

San Diego Unified School District



Independent Citizens' Oversight Committee (ICOC)

Quarterly Status Update October – December 2011

Prop. S ICOC Quarterly Status Update: October – December 2011

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Proposition S

Independent Citizens' Oversight Committee

Quarterly Status Update

October – December 2011

Summary

As of December 31, 2011, just over \$400 million is available for Prop. S projects from two bond issuances plus \$31 million in retained state matching funds. \$313 million has been expended against total contract obligations of \$374 million, leaving an unobligated balance of \$27 million.

In the July – September quarter, the District's bond advisors Keygent reported that declining assessed property values in San Diego would make further bond issuances difficult (and maybe impossible in the short run). This quarter, the District has been researching their options to continue issuing bonds under the Prop. S program. The ICOC has been monitoring their progress. As it stands, it's expected that some refinancing of existing Prop. MM bonds will be required to enable a 2012 bond issuance, and the issuance will be much smaller.

Lee Dulgeroff, Executive Director Capital Improvement Bond Program, briefed the ICOC on possible school closures and the impact this could have on the Prop. S program. The ICOC forwarded a letter to the Board pointing out that currently planned Prop. S work had projected funding shortfalls, and recommending that if schools are closed Prop. S-funded projects for those schools should be canceled and that any saved Prop. S funds be used only for accelerating current Prop. S projects in accord with original sequencing priority.

The Christy White Accountancy Corporation completed their independent audits of the Prop. S program. State law requires an annual and independent Financial Audit and Performance Audit of Proposition 39 bonds. The ICOC reviewed the audits and prepared comments for the Board of Education.

Other ICOC activities during this quarter include the following:

- Issuing the July – September 2011 Quarterly Status Update
- Preparing the 2011 ICOC Annual Report
- Issuing field reports from previous visits to construction sites by ICOC members
- Reviewing financial options for further bond sales

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.

