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San Diego Unified School District  
Independent Citizens' Oversight Committee  
Annual Report 2015

Props. S and Z Building Quality Neighborhood Schools  
Dear Taxpayers,

[Outline of Chair's Letter below]

- seventh annual report
- purpose of the ICOC is to inform the public concerning the proper expenditure of bond revenues
- all expenditures were for projects listed, and required bond audits were done
- change from thirteen to eleven members
- issue of bonds (see financial page for more info)
- status of repair/replacement work - condition of schools is slipping again (see Deferred Maintenance for more info)
- business out reach
- thanks to departing members & welcome new members
- call to action – our meetings are open to public and we'll welcome your involvement

[Outline of Chair's Letter above]

Sincerely, Andrew Berg (Chair)

### 2015 Highlights

During the year there were more than 71 projects underway across 57 school campuses totaling over \$XXX million in construction value. In addition, design work is started for XX school campuses. Not included in these counts are dozens of repair and replacement projects that are under \$1 million each.

- Additional bonds were issued: \$470 million in Prop Z bonds, and \$100 million in Prop S. See Financial Status on page [X].
- Forty-seven projects were completed, including 27 air-conditioning projects and one modernization project.
- Twenty-six projects started construction, including 14 air-conditioning projects and five modernization projects. In total there are currently ten modernization projects underway; these projects include the majority of planned repair and replacement work.
- Repair and replacement work completed in 2015 was expected to outpace natural deterioration, but it didn't. See Deferred Maintenance on page [X] for information on what's needed to improve the condition of school facilities.
- Refresh of i21 equipment purchased in 2009 — 36,035 student devices, and 1,350 devices for principals and teachers were replaced using revenue from short-term bonds.
  - o >>>Final equipment installation in new data center at Sierra HS.<<<

## 2016 Expectations

Completed repair and replacement work in 2016 should result in a measureable improvement in the condition of district school faculties.

- Complete over \$173.6 million of repair and replacement work, including at least \$31 million funded by the district's operating budget
- Begin construction on another 51 projects including, eight whole site modernization projects.
- Refresh of 121 equipment purchased in 2010 — XX student devices, and XX devices for principals and teachers.
- Refinancing of previously issued Prop S bonds may lower taxpayer costs to pay back the bonds and may also generate some additional revenue for projects.

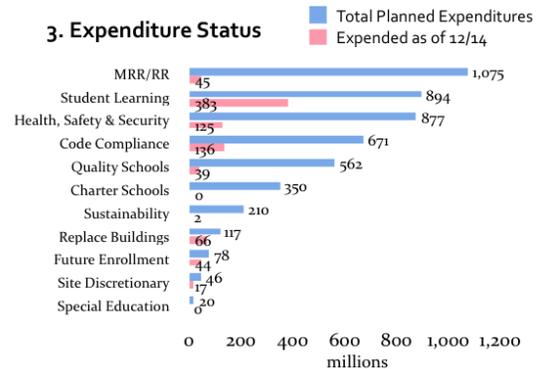
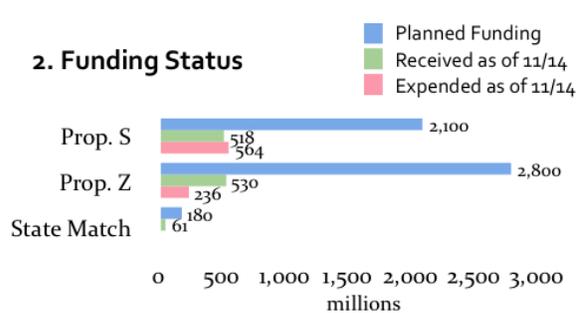
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## Financial Status [update with latest available numbers]

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 \$46 million in state funding to date.

As of December 2015, \$683,191,477 in Prop. S bonds have been received from five bond sales. The most recent bond sale was December 2015. Expenditures total \$619,927,872 against total awarded contracts and commitments of \$[..XXX..] (includes State grants). Uncommitted available Prop. S funds and state grants total \$[..XXX..].

As of December 2015, \$1,154,355,000 in Prop. Z bonds have been received from two bond sales. The most recent bond sale was December 2015. Expenditures total \$479,165,272 against commitments of \$[..XXX..]. Uncommitted available Prop. Z funds total \$[..XXX..].



