



INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE

2015 ANNUAL REPORT

PROP. S AND PROP. Z

DRAFT
REPAIR
RENOVATE
REVITALIZE

2015 HIGHLIGHTS

During the year there were more than 80 projects underway across 64 school campuses totaling over \$352 million in construction value. In addition, design work is started for 37 new projects.

- Additional bonds were issued: \$31 million in Prop. S bonds and \$154 million in Prop. Z bonds.
- Fifty-Two projects were completed, including 28 air-conditioning and one modernization project.
- Forty-Seven projects started construction, including 14 air-conditioning and five modernization projects. Nine modernization projects are underway; including the majority of planned repair and replacement work.
- Repair and replacement work was expected to outpace deterioration, but didn't (see page 5).
- i21 equipment purchased in 2009 (36,035 student and 1,350 teacher/principal devices) was replaced using revenue from short-term bonds.
- Final equipment installation in new data center at Sierra HS.

2016 EXPECTATIONS

- Complete over \$173.6 million of repair and replacement work, including at least \$31 million funded by the district's operating budget. This should result in a measurable improvement in the condition of district school facilities.
- Issue additional Prop. S and Prop. Z bonds.
- Begin construction on another 51 projects including, eight whole site modernization projects.
- Refresh of i21 equipment purchased in 2010 and 2011 — this has been accelerated for middle school students to facilitate new state wide testing.
- Refinancing of previously issued Prop. S bonds may lower taxpayer costs to pay back the bonds and may also generate some additional revenue.

LETTER FROM THE CHAIR

Dear Taxpayers,

I'm pleased to present the *2015 Annual Report* of the Independent Citizens' Oversight Committee (ICOC), our seventh annual report. The ICOC is an independent committee of volunteers appointed by the Board of Education (Board) to oversee and inform the community of the expenditure of bond revenues from Proposition S (Prop. S) and Proposition Z (Prop. Z).

All expenditures in 2015 were for projects listed in the bonds, and the required financial and performance audits were completed. This year, San Diego Unified School District completed 52 construction projects (including 28 HVAC systems and one modernization). There are currently nine whole site modernization projects underway and more are on the drawing board.

The Board has taken action to issue new Prop. S and Prop. Z bonds to fuel the same rapid pace of construction for the next couple of years. See *Financial Status* on page 2 of this report for more info.

Last year we reported that 2015 would see a measurable improvement in the condition of our schools. In the simplest terms, improving the condition of schools is a race to repair or replace things before they wear out. As we've reported in previous annual and quarterly reports, we've been losing ground in that race. 2015 was expected to mark the turn-about, but we saw another decline. Projects completed to date by the bond programs are all important projects. However, the largest portion of money in Prop. S and Prop. Z is allocated to improve the condition of our schools, and we have not yet picked-up the pace to repair or replace things before they wear out. See the Deferred Maintenance section inside for more information on how the facility condition of our schools is measured and what's required to improve that condition.

Thanks go to departing member Alisa Reinhardt for her service, and a welcome to our newest members Betsy Mueller and Stefanie Benevuto. The Board amended the ICOC bylaws in 2015 to reduce its member numbers from thirteen to eleven. The ICOC will continue to monitor Prop. S and Prop. Z programs and keep our community informed.

Sincerely,

Andrew Berg, Chair

FINANCIAL STATUS

Prop. S authorized issue of \$2.1 billion in general obligation bonds in 2008; Prop. Z authorized \$2.8 billion in 2012. Some projects listed in the propositions depend in part on state grants. The district currently anticipates receiving a total of \$180 million in state grants. The district has received \$61 million in state funding to date.

As of December 2015, \$620,966,349 in Prop. S bonds have been received from six bond sales. Most recently, \$31,770,000 in bonds were issued in June 2015. Expenditures total \$619,927,872 against total awarded contracts and commitments of \$621,168,590 (includes State grants and other funds). Uncommitted available Prop. S funds and state grants total \$379,180.

