



# INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE

## 2016 ANNUAL REPORT

### PROP. S AND PROP. Z REPAIR RENOVATE REVITALIZE

## 2016 HIGHLIGHTS

In 2016, there were more than 77 projects underway across 61 school campuses, totaling over \$293 million in construction value. In addition, design work is underway for over 20 scheduled projects.

- Additional bonds were issued: \$470 million in Prop. Z bonds and \$145 million in Prop. S bonds. See Financial Status on page 2.
- Thirty-two projects were completed, including seven air-conditioning projects and four modernization projects.
- Forty-five projects started construction, including sixteen air-conditioning projects and twelve modernization projects.
- Repair and replacement work completed in 2016 reduced the backlog of repair and replacement work resulting in a measurable improvement in the condition of school facilities. See Deferred Maintenance on page 4.
- Refresh of i21 equipment purchased in 2010 and 2011 — ###,### devices for students and teachers were replaced using revenue from short-term bonds.

## 2017 EXPECTATIONS

- Complete over \$211.7 million of repair and replacement work, including at least \$31.1 million funded by the district's operating budget
- Begin construction on another 108 projects including, six more site modernization projects and 70 air conditioning projects.
- Refresh of i21 equipment purchased in 2011 and 2012.

# DRAFT

## LETTER FROM THE CHAIR

Dear Taxpayers,

I'm pleased to present the *2016 Annual Report of the Independent Citizens' Oversight Committee (ICOC)*, our eighth annual report. The ICOC is an independent committee of community volunteers appointed by the Board of Education (Board) to oversee and inform the community of the expenditure of bond revenue for Proposition S (Prop. S) and Proposition Z (Prop. Z).

All expenditures in 2016 were for projects listed in the bonds, and the required financial and performance audits were completed. This year, San Diego Unified School District completed 32 construction projects (including seven HVAC and four modernization projects). There are currently 12 whole site modernization projects underway and more are on the drawing board.

Last year, we reported that during 2015 repair and replacement work did not outpace deterioration of our schools. This was incorrect. The backlog of needed repair and replacement work decreased in 2015. More importantly, 2015 marked the start of a trend that's expected to last for a decade. See page 5 on how Prop. S and Prop. Z are delivering on campaign promises to improve the condition of our schools.

In 2016 new Prop. S and Prop. Z bonds were issued resulting in \$570.6 million to fuel the same rapid pace of construction for the next few years. See Financial Status on page 2 for more details.

Thanks go to departing members Kim Schoette, Stefanie Benevuto and Toshonda Taylor for their service, and a welcome to our newest members Derick Buerner and Mahogany Taylor.

Visit our website for meeting agendas and minutes, bond audits, and reports received or issued by the ICOC. Our meetings are open to the public and your comments are always welcomed. The ICOC is committed to oversee the expenditures of the Prop. S and Prop. Z programs and keep our community informed.

Sincerely,

David Akers (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 \$63.7 million in state funding to date and will seek Proposition 51 state bond funds recently approved by voters.

As of December 2016, \$765,966,349 in Prop. S bonds have been received from seven bond sales. The most recent Prop. S bond sale was \$100.0 million in January 2016 and \$45.0 million in May 2016. Expenditures total \$####,###,### against total awarded contracts and commitments of \$####,###,### (includes State grants and other funds). Uncommitted available Prop. S funds and state grants total \$####,###,###.

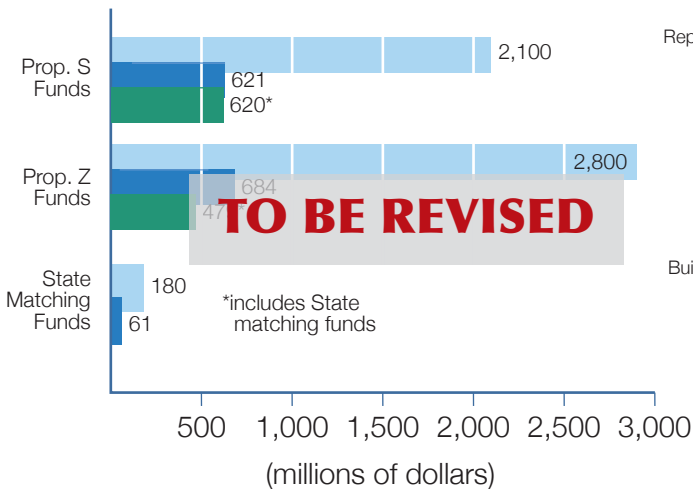
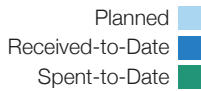
As of December 2016, \$1,158,030,351 in Prop. Z bonds have been received from three bond sales. The most recent bond sale was \$570.5 million in January 2016. Expenditures total \$####,###,### against commitments of \$####,###,###.

