



# ANNUAL REPORT TO THE GOVERNING BOARD & COMMUNITY

Citizen's Oversight Committee,  
March 10, 2014

## Citizen's Bond Oversight Committee

- David Barnum, District Parent
- Jean Diaz, Chair & Senior Organization Representative
- Teresa Gregor, PTA Representative
- Jenna Harris, At-Large Representative
- Michael Hunsaker, Taxpayer Association Representative
- Darius Khayat, Business Person Representative
- Tom Kumura, At-Large Representative
- Robert Bowen, Alternate
- Stacy Carlson, Alternate

## Annual Report

### San Marcos Unified School District Proposition K Citizens Oversight Committee

Honorable San Marcos Unified School District Governing Board, Staff & Community:

The Proposition K Citizens Oversight Committee is pleased to present to the Governing Board and the community our annual report for 2014.

#### Background

In November 2010 taxpayers in the San Marcos Unified School District, by an affirmative vote of over 63%, approved passage of Proposition K which authorized the issuance of up to \$287 million in general obligation bonds. The bonds are to be used *"To maintain excellent local schools, repair aging, deteriorating classrooms/schools, attract quality teachers and offset State cuts by: removing asbestos, lead paint, repairing roofs, plumbing, wiring; preventing overcrowding; upgrading instructional technology, libraries, science labs; improving seismic, fire and student safety; and improving disabled access."* The most significant project is the reconstruction of the aging San Marcos High School; however, technology and safety upgrades were designated for various elementary school, middle schools and Mission Hills High School.

In accordance with the *Smaller Classes, Safer Schools and Financial Accountability Act* (Proposition 39) adopted by the California voters in 2000, the Citizens Bond Oversight Committee (the COC) was established by the San Marcos Unified School District Governing Board to actively review and report on the proper expenditure of Proposition K funds for school construction. The COC is required to report on compliance with Article XIII A, Section 1(b)(3) of the California Constitution including:

- That bond funds are expended for the construction, reconstruction, rehabilitation or replacement of school facilities, or the acquisition or lease of real property for school facilities;
- That no bond funds are used for any teacher or administrative salaries or other operating expenses;
- To report on the review of the annual independent performance audit; and
- To report on the review of the annual independent financial audit.

The COC may also make specific recommendations related to maximizing bond revenues by implementing cost-saving measures. The COC may not directly involve itself with the issuance of bonds or the negotiation of contracts.

#### Proposition K Bond Issuance

*Bonds authorized: \$287,000,000*

In accordance with Proposition K the maximum interest rate on any bond cannot exceed 12% and the final maturity of any bond cannot exceed 40 years. Recent legislation (Assembly Bill 182) restricts the amount of capital appreciation bonds and restricts the maturity of capital appreciation bonds to no more than 25 years along with other restrictions. Based on the initial financing plan a tax rate of \$44 per \$100,000 of assessed value was expected to be sufficient to support the debt service on the bonds; however, the maximum statutory tax rate is \$60 per \$100,000 of assessed value.

*Bonds issued to date:* \$207 million

\$142 million Series A bonds (\$116,700,000 current interest bonds and \$25,346,476 capital appreciation bonds) issued June 22, 2011. Yields ranged from 1.38% for the shortest maturity to 6.65% for the longest maturity and the maximum maturity at issue was 28 years with a weighted average maturity of 21.2 years (reflects that bonds mature beginning in 2013). \$65 million Series B capital appreciation bonds issued May 8, 2012. Yields ranged from 0.75% for the shortest maturity to 5.80% for the longest maturity and the maximum maturity at issue was 40 years with a weighted average maturity of 30.8 years (reflects that bonds mature beginning in 2013, however most of the capital appreciation bonds mature in 2047 and 2051).

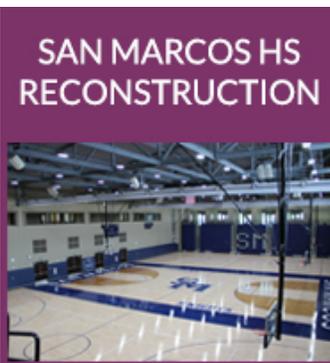
*Remaining planned bond issuance:*

\$80 million of potential issuance remains under Proposition K authorization. As a result of changes in the economy and newly adopted legislation that restricts future school district bonding, the District is currently re-evaluating the Proposition K projects and financing plan. The Committee encouraged the Governing Board to pursue an aggressive outreach program to inform taxpayers in the District of the alternatives for moving forward with financing for the remaining projects initially contemplated by Proposition K and encouraged citizens to attend District meetings discussing the remaining Proposition K financing plan.