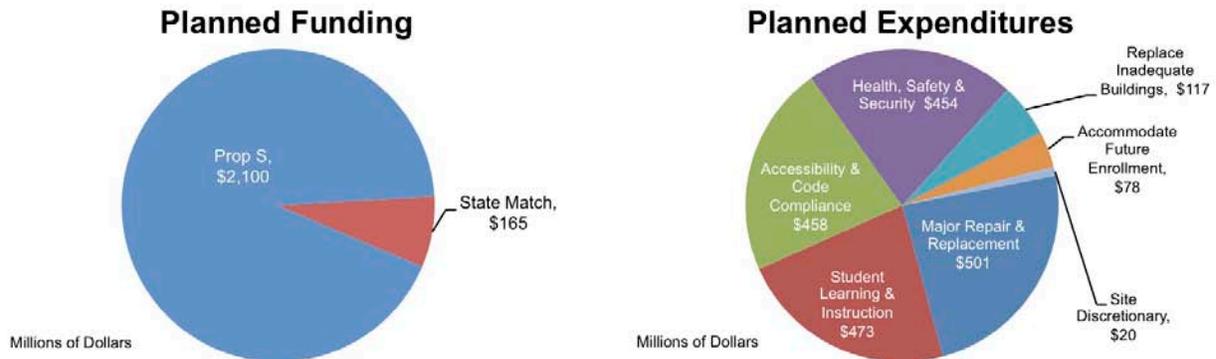
ICOC

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

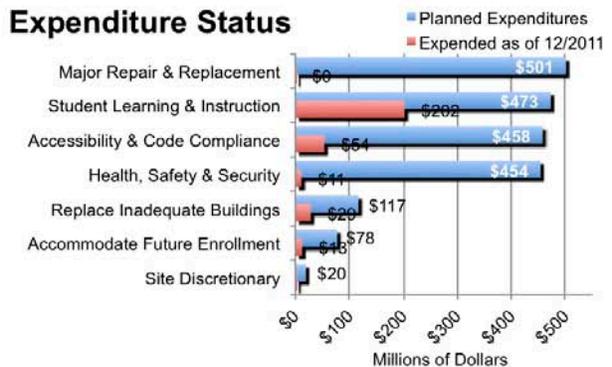
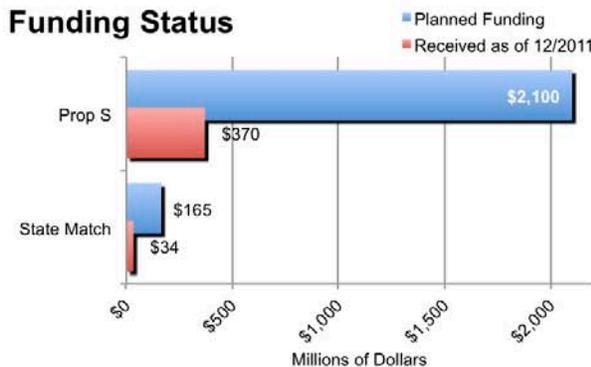
Prop. S authorized the issuance of \$2.1 billion in general obligation bonds. Completion of projects listed in the Prop. S ballot language is dependent on the receipt of \$188 million in state matching funds.

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.

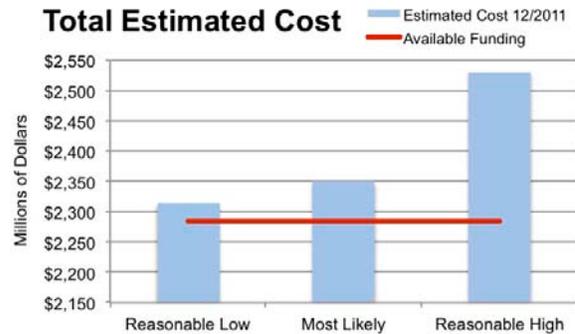


As of December 2011, a total of \$369,997,581 in Prop. S bonds have been received from two bond issuances. No bonds have been sold since the July – September 2010 Quarterly Report. Since Prop. S passed, the District has retained \$31,109,887 in state funding to augment Prop. S projects. A total of \$43 million in state funding was received initially; however savings on projects that came in under must be returned to the state. Expenditures to date total \$312,749,359 against total obligations of \$373,884,540. The 5-year plan will be revised due to the need to lower the size of future bond issues and prolong the program. As of December 31, 2011, there is a total of \$27,222,928 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.



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 2036 and estimates a \$240 million shortfall. The Most Likely projects a \$60 million shortfall.

In the July – Sept 2011 Quarterly Status Report, it was reported that the decline in assessed values would make it difficult to issue bonds in the coming year; the planned issuance for 2012 of \$140 million will certainly be lessened or even eliminated entirely. In order to keep property taxes at or below the promised rate in the Prop. S ballot language, some of the bonds from Prop. MM will need to be refinanced if any Prop. S bonds are to be issued in 2012. District financial advisors are gathering actual data from the County Assessor, updating assumptions, and will develop available options for issuing new bonds for consideration by the Board in early 2012.

The impact of declining assessed property values will be quite broad, but how broad is not yet known. Smaller issuances will delay the program. If the program is delayed, it will cost more to complete work, and given that the Prop. S is fixed at \$2.1 billion it follows that less work can be completed.

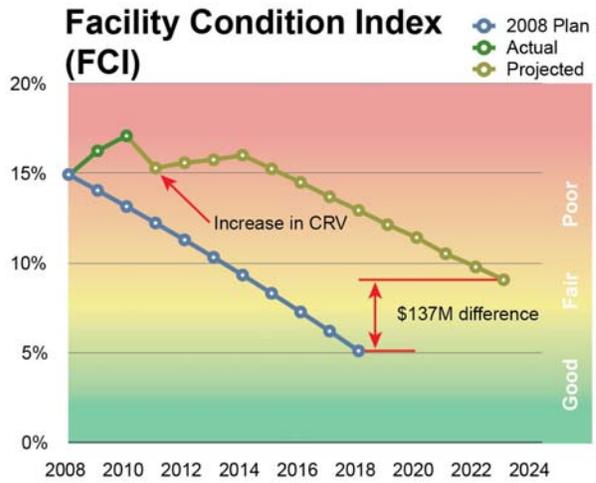
There has been no change since the last quarterly report regarding funding status for bond funded major repair and replacement (MRR) work or the deferred maintenance (DM) program that the ICOC reviews as part of their assigned duties.