Uncommitted available Prop. Z funds total \$####,###,###.

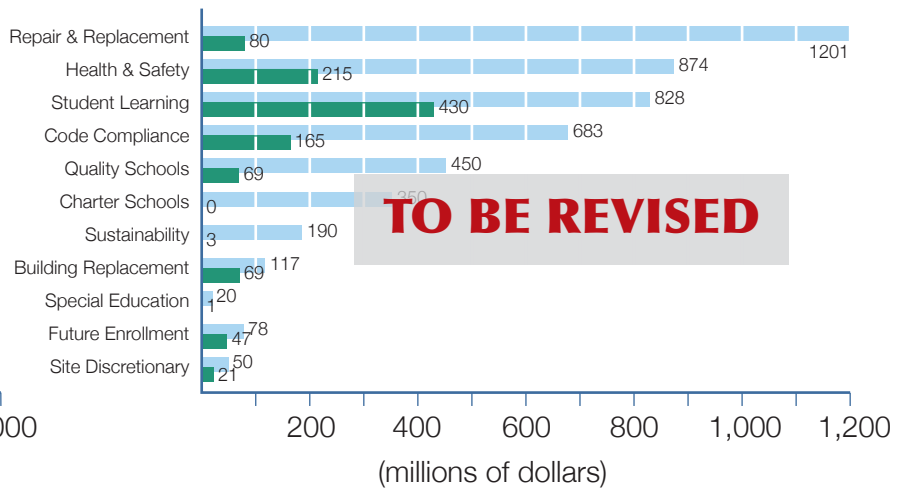
The bond issues in January 2016 were in, large part, the result of many months of work by district financial managers to secure favorable interest rates for new bonds and refinancing of previously issued bond debt. These efforts are highlighted in the Spotlight section of the ICOC Quarterly Status Update for January – March 2016, (available on the ICOC website).

The January issue of Prop. Z bonds included \$100.0 million in “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 measures.

## FUNDING STATUS



## EXPENDITURE STATUS



MORE INFORMATION IS AVAILABLE IN THE OCTOBER–DECEMBER 2016 QUARTERLY REPORT ON THE ICOC WEBSITE.

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## PROJECT STATUS

Over 77 bond funded projects across 61 campuses were underway during 2016. See the list of major projects completed or underway on page 5 of this report. Bond work this year included 16 whole site modernization projects that improve the learning environment of students by refurbishing classrooms with modern building systems. In addition, these modernization projects are largely responsible for reducing the backlog of needed repair and replacement work. See the Deferred Maintenance section of this report on page 4 for more details on the amount of repair done on district schools in 2016.

The i21 program was funded by Prop. S and Prop. Z to provide 21st century technology to every classroom in the district. Between 2008 and 2014, the i21 program installed interactive smart boards, DVD players, wireless networking (over 11,000 wifi access points) and voice amplification systems in all district classrooms (over 5,400 classrooms) and provided digital devices for every teacher and student (over 125,000 devices). In addition, a new built data center was built and equipped. Prop. S and Prop. Z short term bonds are now refreshing (replacing) student devices as they reach their useful life. During 2016, over ###,### devices purchased in 2010 and 2011 were refreshed using short term bonds that will be paid off before these devices need to be refreshed again. In addition:

- 27,000 obsolete devices have been donated to Computers 1 San Diego Kids (C2SDK); a non-profit organization that gives refurbished computer equipment to families than can not otherwise afford it, and
- Many iPads that have been replaced with new devices are being refurbished to support pre-K and K-5 pilot programs (no bond funds are being used for this).

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. A total of \$343 million has been allocated to charter school projects, and as of December 2016 \$### million has been spent on charter school projects.