>>> Info about the most recent bond sale <<<

[data depicted above]	Planned Prop. S	Planned Prop. Z	Total Expended
Major Repair/Replacement (MRR) and Repair/Replacement (RR) Projects	\$501.0 M	\$575.0 M	\$45.5 M
Student Learning & Instruction	\$473.0 M	\$423.0 M	\$383.4 M
Health, Safety & Security	\$454.0 M	\$421.0 M	\$125.1 M
Accessibility & Code Compliance	\$458.0 M	\$214.0 M	\$136.2 M
Quality Neighborhood Schools		\$562.0 M	\$38.7 M
Specific Charter School Projects		\$350.0 M	Note *
Energy Efficiency & Sustainability		\$210.0 M	\$1.7 M
Replace Inadequate Buildings	\$117.0 M		\$65.9 M
Accommodate Future Enrollment	\$78.0 M		\$43.5 M
Site Discretionary	\$20.0 M	\$30.0 M	\$17.5 M
Special Education		\$20.0 M	\$0.16 M

Note: \* Charter school expenses included in other categories

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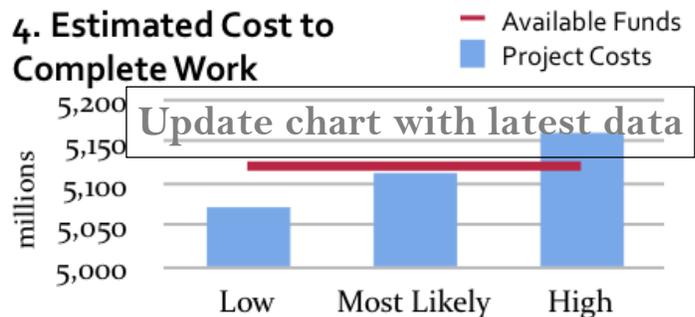
## Project Status

The pace of project work has maintained a pace of nearly \$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 [X] of this report. The District's School Facilities Projects website has bond project information for all District school sites [link: <https://fpeprojects.sandi.net>].

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 a informal coordinating link between these two committees. Through December 2015 \$XXX 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 wifi 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 be 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 Props. S and Z work. This cost projection is referred to as the Total Indicated Cost or TIC. The TIC currently projects that there will be enough funding to finish all work listed in the ballot language of Props. S and Z.



## Deferred Maintenance

The current condition of District school facilities is considered poor as measured by the Facility Condition Index (FCI). Repair and replacement work completed has not been keeping pace with work needed as building systems reach their expected useful life and wear-out. The backlog of needed work has been increasing since 2006 when Prop MM funds earmarked for this work were exhausted.

The ICOC is tasked by the Education Code and Board policy 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. However, 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; students learn better in a school that's in good condition.

In 2008, based on a recommendation from the Prop MM ICOC, the school board revised policies to require annual MMR Plans that would: 1) document the condition of schools based on periodic facility condition assessments (FCA) of 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 MMR work with capital improvement and expansion work in order to leverage any available funding to maintain the condition of schools. The District has, in essence, set a goal that school buildings should be safe, functional, and in good condition.

Measuring Facility Condition: The FCI is a nationally recognized measurement of facility condition. The FCI is a percentage calculated by dividing the amount of repair and replacement work currently needed, by the replacement value. The lower the FCI percentage is, the better the condition of the facility, or facilities, being measured. The goal is to maintain the FCI around 7%, which is considered 'good' condition. FCI's above 15% are considered 'poor' condition. Currently, the districtwide FCI is 22.7% — poor.

Improving and maintaining the condition of schools: In concept it's simple. First eliminate backlogged work to improve conditions, then replace or repair things before they wear-out to maintain conditions. However, when you're dealing with over 15 million square feet of buildings (most of which are over 40 years old) and over 2,500 acres of improved property it's both difficult and expensive to accomplish.

It's Expensive: According to the latest MRR Plan, the District's current need for repair, replacement, and renovation is \$1.25 billion. In total the MRR Plan calls for \$3.79 billion to catch-up, improve, and to keep District facilities in a 'good' condition through the year 2032 when Prop S and Prop Z funds will be exhausted.

The MRR Plan layouts where this money will come from. Prop S and Prop Z together are budgeted to complete \$1.07 billion in repair and replacement type 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 significant increases in the portion of the annual operating budget dedicated to facility repair and replacement (assumed to triple over the next sixteen years). The final \$668 million in

needed funding 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. However, given the governor’s stated concerns about the amount of debt the state has accumulated, the future of the bond-funded state school building program is uncertain.

The MRR Plan presents information that predicts that Prop S plus Prop Z plus expected annual funding are not adequate to improve the condition of district schools to good. If \$688 million in additional funding sources are not identified, then the condition of school facilities beyond 2028 will be worse than when Prop S began.

It’s Difficult to Accomplish: The effort to improve the condition of schools is a race to fix things faster than they wear out. However, repair and replacement projects compete against other needed work. Replacing a roof or a failing ventilating system ensures that existing assets continue to function for the next 20 years. But things like providing 21<sup>st</sup> century learning equipment in every classroom, air conditioning for hot classrooms, and renovated stadiums provide new and impactful assets. As result, experience has shown that repair and replacement work tends to be pushed back to make way for projects that provide a more visible and direct impact on students and the community.

