DRAFT

The Independent Citizens’ Oversight Committee has asked the district to forward a Proposition S program execution strategy that integrates projects listed on the 02 November 2008 Voters Pamphlet, the plan of finance developed by the district’s financial advisor and the district’s moving Proposition S Five Year schedule.

Prop. S Background
The San Diego Unified School District (SDUSD) planned the execution of Prop. S projects in accordance with the November 4, 2008, voter’s pamphlet (County of San Diego, Registrar of Voters, Sample Ballot and Voter Information Pamphlet of November 4, 2008). By passing Prop. S, the San Diego voters authorized SDUSD to issue general obligation bonds up to $2.1 billion.

The length of the bond execution period is not defined in the voter’s pamphlet. It is dependent upon the net assessed values of property in the school district, in that the district has promised the voters that the current tax rate of $66.70 per $100,000 of property value will not be exceeded.

SDUSD had planned the length of the program for 10 years; however, reductions in the net assessed value of real property in the district have limited the amount of annual bond revenues. Therefore, the program is now projected to be 14 years in length. Please note that while $2.1 billion is a very significant amount, the district has identified $7 billion dollars in facilities needs. Simply, not all needed work can be completed regardless of this large sum of money.

Bond Project List
Principally, the Prop. S Bond Project List addresses four areas of concentration:
1. Projects regarding school improvements to support student health, safety and security
2. Projects to improve school accessibility and code compliance upgrades
3. Projects to support student learning and instruction
4. Projects to support major building systems repair and replacement

The Bond Project List is in the voter’s pamphlet and on the Prop. S website (www.sandi.net/PropS). The voter’s 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.”

Inclusion of projects on the Bond Project List is not a guarantee that projects will be funded or completed, due to factors such as cost, bond revenue timing, government approvals, environmental review, and input from the public.

Further the Board of Education may make changes to the Bond Project List in the future consistent with the projects specified in the proposition. Changes may include addition of projects or project elements or the addition of projects.

In addition to projects specified in the Bond Project List, the bond measure provides for:
1. Matching funds to construct classrooms and schools to accommodate student growth for new housing areas in the Miramar area.
2. Retrofitting and build 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
The voter’s pamphlet permits participation in the State of California Prop. 1D (Kindergarten-University Public Education Facilities Bond Act of 2006), which 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

This program provides 50 percent matching funds for new construction projects, modernization, career and 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 the school districts, and are awarded based on criteria established by OPSC. Once grants are approved, SDUSD has 12 months to complete construction drawings, and gain statutory approval from the Division of the State Architect for the projects, or funds will be revoked.

The selection of projects starts with school sites applying to the district’s College, Career and Technical Education Department. Sites advocate for projects that they feel will contribute to the academic and professional goals of their students. These projects are then vetted through district administration for approval. OPSC periodically requests applications for Career and Technical Education (CTE) Prop.1D projects. After Board of Education approval, the district submits projects for consideration. Recently, there have been three “rounds” of CTE grant applications. SDUSD submitted 12 applications in the third round, and it expects OPSC’s selection in early October 2010. The district does not anticipate all 12 projects will be funded, and is not obligated to complete these projects if selected. Many of the early projects in the Prop. S execution program are Prop. 1D matching grant projects.

Project Prioritization

The district has been actively and publically engaged in providing the scope, budget and project prioritization to the Board of Education, the Prop. S Independent Citizens Oversight Committee and the public.

Publicly noticed meetings prior to the approval of Prop. S occurred on July 8, 21, and 23, 2008. There have also been six publicly noticed (Brown Act) Board of Education workshops since January 26, 2009; and district staff has met individually with Board of Education members on several occasions since February 2009. At each of these meetings, the district provided the Bond Project List, and provided opportunity for comment and direction from both the public and the Board of Education. The district employed a four-step process for developing the budget, project list and schedule for the site. These steps are:

1. **Facility Analysis.** SDUSD engaged 3DL, Inc., an independent contractor, in 2002 to conduct a district-wide assessment of all school sites. This assessment was updated and validated in 2006 and 2007 by AECOM, Inc. In 2008, the data was further validated. The assessment includes technology and security, space standards, key needs and conditions, structural evaluations, building replacement, American’s with Disabilities Act (ADA) compliance, food service facility, and an evaluation of athletic and physical education facilities with a focus on accessibility and safety. An additional facility condition assessment will commence at Mission Bay High School in November 2010 in preparation for whole-site modernization design phase that will commence in August 2014. The whole-site modernization construction phase is scheduled to start in September 2016.

2. **Site-Specific Upgrade Analysis.** The district, under direction of the Board of Education established high schools as the first priority in the Prop. S program. District-wide, again based on Board of Education direction, the Prop. S program is focused on stadium upgrades, site modernization, Career and Technical Education projects, Overcrowded Relief Grant projects, and technology improvements (I21 Interactive Classroom Initiative). These are the same priorities we have for Mission Bay High School.