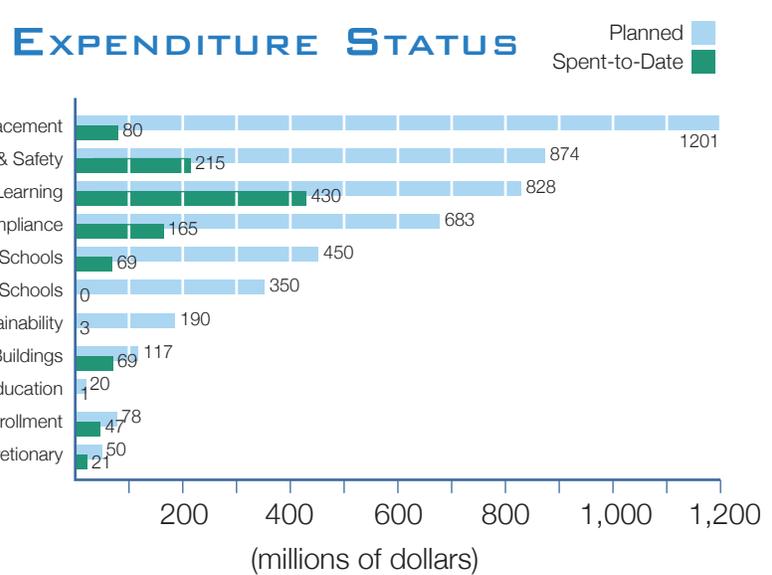
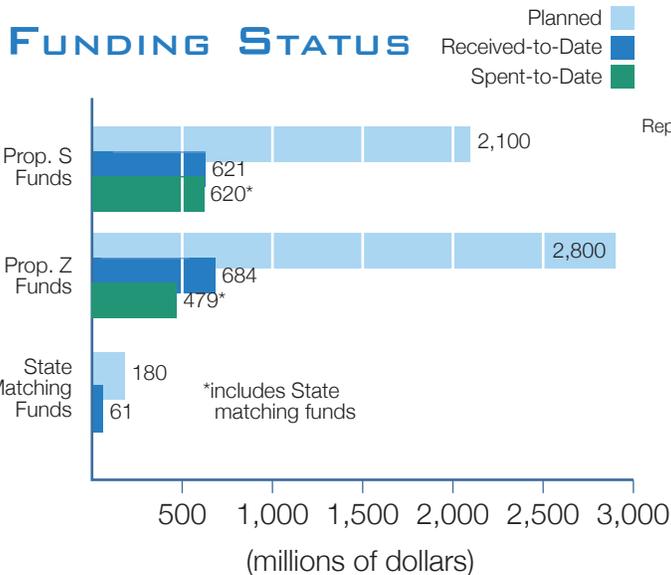
As of December 2015, \$684,355,000 in Prop. Z bonds have been received from two bond sales. The most recent bond issue of \$154,355,000 was in October 2015; included in this were short-term bonds to fund replacement of i21 equipment. Expenditures total \$479,165,272 against commitments of \$592,407,611. Uncommitted available Prop. Z funds total \$119,023,526.

In June 2015, the district refinanced some Prop. MM debt. The savings in annual payments enabled the issuance of new Prop. S bonds without exceeding tax rates approved by voters.

The Board has taken actions to issue new bonds for both Prop. S and Prop. Z in January 2016. Actions include reviewing the possibility of refinancing some Prop. MM bond debt to reduce the total cost to taxpayers.

It's anticipated that the next Prop. Z bond issue will include "green bonds" to fund sustainable projects such as solar panels, double-pane windows, cool roofs (roofs that reflect more sunlight and absorb less heat than traditional roofs), and other energy efficiency projects listed in the bond.

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MORE INFORMATION IS AVAILABLE IN THE OCTOBER–DECEMBER 2015 QUARTERLY REPORT ON THE ICOC WEBSITE.

PROJECT STATUS

The pace of project work is approaching \$1 million per day. Over 71 bond funded projects across 57 campuses were underway during 2015. See the list of major projects completed or underway on page 4 of this report.

Prop. Z set aside \$350 million for completion of charter school projects, and the Board established the Charter School Facility Committee (CSFC) to make recommendations regarding the acquisition, construction, reconstruction, rehabilitation, or replacement of charter school facilities. One member of the ICOC also sits on the CSFC and provides an informal coordinating link between these two committees. Through December 2015 \$26 million has been spent on charter school projects.

