



ANNUAL REPORT TO THE GOVERNING BOARD & COMMUNITY

Citizen's Oversight Committee,
March 2016

Citizen's Bond Oversight Committee

- Jean Diaz, Chair & Business Representative
- Tom Kumura, Vice-Chair & At-Large Member
- Stacey Burns, Clerk & PTA Representative
- Gary Gidner, Senior Representative
- Michael Hunsaker, Taxpayer Association Representative
- Bill Steinecke, District Parent Representative
- Jenna Harris, At-Large Member (resigned)
- Becky Sparks, 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 the period ending March 2016.

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. The maximum statutory tax rate is \$60 per \$100,000 of assessed value. The estimated tax rate at the time of passage of Proposition K was

\$40/\$100,000 of assessed value. Assembly Bill 182, passed in 2014, 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. In light of the passage of AB 182 the Governing Board, in 2014, held a workshop and public hearings to review plans for outstanding bond issuance. After considering input from the workshop and public hearings, the Governing Board elected to use the statutory maximum rate going forward since, in part, it would save over \$23 million in debt service costs.

Bonds issued to date: \$282 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). The all-in True Interest Cost was 5.234377%.
- \$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). The all-in True Interest Cost was 5.689025%.
- \$75 million Series C bonds issued May 15, 2014 (\$23 million in capital appreciation bonds and \$52 million in current interest bonds). Yields ranged from 0.250% for the shortest maturity to 5.310% for the longest maturity. The maximum maturity at issue was 24 years with a weighted average maturity of 21.886 years. The Series C bond issue complies with the more restrictive AB 182 restrictions related to capital appreciation bonds.

Remaining planned bond issuance:

Approximately \$5 million of potential issuance remains under Proposition K authorization.

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 22nd, July 29th and October 28th 2015 and January 27th 2016. During these meetings the committee received and reviewed financial and progress reports from staff regarding Proposition K projects. Committee members engaged staff with questions regarding the reports.

Special Meetings: In addition to the regular meetings the COC held the following special meetings:

Site Inspections: Site inspections at San Elijo Elementary, San Elijo Middle and Discovery Elementary were held on March 28th to review completed work and work in progress. Several COC support staff changes made scheduling site visits earlier impractical.

Audit Review and Annual Report Preparation: As recommended by the COC, and adopted by the Governing Board, the COC now reviews the annual Financial and Performance Audits prior

to submission to the Governing Board. The draft audit reports were reviewed with the auditor from Christy White Associates at a special public meeting of the COC on February 29, 2016. The COC provided suggestions to improve the presentation of the audits. The auditor agreed to make changes that the committee recommended.

San Diego Taxpayers Educational Foundation School Bond Transparency in San Diego County: In June of 2015 the San Diego Taxpayers Educational Foundation (SDTEF) issued its Transparency Scorecard evaluating the transparency of San Diego County school facilities bond programs. A copy of the report is provided as Attachment A. The COC again received the highest ranking (including three other COCs) among the 21 COCs that were evaluated. The only scorecard item missed was for a lack of COC member contact information in addition to District staff (this was a new item). The COC, together with District Staff and its Bond Counsel, discussed including contact information for each COC member. It was decided that the website COC member listing will also include District provided contact information for the COC Chair. SMUSD staff is currently establishing an email for the COC Chair and this will be posted on the COC website.

The following item was mentioned in the 2014 Transparency report: “In selecting the firm to prepare the annual Performance Audit, the Governing Board should consider the specific project management experience and knowledge of construction best practices”. There was much discussion regarding the substance of this request and the COC had the benefit of Jenna Harris’ insights as a staff person at the taxpayer’s association. The COC has determined that the substance of the Taxpayer Association recommendation can be met by the COC receiving and reviewing relevant SMUSD policies and procedures related to the construction process. District staff has agreed to provide these policies but due to several staff changes this has been delayed. The COC is hoping to receive these policies and procedures in the near future.

Minutes of COC meetings are provided on the COC’s web page (www.smusd.org/domain/6).

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. A brief overview and status of the Proposition K projects completed or underway is provided in Attachment B. More detailed project information is available on the COC web site with links to status reports presented at COC meetings.

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, 2015. The auditor met with the COC at its February 29, 2016 meeting. After reviewing the audit reports COC made suggestions regarding the presentation of information and the revised audit reports reflect these recommendations.

There were no audit findings or recommendations related to the 2014-2015 Proposition K Bond Building Fund Financial and Performance Audits. 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, 2015 and the respective changes in financial position for the year ending June 30, 2015 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, 2015.

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. The COC has no reason to dispute the audit findings opinions and findings discussed earlier in this report.

Departures

Jenna Harris, Member at Large, recently moved from the District and has tendered her resignation. Alternate Member, Becky Sparks, will assume Ms. Harris' role as an At-Large Member.

Acknowledgments

The COC would like to express its appreciation to staff for its support of the committee; especially Mark Schiel, Evonne Portland and Tova Corman, who stepped in after Gary Hamels, Cecilia Aguirre's and Khary Knowles departures.

Respectfully Submitted

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

Attachment A: 2015 San Diego Taxpayer's Association Transparency Scorecard
Attachment B: Proposition K Project Status Summary