRR plan and ICOC review have been issued, neither the ICOC Review or the District's MRR Plan have been placed on a Board agenda for discussion, contrary to Board Policy E-2570, adopted in April 2008.

The ICOC Construction Subcommittee completed on-site walk-throughs of construction sites on two campuses:

- October 28, 2010: Autoshop at Clairemont HS
- November 16, 2010: ORG Classroom Building at Point Loma HS

The ICOC Finance Planning and Controls Subcommittee worked with District staff to develop a Prop. S Implementation Strategy that was considered by the full ICOC in January 2011. The Implementation Strategy reviews the five-year execution plan and documents the strategy upon which the execution plan is based. The document provides background information on Prop. S and reviews additional funding sources, the Bond Project list, and documents strategies for Project Scheduling, Project Prioritization, Five-Year Execution Strategy, Program Expenditures, and Reprogramming Authority.

ICOC Activity Details

The description of ICOC activities in the following pages of 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 during a public meeting and posted on the ICOC website (<http://www.sandi.net/props/icoc>).

Actively Review Proper Expenditure of Bond Funds

Review Expenditure of Bond Funds	Page 8 of 11
Inspect Schools & Grounds	Page 10 of 11
Review Efforts to Reduce Costs	Page 10 of 11
Receive & Review Annual Performance Audit	Page 10 of 11
Receive & Review Annual Financial Audit	Page 10 of 11
Receive & Review Deferred Maintenance Plan	Page 10 of 11

Inform Public Concerning Expenditure of Bond Funds

ICOC Web Site	Page 11 of 11
ICOC Quarterly Status Update	Page 11 of 11
ICOC Annual Report	Page 11 of 11

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.

- 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: October 2010
 - ICOC: October 2010 and November 2010

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. Below provides a listing and description of activities during this quarter.

- **Staffing Plan**: The ICOC received status updates of staffing changes approved by the Board and designed to lower management costs.
 - Construction Subcommittee: October 2010, November 2010, and December 2010
- **Business Outreach Program** This program is routinely reviewed and monitored by the ICOC.
 - Community & Business Outreach & Engagement Plan:
 - ICOC: October 2010
 - Small Business Achievement status reports: No activity this quarter
 - Business Outreach Activity Report provides are reviewed periodically
 - Construction Subcommittee: October 2010 and December 2010
- **Project Stabilization Agreement (PSA)**
 - Construction Subcommittee: October 2010, November 2010, and December 2010
- **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: October 2010, November 2010, and December 2010
 - Construction Subcommittee and ICOC review the Construction Management report monthly; it provides a status summary of ongoing construction projects.
 - Construction Subcommittee: October 2010, November 2010, and December 2010
 - ICOC: October 2010 and November 2010
 - i21 Program Summary is reviewed by the Construction Subcommittee and ICOC on a monthly basis.
 - Construction Subcommittee: October 2010, November 2010, and December 2010
 - Special Reports
 - The Construction Subcommittee received a report on escalating constructions costs.
 - Construction Subcommittee: November 2010
- 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: October 2010
 - ICOC: October 2010, November 2010

Special Reviews

- The ICOC received the same presentation that Mark Young gave to the Board of Education (on October 19, 2010) regarding bond sales, the investment status, and investment philosophy of Pond S bonds
 - ICOC: October 2010

Actively Review Proper Expenditure of Bond Funds (continued)

Inspect Schools and Grounds

On-Site Project Reviews

- No specific activity this quarter
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Review Efforts to Reduce Costs

Review Efforts to Reduce Costs

- No specific activity this quarter
-

Receive & Review Annual Performance Audit

Receive & Review Annual Performance Audit

- No specific activity this quarter
-

Receive & Review Annual Financial Audit

Receive & Review Annual Financial Audit

- No specific activity this quarter
-

Receive & Review Deferred Maintenance (DM) Plan

Annual MRR Plan The ICOC has a responsibility to review Deferred Maintenance (DM) plans of the District. The annual Major Repair and Replacement (MRR) Plan addresses the global issue of maintaining the condition of District school facilities in a safe and functional condition. Per District policy, the annual MRR Plan assesses the adequacy of DM and other programs and funding sources used in maintaining the condition of District capital facilities. In addition, the MRR Plan is to be received/reviewed by the standing ICOC who is to report review recommendations to the BOE at a public meeting.

- MRR Implementation: The Construction Subcommittee formed an Ad Hoc Committee to look into the condition of existing schools and how fast they are deteriorating. Glen Hillegas, Kevin Alvin, and Kim Schoettle served on this committee.

Inform Public Concerning Expenditure of Bond Funds

ICOC Web Site

ICOC Web Site The ICOC website contains minutes of all ICOC proceedings and all documents received and reports issued by the ICOC. The ICOC website is open to the public and can be accessed directly, or through other District websites:

- <http://www.sandi.net/props/icoc> (ICOC website, direct access)
- <http://www.sandi.net> (District website)
 - Click on Proposition S in the Site Shortcuts navigation panel
 - Click on Proposition S - Independent Citizens' Oversight Committee in the Proposition S Program navigation panel
- <http://www.sandi.net/boe> (Board of Education website)
 - Hover over Committees in the navigation bar
 - Select ICOC - Prop. S from the Committees drop-down menu

ICOC Quarterly Status Update

ICOC Quarterly Status Update The ICOC issues Quarterly Status Updates, they 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](#)

ICOC Annual Report

ICOC Annual Report The ICOC issued its first Annual Report in May 2010; it was presented to the BOE at a public meeting on [June 29, 2010](#). 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 ~ FINAL 2009](#)

District Communications

Monthly Communications Report District public communications regarding Prop. S

- ICOC: October 2010 and November 2010