

San Diego Unified School District



Independent Citizens' Oversight Committee (ICOC)

Quarterly Status Update January–March 2011

Prop. S ICOC Quarterly Status Update: January – March 2011

Summary	Page 1 of 13
Financial Status	Page 2 of 13
Status of Projects	Page 5 of 13
ICOC Activity Summary	Page 7 of 13
ICOC Activity Detail	Page 9 of 13

Proposition S

Independent Citizens' Oversight Committee Quarterly Status Update January–March 2011

Summary

This quarterly report is a summary of the information that has been reviewed by the ICOC and actions taken by the ICOC during the period of January 1st through March 21, 2011.

As of March 31, 2011, nearly \$414 million is available for Prop. S projects from two bond issuances plus \$43.9 million in state matching funds. Nearly \$200 million has been expended as of March 31, 2011, leaving a cash balance of about \$214 million.

In February 2011, independent auditor, Christy White Accountancy, prepared a financial audit and a performance audit for the fiscal year ending June 30, 2010. The auditor found that the financial statements presented fairly the financial status of Prop. S funds and that Prop. S funds were used only on Prop. S projects, consistent with state law. Because the audit report was received 2 months late, the ICOC held special meetings to review the audits and provide recommendations to the Board of Education (BOE). The District's Audit and Finance Committee reviewed ICOC recommendations prior to forwarding them to the BOE (more details on page 7).

The following new members were appointed to the ICOC by the BOE in February: Andrew Berg, John Daley, Brian Pollard, and Jaime Barton. A special ICOC meeting was held as an orientation for new members. Departing ICOC members were Gregg Cantor, Glenn Hillegas, Daniel Morales, and John Stump.

Other ICOC activities during this quarter include the following (more details on page 7):

- The ICOC Quarterly Report for October–December 2010 was issued in March.
- The ICOC forwarded the Prop. S Implementation Strategy to the BOE in January.
- The ICOC responded to the Board's December 14, 2010 request for input regarding the statutory role of the ICOC and the process for appointment of members.
- The ICOC asked its subcommittees to study how the acceleration of 11 whole site renovation projects and the removal of \$20 million in Centre City Development Corporation (CCDC) funding impacts other Prop. S projects.

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

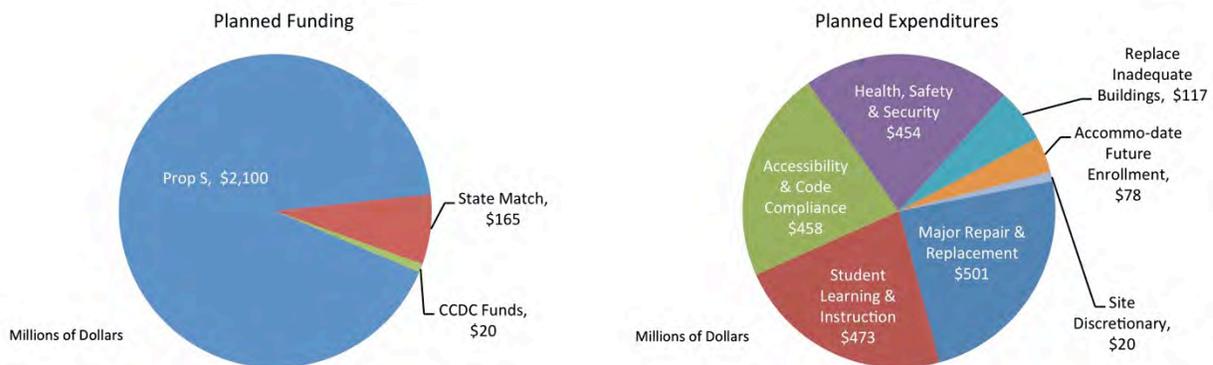
The Independent Citizens' Oversight Committee (ICOC) is the legally required committee appointed by the Board of Education (Board) to actively review the proper expenditure of Prop. S funds, and inform the Board and the public concerning Prop. S expenditures. Prop. S funds must be used for projects specified 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. Completion of projects listed in the Prop. S ballot language is dependent on the receipt of \$165 million in state matching funds. In addition, \$20 million of Center City Development Corporation (CCDC) funds were 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.

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 are 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.