The Governing Board has held several workshops and public meetings, including a presentation by Governing Board President, Randy Walton to the COC, to evaluate alternatives and the COC was invited to participate in the August 26th Proposition K financing workshop. The District prepared and distributed the Open Doors mailer providing an update on Proposition K, including a discussion of the impacts of Assembly Bill 182 that places limitations on the use of capital appreciation bonds by School Districts. The District is currently reviewing an reprioritizing proposed Proposition K projects to identify ways to reduce costs and be more efficient. The Governing Board is also in the process of preparing for the issuance of Series C bonds which would authorize up to \$79,958,002 in additional Proposition K bond proceeds consistent with the more stringent requirements of AB 182. It is estimated that under the statutory maximum assessed valuation rate of \$60/ \$100,000, the total debt service for the Proposition K financing plan is estimated to be \$927,855,060 which is over \$23.6 million less than the total debt service initially projected.

## Overview of Major Projects

District staff provided financial and progress reports to the COC at each of its quarterly meetings. Staff was available to answer questions from COC members. Below is a brief overview and status of the major Proposition K projects underway during the last 12 months.



### Project Overview

The San Marcos High School (SMHS) Reconstruction project develops an entirely new state-of-the-art high school campus to replace the original San Marcos High School on the same plot of land. The newly reconstructed SMHS encourages a collegiate environment through specialized classrooms, student collaboration spaces, professional development offices, and a central courtyard that branches to all the new and innovative learning spaces. The new facilities provide capacity for 3000 students in approximately 425,000 square feet of building on the

existing 45 acres.

The new high school provides learning environment facilities for all aspects of a 21st century high school including, but not limited to: Administration Services, Gymnasium, Nutrition Services, Performing Arts Theater, Central Utilities Plant, Media Center, and classrooms for Science, Applied Arts, Career Technical Education, Music, Band, Dance, Drama, Physical Education, and Technology. Additionally, subdividing the site during the construction process allowed for a full-service temporary campus to be built on a portion of the site while the new buildings were constructed on the remainder of the site. Sustainable strategies provide healthy, efficient, and productive environments by maximizing natural daylight, energy-saving systems, and landscape opportunities.

The San Marcos PTO held an open house on February 9th to enable the public to tour the recently completed campus. The reviews have been extremely favorable and the new facility is a tremendous asset for the entire community.

**Project Commencement:** June 2011

**Estimated Completion:** August 2014

**Budgeted Proposition K Expenditures:** \$180 Million



### **Project Overview**

Two of the primary goals of the Technology Infrastructure project are to provide reliable technology systems for student instruction by replacing antiquated systems and prepare all campuses for the federal Common Core computer assessment requirements. Campus technology infrastructure projects at each campus within the District includes complete replacements and installations of data wiring, servers, network electronics systems, power supplies, security cameras, phones, distribution frames, and public announcement systems.

**Project Commencement:** October 2013

**Estimated Completion:** Summer 2015

**Budgeted Proposition K Expenditures:** \$20 Million

**Comments:** The COC has cautioned against using long-term bond financing to finance short-lived assets. Staff representations and reports have assured the COC that Proposition K funds are being used to finance technology infrastructure and are in general not being used for the purchase of computers, laptops or similar devices and equipment. It is also noted that Proposition K bonds begin to mature in 2013. Utilizing federal E-rate grant funds in conjunction with Prop K Bond funds allows the Technology Infrastructure projects to include more complete systems and saves Prop K funds for other Prop K projects.

## WOODLAND PARK MODERNIZATION



### **Project Overview**

The Woodland Park Middle School Modernization project developed around a program need to enlarge the highly-elected art facilities and student support services. In this project, an addition to the art classroom also includes a full modernization to include new student creation stations, a teacher's demonstration area, and large item storage and display capacity. The student services addition and modernization portions of the project include an additional conference room, new staff restrooms, and a beautification of the front entry which also addresses water-intrusion issues on the Administration building. Accessibility and safety/security issues are also addressed as required by the Division of the State Architect.

**Project Commencement:** Phase 1 - July 2013; Phase 2 - October 2013

**Estimated Completion:** Phase 1 - August 2013; Phase 2 - February 2014

**Budgeted Proposition K Expenditures:** \$1,160,000

## **Citizens Oversight Committee Actions**

In order to meet our obligations under Proposition 39 and Proposition K, and to inform the community about work of the District under Proposition K, the Citizen's Oversight Committee accomplished the following.