Last year the ICOC reported that planned repair and replacement work for 2015 would result in a measurable improvement in the condition of district school facilities. This expectation was not achieved because only \$79 million of \$123 million in planned work was accomplished.

To date only 9% of the planned total of \$3.76 billion MRR Plan has been spent. In contrast, 22% of the total bond funds have been expended, and 26% of the time has elapsed. Repair and replacement work has been pushed back to make way for other projects, and the backlog of repairs has increased.

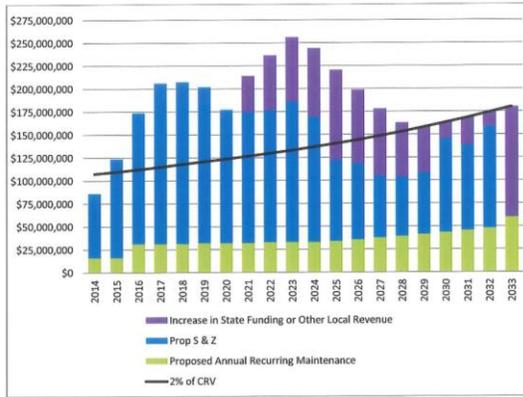
Conclusions: The good news is that 2015 marked the first time since Prop S and Prop Z began that repair and replacement projects did more repair and replacement work than capital expansion and improvement projects did in incidental repair and replacement work. The MRR Plan calls for that trend to continue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

To a large degree, raising the money needed to catch-up with and get ahead of needed repair and replacement work was the primary driving force behind Prop MM, Prop S, and Prop Z. The debt service on these bond programs is expected to be paid off by taxpayers in XXXX. However, according to analysis presented in the MRR Plan, the condition of schools when Prop. S and Z finish in 2032 will be worse than when they started in 2008 unless additional non-bond revenue sources are found.

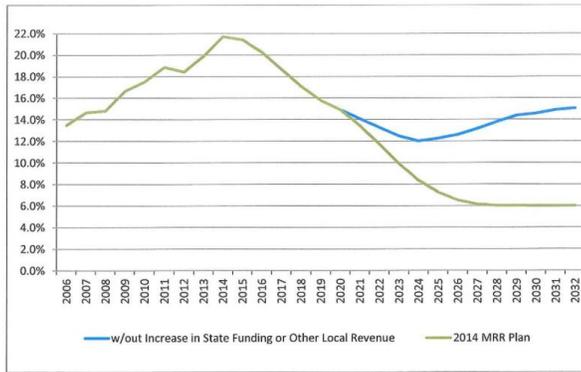
The long-term challenge of securing an adequate source of annual funding to meet the recurring annual need for repair and replacement of existing facilities remains unresolved.

**Update charts with latest data**

Proposed Annual Recurring Maintenance Funding Plan



2014 MRR Plan FCI Projections



replace 2% CRV w/ "Annual Need"  
 replace Other Revenue with "Additional Needed Funding"

label/color-code: Poor, Fair, Good ranges  
 replace: 2015 MMR with "Know Funding"  
 Other Revenue with "Additional Needed Funding"

DRAFT

## 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

## HVAC Projects in Progress

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 Projects  
Crawford HS  
Darnal K-8 Charter  
Hoover HS  
Public Address Systems  
Gage ES  
Hearst ES  
Juarez ES

## Audits

The ICOC received the required annual audits of the Props. S and 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 the use of Props. S and Z funds were expended only on the specific projects listed in the bonds. Above and beyond this legal requirement, the performance audit objectives 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, and
- Review use of Prop. Z funds for charter schools
- Communication protocols and procedures between FPC and PPO

The auditor concluded that the district met all the above objectives and “expended Proposition S & Z General Obligation Bond 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 Props. S and Z are free of material misstatement. The auditor issued an opinion that the Props. S and Z financial statements present fairly, in all material respects, the respective financial position of the Props. S and Z bond funds as of June 30, 2015 in accordance with generally accepted accounting principles.

### ICOC Oversight

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

The ICOC is comprised of eleven volunteers appointed by the Board of Education. 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 Props. S and Z.

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

#### 2015 ICOC Members

David Akers  
Andrew Berg  
Jerry Butkiewicz  
Miles Durfee  
Matt Kriz  
Mike Magallanes  
Betsy Mueller  
William Ponder  
Kim Schoette  
Toshonda Taylor  
Stefanie Benevuto

#### ICOC Contacts

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Web: <http://www.sandiegounified.org/icoc>

ICOC meetings are open to the public and are 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.

For more information, visit the ICOC website at:  
<http://www.sandiegounified.org/icoc>.