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 March 2011, a total of \$369,997,581 in Prop. S bonds have been received from two bond issuances. No bonds have been sold since the July–September 2010 Quarterly Report. Since Prop. S passed, the district has received \$43,886,900 in state funding to augment Prop. S projects. Expenditures to date total \$199,957,950. When compared to the 5-year plan, the program is on budget but slightly behind schedule. Cash on hand, as of March 31, 2011, is \$213,926,531.



The Funding Status chart does not reflect the Board's March 29 decision to fund the downtown library-school using only Prop. S funds. This decision reduces funding by the \$20 million in CCDC funds and adds \$10 million in scope to the Prop. S program; net impact is \$30 million.

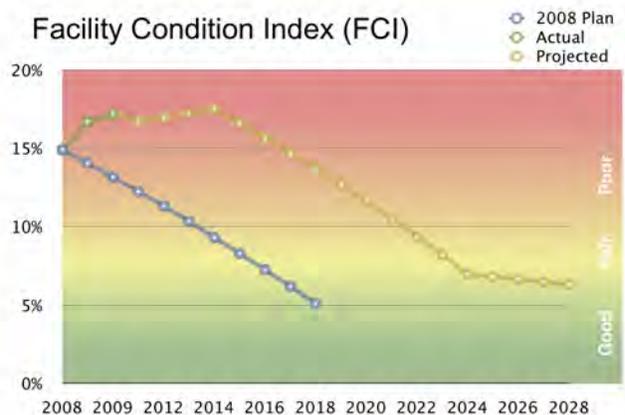
Prop. S has been significantly impacted by the devaluation of property, resulting in less property taxes being collected. It was originally expected that all Prop. S bonds could be issued within 10 years and that each \$1.00 of Prop. S funds would cost taxpayers \$2.80 paid off over 35 years. Current projections by the district's financial advisor estimate that it could take as long as 20 years to issue \$.1 billion in bonds and that each \$1.00 of Prop. S funds could cost taxpayers \$4.10 to \$5.80 paid off over 44 to 50 years. There are a lot of variables and assumptions in these estimates. The ICOC and independent auditor Christy White Accountancy have recommended that an independent financial advisor provide a second opinion on the expected financing costs of future Prop. S bond issues (see ICOC Activities on page 7 for more details on audit recommendations).

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 upwards during this quarter due to a slight increase in projected costs. The TIC estimates depicted on the right continue to predict there will not be enough funding available to complete all project work listed in Prop. S as presented to voters (available funding is \$2.29 billion, Best Case cost is \$2.30 billion, Most Likely cost is \$2.34 billion, and Worst Case cost is \$2.43 billion). This chart does not reflect the \$30 million impact of the Board's March 29 decision to fund the downtown school-library using only Prop. S funds in lieu of CCDC funds.



While there are many risk factors taken into account in preparing the TIC cost estimates, the primary factor is the 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.

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.

The chart reflects the latest FCI calculation presented in the 2011 MRR Plan prepared by the Physical Plant Operations (PPO) during a previous quarter. The above chart does not reflect the Board's March 29 decision to accelerate 11 whole site renovation projects (positive impact), nor the \$30 million impact of funding the downtown library-school using only Prop. S funds (negative impact).

It should be noted that the largest portion of Prop. S is earmarked for MRR work. Of the \$501 million earmarked for MRR work, only \$26,832 has been spent as of March 31, 2011.

Status of Projects

During this quarter, 17 active construction projects valued at over \$57 million were underway along with three phases of the i21 program valued at over \$120 million. In addition, \$77 million in infrastructure improvements at 76 schools to support the i21 program are underway.

Active projects are shown to the right:

NOTE: *The listed dollar amount for i21 and related projects reflect the full bond budget amount, rather than the construction cost shown in other projects, (related work directly paid by the E-rate program is not included).

1) The following projects were completed this quarter:

- ALBA School Classroom Conversion at North Park
- Ibarra Elementary School Air Conditioning Upgrade
- Point Loma High School New Overcrowded Relief Grant (ORG) Classrooms

2) The following projects were started this quarter:

- Clairemont High School Stadium Improvements, Phase 2
- Third year i21 Interactive Suits at 881 classrooms
- Point Loma High School Motion Picture Facility
- Point Loma High School Music Room
- Morse High School Child Development Program

At the March 17 ICOC meeting, the Construction Subcommittee was asked to review how the proposed acceleration of 11 modernization projects could be accelerated without schedule impacts on other Prop. S projects given the uncertainties of state matching funds and given current TIC estimates that predict there are insufficient funds available to complete all project work listed in the ballot. At the same meeting the Finance, Planning and Controls Subcommittee was asked to review the