**Regular Meetings of the COC:** Regular public meetings of the COC were held on April 14 2013, July 25 2013, October 17 2013 and January 16 2014. During these meetings the committee received and reviewed financial and progress reports from staff regarding Proposition K projects, the largest of which was reconstruction of San Marcos High School. Committee members engaged staff with questions regarding the reports.

**Site Inspections:** The COC completed inspections of the San Marcos High School construction project on May 21 2013 and January 16 2014. The purpose of these site inspections was to help the COC make its determination that Proposition K expenditures have been made in accordance with Proposition K and the State Proposition 39. With completion of the San Marcos High School imminent, it is expected that upcoming COC site inspections will focus on the additional Proposition K projects.

**Website Redesign and Facebook Page:** A special public meeting of the COC was held on May 21 2013 to discuss ideas for a major redesign of the COC website and creation of a COC Facebook page. The purpose of these projects is to improve outreach to the community by making the website and Facebook page more accessible to the community and to provide more relevant content regarding Proposition K expenditures. Working with staff, a redesigned COC website and Facebook page have been rolled out.

**Remaining Financing Plan Discussion:** The COC was invited by the Governing Board to participate in the August 26th, 2013 workshop on Proposition K financing. In addition, then Governing Board President, Randy Walton attended the committee's October 17 2013 meeting to discuss District alternatives for remaining bond issuance under Proposition K given changes promulgated by passage of AB 182 which

significantly restricts the use of capital appreciation bonds. The COC submitted *A Message From The Citizen's Bond Oversight Committee to the Governing Board* (Attachment A) following the October meeting.

**Financial and Performance Audit Review:** A special public meeting of the COC was held on February 18th, 2014. The purpose of this meeting was to review the Proposition K Financial and Performance Audits submitted by Christy White Associations for the year ended June 30, 2013 and to draft our annual report to the Governing Board and community.

The COC reviewed the Financial and Performance Audits and provided several suggestions to improve the presentation of the audits. The auditor agreed to make several changes that the committee recommended. The auditor also provided an explanation of how they determined the procedures to include in the audit and the procedures are consistent with the State Controller's Audit Guide and Governmental Audit Standards. In closing, the auditor stated that the committee asked the most meaningful questions of any COC to which he has presented.

## **COC Recommendations from the 2012 Annual Report**

The 2012 COC Annual Report recommended that the scope of the Audits be expanded to include:

1. An opinion on the effectiveness of District internal controls;
2. Identification of deficiencies in internal controls; and
3. Compliance as an objective of the audit

The auditor responded that in order to provide an opinion on the effectiveness of District internal controls they would have to test every internal control which would be very expensive; however, any deficiency that would be discovered would be disclosed in the audit. With regard to compliance as an objective of the audit it was pointed out that compliance *is* an objective of the Performance Audit; however, it would be virtually impossible to do so with regard to the Financial Audit given the large number of legal, regulatory and other factors that govern financial reports. Attachment B is the auditor's written response.

## **Results of Independent Financial & Performance Audits**

The District is required to obtain annual financial and performance audits related to the expenditure of Proposition K bond proceeds. Christy White Associates completed independent financial and performance audit reports for the fiscal year ended June 30, 2013. The audit firm:

- Opined that the financial reports submitted to the District and the COC present fairly, in all material respects, the financial position of the Proposition K Bond Building fund as of June 30, 2013 in conformity with generally accepted accounting principles;
- Did not identify any deficiencies in internal control over financial reporting that they consider to be material weaknesses and their tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards;

- Opined that the District complied, in all material respects, with the compliance requirements for Proposition K Bond Building Fund for the fiscal year ended June 30, 2013.

## **Compliance with Article XIII A, Section 1(b)(3) of the California Constitution**

Based on its review of information provided by the District and the independent auditor to the COC, and its inspections of the projects to date, the COC concludes that expenditures of Proposition K Bond Building Fund have been in compliance with the requirements of Section 1(b)(3) of Article XIII A of the California Constitution, specifically:

- That bond funds have been expended for the construction, reconstruction, rehabilitation or replacement of school facilities, or the acquisition or lease of real property for school facilities;
- That no bond funds have been used for any teacher or administrative salaries or other operating expenses; and
- The COC has reviewed the annual independent Performance Audit and annual Financial Audit and discussed the same with the auditor and the COC has no reason to dispute the audit findings opinions and findings discussed earlier in this report.

## **Acknowledgments**

The COC would like to express its appreciation to staff for its support of the committee.