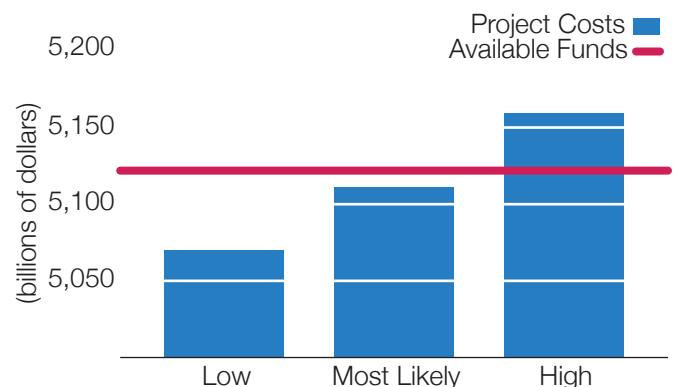
In 2015 the governing board acted to air condition all district schools. To date, 60 schools have been air conditioned, including the 2,000 hottest classrooms. Construction is currently underway to air condition another 15 schools, design has been completed for another 41 schools, and design has started for another 38 schools. Air conditioning projects at 70 schools are expected to start next year.

The District's management team maintains a risk-adjusted cost projection referred to as the Total Indicated Cost or TIC. The TIC projects lowest probable cost, highest probable cost, and most likely probable cost to complete listed work in the Prop. S and Z. ballots.

There has been only minor changes in the TIC estimate since last year. The TIC does not yet include a cost analysis of the Board's decision to air condition all district schools. The TIC predicts that there will be enough funding to complete all listed projects in both bond programs. The graph below shows the combined estimates for Prop. S and Prop. Z.

# DRAFT

### TOTAL INDICATED COST (TIC)



## COMPLETED PROJECTS

**Adams** Temporary Classrooms  
**Audubon ES** Site Modernization  
**Baker ES** Synthetic Turf Field  
**Bell MS** Modernization  
**Bell MS** Track & Play Fields  
**Clairemont HS** Interior Upgrades  
**Dana MS** Landscape & Scoreboard  
**Euclid ES** Synthetic Turf Field  
**Hamilton ES** Synthetic Turf Field  
**Henry HS** Theater, Production, & Modernization  
**Innovation MS** Electric Upgrade and Interim Housing  
**La Jolla HS** Synthetic Turf Field & Resurfacing  
**Marshall ES** Synthetic Turf Field  
**Mira Mesa HS** Culinary Arts Bldg / Site Modernization  
**Mission Bay HS** Paint  
**Muir ES** Synthetic Turf Field  
**O'Farrell Charter HS** Buildings & Gym  
**Oak Park ES** Synthetic Turf Field  
**Pacific Beach MS** Synthetic Turf Field  
**Pershing MS** Modernization  
**Point Loma HS** Track & Field Upgrades & Relocation  
**Silvergate ES** Accessibility Improve  
**Valencia Park ES** Irrigation & Landscape Renovation

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## COMPLETED HVAC PROJECTS

**CPMA** HVAC & Roofing  
**Crawford HS** HVAC  
**Darnall K-8 Charter** HVAC  
**De Portola MS** HVAC & Roofing  
**Hoover HS** HVAC  
**Miramar Ranch ES** HVAC & Roofing  
**Serra HS** HVAC Science Building

## PROJECTS IN PROCESS

**Benchley Weinberger ES** Educ. Support  
**Clark MS** Site Modernization  
**Correia MS** Retaining Wall  
**Crawford HS** Athletic Facilities Upgrades  
**Crawford HS** Track & Synthetic Turf Field  
**Encanto ES** Modernization  
**Gage ES** Public Address System  
**Grant ES** New Classroom Bldg / Site Modernization  
**Hancock ES** Site Modernization & New Classroom Bldg.  
**Hearst ES** Public Address System  
**Henry HS** New Classroom Bldg. & AOED  
**Henry HS** Site Modernization Phz 2  
**Innovation MS** New Bldg & Site Modernization  
**Juarez ES** Public Address System  
**Kearny HS** new Tech Academy Building  
**La Jolla HS** Athletic Facilities Upgrades  
**Longfellow ES** Site Modernization & New Classroom Bldg.  
**Mckinley ES** Joint Use Improvements  
**Miller ES** Site Modernization & New Classroom Bldg.  
**Mira Mesa HS** Athletic Facilities Upgrades  
**Mira Mesa HS** Synthetic Turf Field  
**O'Farrell Charter** Site Modernization  
**Ocean Discovery Institute** Living Laboratory Bldg  
**Pacific Beach MS** Joint Use, ADA & Site Improvements  
**Pershing MS** Synthetic Turf Field  
**Point Loma HS** PA System  
**Riley/New Dawn** Site Modernization  
**Scripps Ranch HS** New Classroom Bldg & Site Modernization  
**Silver Gate ES** Synthetic Turf Field  
**Taft MS** Site Modernization  
**University City HS** Athletic Facilities & Parking Upgrades  
**University City HS** CTE Woodshop Improvements