Project	Construction Cost	% Complete	
Accessibility & Code Compliance			
Clairemont HS Stadium ADA Improvements	6,075,150	9.0%	2)
Replace Inadequate Buildings			
Point Loma HS ORG - Classrooms	3,775,600	99.0%	1)
San Diego HS ORG - New Classrooms	5,378,900	65.0%	
Health, Safety & Security			
Cherokee Point ES Furnish & Install Chiller	1,042,355	88.0%	
Ibarra ES Furnish & Install Chiller	603,129	99.0%	1)
Student Learning & Instruction			
A.L.B.A. School Classroom Conversion	994,775	99.0%	1)
Clairemont HS Autoshop	2,605,500	65.0%	
Yr-1: i21 Interactive Suite @ 1,309 CR's	46,213,245	99.8%	*
Yr-2: i21 Interactive Suite @ 1,235 CR's	40,298,963	40.2%	*
Yr-3" i21 Interactive Suite @ 881 CR's	40,436,247	0.0%	* 2)
Infrastructure/Connectivity @ 76 sites	77,533,418	1.9%	*
Hoover HS Green Workshops	3,854,000	38.0%	
Madison HS Multi-Media Center	2,625,820	90.0%	
Morse HS Autobody Program	3,291,000	78.0%	
Morse HS Child Development Program	2,900,000	0.0%	2)
Morse HS Culinary Program	3,091,000	78.0%	
Point Loma HS Motion Picture Facility	3,092,000	9.0%	2)
Point Loma HS Music Room	1,604,000	9.0%	2)
Multiple Categories of Work			
Jefferson ES Playground Exp & CDC Add	2,736,734	9.0%	
Madison HS Upgrade Stadium Complex	5,998,000	65.0%	
Morse HS Upgrade Stadium Complex	7,790,000	40.0%	



BOE member Shelia Jackson, and ICOC members Gil Johnson, Matt Spathas and Glenn Hillegas join, students and staff to cut the ribbon for new ORG Classrooms at Point Loma High School.

potential impact on other Prop. S programmed projects of the action proposed to the BOE to fund the downtown library-school using only Prop. S funds. Subsequent to the ICOC meeting the BOE decided on March 29 to fund the downtown library-school using only Prop. S funds.

On March 29 the Board of Education also approved the acceleration of track and artificial turf football field installations at Kearny, Mission Bay, Serra, and University City high schools; and the acceleration of 11 whole-site modernization projects at: Foster, Franklin, Jerabek, Lee, Miller, Miramar Ranch, Oak Park, Penn, and Perry elementary schools, Scripps Ranch High School, and Iftin Charter at the Jackson Elementary School.

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 requirements imposed by Prop. 39 California bond accountability, Prop. S language in the 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 fiscal year 2009–2010 performance and financial audits of Prop. S were conducted by the independent auditing firm Christy White Accountancy. The ICOC's review of the fiscal year 2008–2009 audits issued in March of last 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 until February and were considered at a special meeting in February 2011. The auditor recommended improvements to the accounting of the Prop. S program. The ICOC reviewed the audit and forwarded the following recommendations to the Board of Education:

- Future financial audits should not be limited to the “net construction proceeds” of the general obligation bonds issued by the District. Audits should include the costs of sale and issuing the bonds, cover the whole program, include a net worth statement, and provide a more detailed examination of interfund transfers.
- Future performance audits should include an analysis of the recurring costs of maintaining or replacing facilities and equipment purchased with bond financing. The purpose of the analysis is to assess the adequacy of recurring funding sources to cover recurring costs. The ICOC has raised concerns regarding the District’s ability to maintain facilities and equipment purchased by limited on-time bond financing. Additionally, the ICOC is concerned if 40-year bond financing is continued for equipment with a useful life of five years or less.
- The District should adopt the auditor’s recommendation to engage an independent financial advisor to provide a second opinion on the expected financing costs of Prop. S. An independent unbiased conflict free opinion should include a cost/benefit analysis of the proposed structuring of future bond issues based on the total long term costs to taxpayers and the limitation on total bonding capacity.
- The District should adopt the auditor’s recommendation to engage an internal auditor for the Prop. S program, funded from Prop. S funds.