**Staff Support:** Gary Hamels, Cecilia Aguirre and David McAdams

**Project Status Reports and Tour Guide:** Katherine Tanner and Khary Knowles

**Web Site Redesign:** Herbie Smith

Respectfully Submitted

*San Marcos Unified School District  
Proposition K Citizens Oversight Committee*

## Attachment A

### A Message From The Citizen's Bond Oversight Committee to the San Marcos Unified School District Governing Board

#### ***Compliance with Article XIII A, Section 1(b)(3) of the California Constitution***

The Citizens Bond Oversight Committee (the COC) was established to actively review and report on the proper expenditure of taxpayer money for school construction. Based on the COC's review of staff reports, annual independent performance and financial audits and tours of the facilities being financed, the COC has concluded that to date:

- Bond funds have been expended for the construction, reconstruction, rehabilitation or replacement of school facilities, or the acquisition or lease of real property for school facilities;
- No bond funds have been used for any teacher or administrative salaries or other operating expenses;
- The annual independent auditor has opined that the District has complied, in all material respects, with the compliance requirements of Proposition K Bond Building Fund and that the financial reports related to the Proposition K Bond Building Fund as reported to the District and the COC present fairly the financial position of the fund in conformity with generally accepted accounting principles.

#### ***Remaining Proposition K Financing Plan***

The District has reported to the Committee that changes in the economy and newly adopted restrictions on school bond financing make it impossible for the District to complete all of the projects contemplated by Proposition K within the \$287 million bond authorization and the expectation that debt service would not exceed a tax rate of \$44 per \$100,000 of assessed value. The COC members, individually and as a committee, have participated in or attended presentations and workshops evaluating alternatives given this situation. Although the purview of the Committee does not extend to oversight regarding the particulars of further bond issuance, the consensus among the COC members, in their capacity as individual citizens, is that on balance it would be appropriate to exceed the \$44 per \$100,000 tax rate provided that the:

- Bonding authority remains at \$287 million, the tax rate will not exceed the statutory cap of \$60 per \$100,000 of assessed value and the total debt service on all bonds issued is expected to be less than the total debt service initially projected under the Proposition;
- District has re-evaluated the need for the projects identified in Proposition K to ensure that they are still priority needs and that the scheduling of these projects and the issuance of bonds is coordinated to achieve the greatest efficiency;
- District pursues all available options to reduce the overall cost of the remaining projects and search for alternate funds such as grants;

- District implements a transparent and aggressive information outreach program to inform and involve District taxpayers of the situation and the District's plans.

***Follow The COC On The Web And Facebook***

Stay current with the work of the COC and progress of the Proposition K projects via the COC's web site accessible via the District web site: <http://www.smusd.org> and our Facebook page at <https://www.facebook.com/smusd.prop.k.coc>.

Jean M. Diaz  
Chairman

**Attachment B**

February 18, 2014

To the Proposition K Citizens' Oversight Committee  
San Marcos Unified School District

We have conducted financial and performance audits on the Proposition K Bond Building Fund of San Marcos Unified School District for the year ended June 30, 2013.

Upon review of the June 30, 2012 audit reports, the Citizens' Oversight Committee had recommended the following for future audits:

- An opinion on the effectiveness of District internal controls
- Identification of deficiencies in internal controls
- Compliance as an objective of the audit

#### Internal Controls

Our audits were conducted in accordance with *Government Auditing Standards*, as is required for all Proposition 39 bond audits. Audits performed in accordance with *Government Auditing Standards* require that we consider the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for expressing our financial and performance audit opinions, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Even though the audits do not provide an opinion on internal control over financial reporting, any material weaknesses or significant deficiencies in internal control over financial reporting that are identified are reported.

Providing an opinion on the effectiveness of District internal controls would require a significant change in the scope of the engagement. In addition to the extra work that would be required of the District in determining the essential internal controls over financial reporting, the estimated fee for this engagement could be more than double what the District is currently paying for its Proposition 39 audits.

#### Compliance

Also, as part of our audit procedures, we perform tests of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. As part of the performance audit, we do give an opinion on the District's compliance with Proposition 39 requirements.

Christy White, CPA  
John Dominguez, CPA, CFE  
Tanya M. Rogers, CPA, CFE  
Michael Ash, CPA  
Heather Daud

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Providing an opinion on the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements would require a significant change in the scope of the engagement. The engagement would have to specify which laws, regulations, contracts, and grant agreements would be covered as part of the scope of the audit. Depending on what is included in this scope, the estimated fee for this engagement again would be quite larger than what the District is currently paying for its Proposition 39 audits.

This report is intended solely for the information and use of the Citizens' Oversight Committee, Board of Trustees and the San Marcos Unified School District's management, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Christy White Associates*

San Diego, California