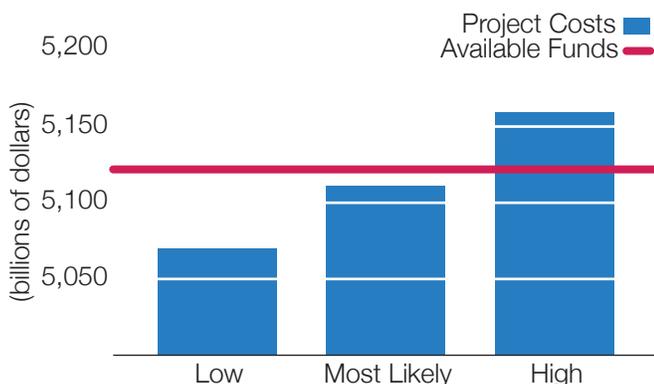
The i21 program has previously installed interactive smart boards, DVD players, wireless networking and voice amplification systems in all district classrooms, and provided digital devices for every teacher and student. All 5,456 district classrooms have been equipped with the i21 suite of equipment, which includes 5,934 teacher devices and 120,228 student devices. The wireless infrastructure that supports these digital devices includes over 11,000 Wi-Fi access points. The newly built data center is operational and equipped. The ICOC has been monitoring the tracking of teacher training and adoption of the new technologies into everyday teaching and learning activities. Teacher training on how to operate the new equipment is funded by bond proceeds. Training on using the new technology to teach more effectively is funded through the district's annual operating budget. During 2015 i21 student and teacher digital devices purchased 5 years ago, when i21 started, were replaced using funds from short-term bonds that will be paid off by taxpayers before the devices need to be replaced again.

The district's management team maintains a risk-adjusted cost projection to complete all Prop. S and Prop. Z work. This cost projection is referred to as the Total Indicated Cost or TIC. There has been no change in the TIC since the *2014 Annual Report*.

The TIC currently projects that there will be enough funding to finish all work listed in the ballot language of Prop. S and Prop. Z. The estimates do not yet include cost analysis of the Board's recent decision to air condition all district schools.

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TOTAL INDICATED COST (TIC)



COMPLETED PROJECTS

Clairemont HS Academy of Business Technology
Euclid ES Special Education Remodel
Grant K-8 Slope Repair
Hamilton ES Modernization & New Classrooms
Kearny HS Athletic Facilities Upgrades
Kearny HS Track & Football Field
La Jolla HS Softball Field
Millennial MS 3-story Classrooms
Mission Bay HS Athletic Facilities Upgrades
Mission Bay HS Track & Field
Montgomery MS Restroom ADA Upgrades
O'Farrell Charter HS Interim Housing Prep
Salk ES Solar Carports
San Diego HS Interim Housing
San Diego HS P.A. System
San Diego HS Science Tech Classrooms
University City HS Athletic Field
Whittier K-12 Turf Field

COMPLETED HVAC PROJECTS

Angier ES
Benchley/Weinberger ES
Carver ES
Clay ES
Curie ES
Foster ES
Franklin ES
Holmes ES
Horton ES
Johnson ES
Keller K-8 Charter
Kumeyaay ES
Lee ES
Marshall ES
Millennial Tech MS
Mira Mesa HS
Morse HS
Oak Parks ES
Paradise Hills ES
Perry ES
De Portola MS
Rolando Park ES
Rosa Parks ES
Tubman Village K-8 Charter
Serra HS
SCPA
Webster ES

PROJECTS IN PROCESS

Audubon ES Site Modernization
Bell MS Modernization
Correia MS Retaining Wall
CPMA Roofing & HVAC Upgrades
Crawford HS athletic Facilities Upgrades
Dana MS Landscape & Scoreboard
Encanto ES Modernization
Grant ES New Classroom Bldg / Site Modernization
Henry HS Theater, Production, & Modernization
La Jolla HS Athletic Facilities Upgrades
Marshall ES Synthetic Turf Field
Mira Mesa HS Culinary Arts Bldg Modernization
Muir Synthetic Turf Field
O'Farrell Charter HS Buildings & Gym
O'Farrell Charter Site Modernization
Oak Park ES Synthetic Turf Field
Ocean Discovery Institute Living Laboratory Bldg
Pershing MS Modernization
Taft MS Site Modernization
University City HS Athletic Facilities & Parking Upgrades

HVAC IN PROGRESS

Crawford HS
Darnal K-8 Charter
Hoover HS

PUBLIC ADDRESS SYSTEMS

Gage ES
Hearst ES
Juarez ES

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DEFERRED MAINTENANCE

The current condition of district school facilities is considered poor as measured by the Facility Condition Index (FCI). Repair and replacement work has not kept pace with work needed and the backlog has been increasing since 2006 when Prop MM funds earmarked for this work were exhausted.