The above ICOC recommendations were reviewed by the Audit & Finance Committee of the BOE on March 9, 2011. The ICOC Chair provided comments during the Committee’s meeting. After discussion and review of the ICOC recommendations, the Audit and Finance Committee approved ICOC recommendations and forwarded them to the BOE.

The ICOC Finance ,Planning and Controls Subcommittee worked with District staff to develop a Prop. S Implementation Strategy in the previous quarter. The ICOC considered it in January 2011 and forwarded it to the BOE. 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.

The ICOC responded to the BOE's request for input regarding the statutory role of the ICOC and the process for appointment of members. In a January 21, 2011 letter to the BOE, the ICOC recommended that: 1) ICOC applicants should be vetted, 2) ICOC vacancies should be publicly posted, 3) any organizations that specifically request notice of ICOC vacancies should be noticed, and 4) the BOE should take into consideration that ICOC members should reflect the diversity of the District.



ICOC members Kim Schoettle and John Daley review materials at an ICOC meeting

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 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 10 of 13
Inspect Schools & Grounds	Page 12 of 13
Review Efforts to Reduce Costs	Page 12 of 13
Receive & Review Annual Performance Audit	Page 12 of 13
Receive & Review Annual Financial Audit	Page 12 of 13
Receive & Review Deferred Maintenance Plan	Page 12 of 13

Inform Public Concerning Expenditure of Bond Funds

ICOC Web Site	Page 13 of 13
ICOC Quarterly Status Update	Page 13 of 13
ICOC Annual Report	Page 13 of 13

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: [January 2011](#) and [March 2011](#)
 - ICOC: [February 2011](#) and [March 2011](#)

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.
 - Construction Subcommittee: [January 2011](#) and [March 2011](#)
- **Business Outreach Program** This program is routinely reviewed and monitored by the ICOC.
 - Community & Business Outreach & Engagement Plan:
 - ICOC: [January 2011](#)
 - Small Business Achievement status reports: No activity this quarter
 - Business Outreach Activity Report provides are reviewed periodically
 - Construction Subcommittee: [January 2011](#), [February 2011](#), and [March 2011](#)
- **Project Stabilization Agreement (PSA)**
 - Construction Subcommittee: [January 2011](#) and [March 2011](#)
- **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: [January 2011](#), [February 2011](#), and [March 2011](#)
 - Construction Subcommittee and ICOC review the Construction Management report monthly; it provides a status summary of ongoing construction projects.
 - Construction Subcommittee: [January 2011](#) and [February 2011](#)
 - ICOC: [January 2011](#), [February 2011](#), and [March 2011](#)
 - i21 Program Summary is reviewed by the Construction Subcommittee and ICOC on a monthly basis.
 - Construction Subcommittee: [January 2011](#), [February 2011](#), and [March 2011](#)
 - Special Reports
 - The Construction Subcommittee and the ICOC received a report on the i21 Program implementation.
 - Construction Subcommittee: [February 2011](#)
 - ICOC: [February 2011](#)
- 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: [January 2011](#) and [March 2011](#)
 - ICOC: [January 2011](#), [February 2011](#), and [March 2011](#)

Special Reviews

- Prop S. Implementation Strategy: The Finance Planning and Controls Subcommittee worked with District staff to develop a Prop. S Implementation Strategy in the October to December 2010 quarter. The ICOC approved the strategy in January 2011 and forwarded it to the Board of Education.
 - ICOC: [January 2011](#)

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

- Cost Saving Measures Matrix: Cost savings are monitored by the Construction Subcommittee on a monthly basis.
 - Construction Subcommittee: [February 2011](#) and [March 2011](#)
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Receive & Review Annual Performance Audit

Receive & Review Annual Performance Audit

- The Audit Subcommittee and the full ICOC received and reviewed the Annual Performance Audit prepared by the independent auditor, Christy White Accountancy Corporation.
 - Audit Subcommittee: [February 2011](#)
 - The ICOC responded with this review: [March 2011](#)
-

Receive & Review Annual Financial Audit

Receive & Review Annual Financial Audit

- The Audit Subcommittee and the full ICOC received and reviewed the Annual Financial Audit prepared by the independent auditor, Christy White Accountancy Corporation.
 - Audit Subcommittee: [February 2011](#)
 - The ICOC responded with this review: [March 2011](#)
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Receive & Review Deferred Maintenance (DM) Plan

Annual MRR Plan: No specific activity this quarter

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 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” in the Facilities Planning and Construction 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 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 October–December 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: [January 2011](#) and [February 2011](#)