## HVAC IN PROCESS

**Curie ES** HVAC Educ. Support  
**Dingeman ES** HVAC Ed Support  
**Freese ES** HVAC Educ. Support  
**Fulton ES** HVAC Educ. Support  
**Gage ES** HVAC Educ. Support  
**Hage ES** HVAC Ed Support  
**Hardy ES** HVAC Educ. Support  
**Kumeyaay ES** HVAC Educ. Support  
**Language Academy K-8** HVAC Educ. Support  
**Nye ES** HVAC Ed Support  
**Pacific View Leadership ES** HVAC Educ. Support  
**Paradise Hills ES** HVAC Educ. Support  
**Perry ES** HVAC Educ. Support  
**Serra HS** HVAC Ed Support  
**Valencia Park ES** HVAC Ed Support

# DEFERRED MAINTENANCE

The backlog of needed repair and replacement work is decreasing. The MRR Plan submitted to the ICOC Construction subcommittee in June 2016 reports that there was a measurable improvement in the condition of existing facilities during 2015. The report projects a continuing improvement over the next decade thanks to planned work funded by Prop. S and Prop. Z, and recently approved state bonds.

**Correction to the ICOC 2015 Annual Report:** The 2015 ICOC Annual Report was based on a 2015 MRR Plan update that under-reported repair and replacement expenditures by \$69 million. There was a measured improvement in the condition of district school facilities during 2015.

The current condition of District school facilities is considered poor as measured by the Facility Condition Index (FCI) — the FCI as reported in the MRR Plan was 21.2%. It is improving.

Improving the conditions of existing school facilities has been a priority of bond programs since Prop MM in 1998. With \$1.1 billion budgeted specifically for repair and replacement work, it's not only a high priority — it's also the largest targeted effort in Prop. S and Prop. Z. The MRR Plan calls for an FCI of 7% to be achieved within the next 11 years, by 2027.

Making measured progress is difficult and the pace of spending against this goal is critical. Facilities deteriorate each year, and the cost of doing backlogged work inflates each year. Per the MRR Plan the current estimated annual cost of deterioration is \$113.4 million, and the 2016 estimated cost of inflation of backlogged work is \$23.8 million. This means that over \$137.2 million must be spent just to keep conditions from getting worse — more than that must be spent to improve conditions.

According to monthly financial reports received by the ICOC, 2016 expenditures that addressed backlogged repair and replacement work exceeded the MRR Plan targeted amount by almost 20%. Over \$169.1 million in expenditures addressed needed repair and replacement work.

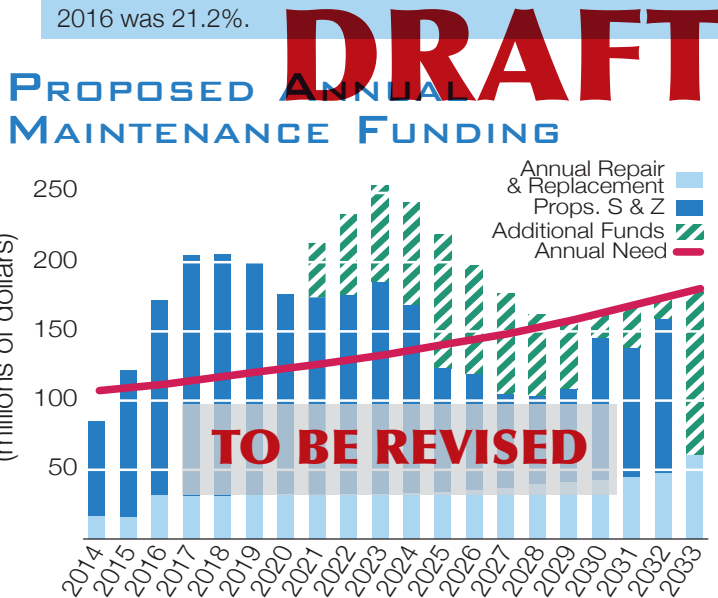
The MRR Plan predicts that known funding sources can maintain the pace of spending needed to lower the backlog for only nine years. The plan calls for another \$660 million to achieve a 7% FCI and maintain it through 2033 when Prop. S and Prop. Z funds will be fully spent. District planners anticipate that the district will be eligible for Proposition 51 bond funds recently approved by California voters. They expect that these funds will provide some of this needed money; however, not enough to reach an FCI of 7%.