Regarding the status of DM and MRR work, it is helpful to use the Facility Condition Index (FCI) to measure the current condition of existing school facilities. The FCI is calculated by dividing the cost of needed repair and maintenance work by the facility's replacement value, and is expressed by a percentage. The lower the percentage is, the better the condition of the facilities being measured.

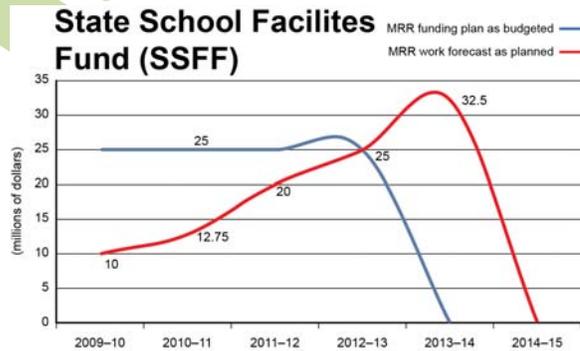
Physical Plant & Operations (PPO) has been using the FCI index to track the condition of District schools. In previous years, Prop. MM used \$301 million to complete MRR work and bring the FCI of District schools from 25% to 15%, which is still considered to be a poor condition. The Prop. MM bonds used 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%, which is considered to be a good condition – that goal will not be achieved.

As reported previously, the start of Prop. S-funded MRR work was pushed back to 2014, the length of the program was extended from 10 to 15 years. Annual budgets between 2008 and 2014 are not sufficient to maintain the condition of District schools and a degradation of condition is expected until Prop. S-funded MRR work begins. The MRR Plan estimated that the delay in the start of Prop. S funded MRR and inadequate annual funding of MRR will result in a \$137 million shortfall of achieving the 2008 goal to improve the condition of District schools.



The MRR Plan reported that while annual budgets for MRR have been maintained at \$25 million per year, actual expenditures of these budgeted monies has been constrained for three years. The funding source for these annual budgets is currently the State School Facilities Fund (SSFF) that holds 1-time grant funds received from the state as a result of Prop. MM projects. In an effort to hang on to cash, preserve the District's credit rating, and increase the ability for short-term borrowing as other funds are depleted due to budget cuts and funding deferrals by the state, these budgeted SSFF monies have been constrained – Over the last four years, District operating revenues have decreased by \$500 million (over 25% reduction) while student enrollment has only dropped by about 3%.



The long-term challenge of identifying adequate annual funding of DM and MRR programs to preserve capital assets of the District remains unresolved.

Status of Projects

During this quarter, 18 active construction projects budgeted at over \$78 million were underway along with one phases 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. The currently awarded construction work totaling \$63 million is 18.7% under budget and the current change order rate is 5.0%. The Infrastructure/Connectivity project is \$20 million over budget; as a whole, the i21 Program is 4.1% over budget.



Hoover HS: New construction includes a landscaped perimeter

Active projects are shown to the right:

1) The following projects were completed this quarter:

- New Classroom Building at San Diego High School
- Auto Program Building at Clairemont High School

2) No projects were started this quarter.

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).

Project	Construction Budget	% Complete
Accessibility & Code Compliance		
Clairemont HS Stadium ADA Improvements	7,832,371	96.0%
Replace Inadequate Buildings		
San Diego HS ORG - New Classrooms	9,289,999	100.0% 1)
Health, Safety & Security		
Normal Heights ES HVAC	800,000	95.0%
Marshall ES Drop-Off/ADA Upgrades	880,346	33.0%
Meads HS HVAC	1,552,041	6.0%
Sessions ES Parking Lot & Drop/Pick-Up Upgr	1,944,272	77.0%
Student Learning & Instruction		
Clairemont HS Autoshop	4,027,900	100.0% 1)
Data Center 2 at Serra HS	18,883,489	5.9% *
Yr-3: i21 Interactive Suite @ 881 CR's	40,436,247	30.5% *
Infrastructure/Connectivity @ 76 sites	78,188,691	2.4% *
Hoover HS Athletic Facilities	9,683,346	41.0%
Hoover HS Green Workshops	4,662,181	99.0%
Morse HS Autobody Program	5,464,858	97.0%
Morse HS Child Development Program	3,286,457	57.0%
Morse HS Culinary Program	4,130,061	97.0%
Point Loma HS Motion Picture Facility	3,784,510	65.0%
Point Loma HS Music Room	1,988,189	65.0%
Point Loma HS Weight Room Building	931,989	48.0%
Multiple Categories of Work		
Jefferson ES Playground Exp & CDC Add	4,339,327	71.0%
Morse HS Upgrade Stadium Complex	7,708,289	93.0%
Scrrips Ranch HS Technology Buildings	5,866,116	28.0%