Facility Condition (FCI): The FCI is a percentage calculated by dividing the amount of needed repair and replacement work by the replacement value. The lower the percentage, the better the condition of the facility. The goal is to maintain the FCI around **7%**, which is considered “good” condition. FCIs above **15%** are considered “poor.” Currently, the districtwide FCI is **22.7%**.

The ICOC is tasked to review the Deferred Maintenance (DM) and Major Repair and Replacement (MRR) programs, both of which are targeted at maintaining schools in a safe and functional condition. The district’s MRR program is aimed at a higher target than the state’s DM program. Numerous studies have shown that there is a link between student learning and the quality of a school’s condition.

In 2008, the Board revised policies to require annual MRR Plans that would: 1) document the condition of schools on all campuses, 2) address the adequacy of funding available to maintain the condition of schools, 3) review of the amount of debt accumulated to maintain the condition of school facilities, and 4) coordinate planning of MRR work with capital improvement and expansion work in order to leverage any available funding. The district has set a goal that school buildings should be safe, functional, and in good condition.

The district’s MRR Plan calls for \$3.79 billion to catch-up, improve, and to keep facilities in a ‘good’ condition through the year 2032 when Prop. S and Prop. Z funds will be exhausted.

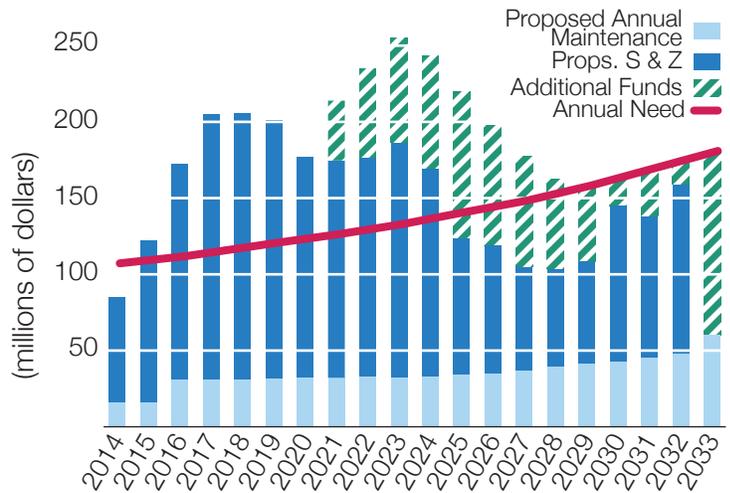
Prop. S and Prop. Z together are budgeted to complete \$1.07 billion in repair and replacement projects. In addition, Prop. S and Prop. Z planned capital expansion and improvement projects are expected to complete or eliminate another \$1.12 billion of this need. Another \$770 million is expected to come from tripling the annual operating budget dedicated to facility repair and replacement. The final \$668 million is expected to come from “a proposed future increase in state funding or other local revenue.” A significant portion of this needed funding may come from the state school building program in the future. Given concerns about the amount of debt the state has accumulated through bond programs, the future of the bond-funded state school building program is uncertain.

If \$688 million in additional funding sources are not identified, the condition of school facilities beyond 2028 will be worse than when Prop. S began.

Last year the ICOC reported that planned MRR work for 2015 would result in a measurable improvement, but only \$79 million of \$123 million in planned work was accomplished. Only 9% of the \$3.76 billion called for in the MRR Plan has been spent. In contrast, 22% of total bond funds have been expended — 26% of the time has elapsed. Repair and replacement work has been pushed back to make way for other projects, and the backlog of needed work has increased.

The good news is that 2015 marked the first time since Prop. S and Prop. Z began that MRR projects did more work than capital expansion and improvement projects did in incidental repair and replacement work. The MRR Plan calls for that trend to continue for several years.