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.

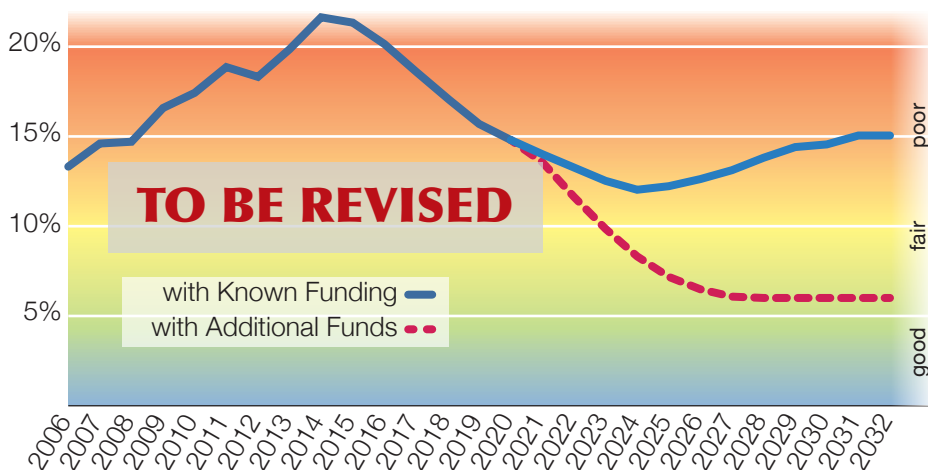
**Deferred Maintenance (DM):** DM was a state program, discontinued in 2013, that provided dollar-for-dollar matching funds to assist school districts with expenditures for repair or replacement of existing school building components. Each school district now controls funds for repair and replacement under the Local Control Funding Formula.

**Major Repair & Replacement (MRR):** MRR, per board policy, is repair or replacement work with a life expectancy over 20 years. An Annual MRR Plan shall consist of: 1) facility assessment and rating all district facilities; 2) MRR long-term funding needs; 3) adequacy of annual recurring funding; and 4) status of debt mechanisms used to finance MRR work.

**Facility Condition (FCI):** The FCI is a nationally recognized measurement of facility conditions. It's 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. FCIs above 15% are considered "poor condition." FCIs below 10% are considered "good condition." The district wide FCI reported in June 2016 was 21.2%.



## FACILITY CONDITION INDEX (FCI)





## AUDITS

The required annual audits of the Prop. S and Prop. Z for the 2015-16 fiscal year were conducted by an independent auditor, Crowe Horwath, in accord with Government Auditing Standards issued by the Comptroller General of the United States. Draft audit reports were reviewed by the Finance/Audit subcommittee in November and received by the ICOC later that month.

### 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 audit objectives also included:

- Compliance with applicable laws and regulations
- Compliance with district policy for change orders
- Bond expenditures and record keeping
- Internal controls over facilities procurement
- Efforts to maximize funding and reduce program costs
- Program management procedures
- Bond issuance process
- Fraud risk assessment inquiries and the results
- Participation of local firms and workers
- Compliance with the approved staffing plan
- Activities of the ICOC
- MRR expenditures
- CTE program implementation and controls regarding reimbursement of excess state match funds
- Review use of Prop. Z funds for charter schools
- Communication between FPC and PPO
- Stadium lighting expenditures outside of Prop. S and Prop. Z

The auditor concluded that all the above objectives were met in all significant respects, and that the district “expended Proposition S and Z General Obligation Bond funds for the [fiscal] year ended June 30, 2016 only for the specific projects developed by the District’s Governing Board and approved by the voters.”

### 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 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.

## THE ICOC

DAVID AKERS  
 ANDREW BERG  
 DERICK BUERNER  
 JERRY BUTKIEWICZ  
 MILES DURFEE  
 MATT KRIZ  
 MIKE MAGALLANES  
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 WILLIAM PONDER  
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 [VACANT]

### ICOC CONTACTS

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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>.

## 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 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 Prop. S and Prop. Z.

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