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 status to meet requirements imposed by Prop. 39 California bond accountability, 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 addressed several issues in this period, foremost among them the ongoing trouble with Prop. S financing and bond issuances. The ICOC forwarded their concerns on the financial impact to the Board. They received several presentations from Lee Dulgeroff regarding the District's operating budget problems and how closing schools could effect the Prop. S program. Ultimately, they issued a letter to the Board.



ICOC walkthrough of Hoover HS Green Workshops



New retaining wall for Girl's Softball Field at Hoover HS

The ICOC subcommittees conducted their own meetings and activities:

- The Audit Subcommittee accepted and forwarded to the full ICOC the annual Financial Audit and Performance Audit
 - The ICOC will be issuing a response to the Board in January of 2012
- The Construction Subcommittee visited Hoover High School
- The Construction Subcommittee issued field reports for schools visited previously
- The Construction Subcommittee requested more information from the District on the Morse High School Autobody and Culinary Arts buildings
- The Executive/Governance Subcommittee received several presentations on the bond crisis and school closures
- The Executive/Governance Subcommittee formed an ad hoc committee to draft the ICOC 2011 Annual Report for consideration by the full ICOC
- The Finance, Planning and Controls Subcommittee drafted a response to the District's bond crisis

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>).

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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: [November 2011](#)
 - ICOC: [October 2011](#), [November 2011](#), and [December 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.
 - No specific 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: [October 2011](#)
 - Business Outreach Program Events Overviews are reviewed periodically
 - Construction Subcommittee: [October 2011](#), [November 2011](#), and [December 2011](#)
- **Project Stabilization Agreement (PSA)**
 - Construction Subcommittee: [October 2011](#), [November 2011](#), and [December 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: [October 2011](#), [November 2011](#), and [December 2011](#)
 - Construction Subcommittee and ICOC review the Construction Management report monthly; it provides a status summary of ongoing construction projects.
 - Construction Subcommittee: [October 2011](#), November 2011, and [December 2011](#)
 - ICOC: [October 2011](#) and [December 2011](#)
 - i21 Program Summary is reviewed by the Construction Subcommittee and ICOC on a monthly basis.
 - Construction Subcommittee: [October 2011](#), [November 2011](#), and [December 2011](#)
 - Special Reports
 - No specific activity this quarter.
- 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: [October 2011](#) and [December 2011](#)

Special Reviews

- Keygent Advisors presented an independent financial analysis of proposed bond issues to the ICOC in October. This was presented to the FPC Subcommittee in September.
 - ICOC: [October 2011](#)

Actively Review Proper Expenditure of Bond Funds (continued)

Inspect Schools and Grounds

On-Site Project Reviews

- The ICOC did several walkthroughs in the final quarter of 2011.
 - Construction Subcommittee: [Hoover High](#), [Jefferson Elementary](#), [Morse High](#), [San Diego High](#)
 - ICOC: [Hoover High](#), [Jefferson Elementary](#), [Morse High](#), [San Diego High](#)

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: [November 2011](#)
 - ICOC: [November 2011](#)

Receive & Review Annual Performance Audit

Receive & Review Annual Performance Audit

- Prop. 39 bonds require an annual, independent performance audit.
 - The ICOC received the Annual Performance Audit at their December meeting: [December 2011](#)

Receive & Review Annual Financial Audit

Receive & Review Annual Financial Audit

- Prop. 39 bonds require an annual, independent financial audit.
 - The ICOC received the Annual Financial Audit at their December meeting: [December 2011](#)

Receive & Review Deferred Maintenance (DM) Plan

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

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](#)

District Communications

Monthly Communications Report: District public communications regarding Prop. S

- ICOC: [October 2011](#) and [November 2011](#)