3. **Project Prioritization.** In an effort to ensure that the district has a transparent and objective project prioritization process, SDUSD developed a prioritization algorithm with eight weighted variables. These variables included school type, times since last major renovation, facilities condition index, Academic Performance Index ratings, the number of portable classrooms on the site, a small-school factor, state matching funds eligibility, and climate zone. Based on this algorithm, all 200 sites were ranked.
Board of Education members were provided opportunity to comment on the order of school site projects in their sub-district in February 2009, and again in August 2010. The district recognizes that no prioritization method will gain universal approval, but it is confident that this method meets its requirements.

4. **Execution Schedule.** Based on the above, a dynamic five-year execution schedule has been developed. This schedule is dependent upon the overall site ranking, available bond sale revenues, departmental cash flow, and the speed in which the Division of the State Architect reviews SDUSD drawings. In some cases, projects may be “split” due to permit work to progress to match 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, as well as execute an aggressive technology program.

To provide execution schedule flexibility, the five-year execution plan includes the design of projects for future years and takes into account either potential increased revenue sources or lower than planned expenditures due to a continued favorable bidding climate. The current plan completes the design of many projects and then places them “on the shelf” awaiting bid and award. In the future projects that are ready for bid and award can be brought forward earlier to be included in the execution schedule. Additional monies would also allow projects to proceed without delay. However, if revenue were less than planned, projects would remain in present sequencing and would not be awarded until fund balances permit.

**Five-Year Execution Strategy**

**Revenues and Expenditures from 01 July 2011-31 June 2015**

In general and based on the above the district intends to match annual revenues, end of year revenues and matching funds to approved projects in the bond project list and new projects directed by the Board of Education.

Based on advisement from Gardner, Underwood and Bacon, LLP, the district estimates a minimum revenue stream of 130 million dollars per year (sourced from the sale of General Obligation Bonds and other financial instruments) for the next five years, end of year reserves carried forward of $72.1M including matching Prop 1D funds of $8.2M. Please note that there are no unobligated retained funds in the Prop S account. Based on these revenue sources the district estimates total revenues available for the period 01 July 2010 to 01 July 2016 to be approximately $881.6M.

**Program Expenditures**

The district has developed a fully cost loaded bond project list for whole site modernization projects at 178 school sites, the construction of Twin Elementary Schools at USMC Air Station,MIRAMAR, as well as future projects at Central Elementary and Wilson Elementary Schools and the downtown library high school project. The total cost of completing these projects is estimated to be in the range of $2.28M to $2.4M over the life of the program. Program deficits are now estimated to be $16.7M.

This estimate is based on current economic and business conditions but it remains a best guess. There are a number of factors that could significantly increase the cost of construction to include inflation of materials and labor cost as well as increasing sales taxes. As there is a revenue ceiling of 2.1 billion dollars in bond revenues and an estimate of 200 million dollars in Prop 1D eligibility the project Expenditures cannot exceed a total of 2.3 billion

**Program and Project Reserves**

The district has allocated a five percent program and a five percent project reserve for each project. These reserves are set aside to cover possible increases in scope or unexpected project Expenditures outside of project allowances. These reserves are factored into the fully cost loaded whole site modernization schedule.
Project Management Office

Project Management Office Expenditures include cost of program managers, legal support, Project Labor Agreement Oversight, office supplies and other Expenditures that cannot be easily assessed to an individual project. It is the district's goal to maintain these Expenditures in the range of 8-10 percent of total project Expenditures.

Proposed Projects

Please see attachment 1 for the projects that are planned in the next five-year period.
TABLE OF REVENUES AND EXPENDITURES

The following tables of revenues and expenditures present the projected financial position annually for the period of 01 July 2010 through 31 June 2015.

Expenditures

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<td>Construction (hard costs)</td>
<td>$117.6M</td>
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<td>$216.2M</td>
<td>$202.3M</td>
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Revenues

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<td>Prop. S Funds</td>
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<td>$156.8M</td>
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Projected End of Year Balances

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<tr>
<td>Balances</td>
<td>$151.2M</td>
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<td>$79.4M</td>
<td>$44.5M</td>
<td>$37.6M</td>
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*$72M brought forward from 2009-2010

Project Focus

In general, the district intends to complete CCTE Phase One and Two Project, i-21 Classroom technology projects and shift focus to Whole Site Modernization. There are approximately 36 Whole Site Modernization projects in the proposed 2010-2015 plan. The district recognizes the dynamic nature of the
environment and will be responsive to direction from the Board of Education pertaining to change in scope, additions or deletions of the bond project list. All proposed changes will be vetted through the appropriate legal and regulatory agencies as well as the Citizens’ Oversight Committee.

**Project and Program Changes**

Any addition to the approved bond project list will result in a decrement to whole-site modernization work across all sites in the bond program. The district strongly recommends that only the most urgent and essential additions or expansion in scope be made to the bond project list by the Board of Education.

The apportionment of increased costs to the program can be done in a number of ways to include:

- Expenditures may apportioned against the entire program budget across the life of the bond program.
- Expenditures may be apportioned against project budgets at the site where the project change is proposed.
- Expenditures may be apportioned against all site budgets in the sub district.
- Expenditures may be apportioned against a specific site’s budget and re-distributed.

The district will present options to the Board of Education for their consideration in the event that project or program changes are proposed. All changes to the program will be vetted through the appropriate district departments as well as the Independent Oversight Committee.