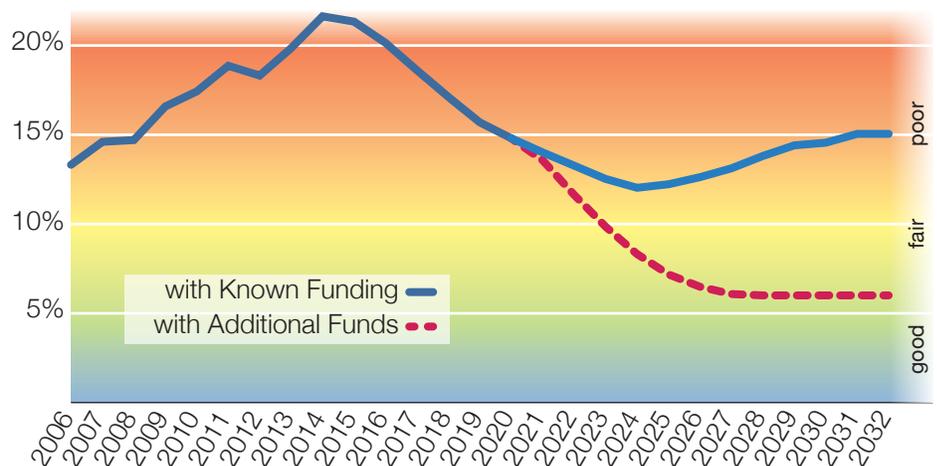
PROPOSED ANNUAL MAINTENANCE FUNDING



The long-term challenge of securing an adequate source of annual funding to meet the recurring annual need for repair and replacement of existing facilities remains unresolved.

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FACILITY CONDITION INDEX (FCI)



AUDITS

The ICOC received the required annual audits of the Prop. S and Prop. Z programs at the December 17, 2015 ICOC meeting. The audits were conducted by an independent auditor, Crowe Horwath, in accord with Government Auditing Standards issued by the Comptroller General of the United States.

PERFORMANCE AUDITS

The purpose of the performance audits is to confirm that Prop. S and Prop. Z funds were expended only on the specific projects listed in the bonds. Above and beyond this legal requirement, the performance audits also included review of:

- Contract awards and changes for compliance with applicable laws and regulations, and Board policy
- Internal controls over payment processing and use of purchase orders
- Efforts to maximize augmenting funds and reduce program costs
- Program management procedures
- Bond issuance process
- Fraud risk assessment inquiries and the results
- Participation of local firms and workers
- Activities of the ICOC
- Major repair and renovation (MRR) expenditures
- Review use of Prop. Z funds for charter schools
- Communication protocols/procedures between FPC & PPO

The auditor concluded that the district met all the above objectives and “expended [Prop. S and Prop. Z funds] for the [fiscal] year ended June 30, 2015 only for the specific projects developed by the District’s Governing Board and approved by the voters, in accordance with the requirements of Proposition 39.”

FINANCIAL AUDITS

The purpose of the financial audit is to obtain reasonable assurance that the financial statements regarding Prop. S and Prop. Z are free of material misstatement. The auditor issued an opinion that the Prop. S and Prop. Z financial statements present fairly, in all material respects, the respective financial position of the Prop. S and Prop. Z bond funds as of June 30, 2015 in accordance with generally accepted accounting principles.

THE ICOC

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ICOC meetings are open to the public and are typically held at 4:00 p.m. on the third Thursday of the month at the Physical Plant and Operations (PPO) Training Room A center, located at 4860 Ruffner St., San Diego, unless otherwise noted in the posted agenda. See website for the schedule and location of ICOC Subcommittee meetings.

ICOC OVERSIGHT

The Independent Citizens’ Oversight Committee is the legally required committee that actively reviews the proper expenditure of Prop. S and Prop. Z funds and regularly informs the public and the Board concerning Prop. S and Prop. Z expenditures. All ICOC meetings are publicly noticed and open to the public.

The ICOC is comprised of eleven volunteers appointed by the Board. The ICOC has established three standing subcommittees to carry out oversight activities. The funding source and scope of each project is reviewed to determine that work being completed by the project was listed in the appropriate bond. ICOC members conduct walk-through inspections of construction sites, review planning and financial status reports, and examine audit reports to verify that the district is using bond dollars effectively, responsibly, and in compliance with the ballot language in Prop. S and Prop. Z.

Visit the ICOC website at www.sandi.net/props/icoc for more information.

COPIES OF PAST ANNUAL REPORTS, QUARTERLY REPORTS, PERFORMANCE AUDITS, AND FINANCIAL AUDITS ARE AVAILABLE ON THE ICOC WEBSITE.