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June 19, 2015

To: President Frank Tarantino
Board Member Nick Segura
Board Member Kevin J. Pike
Board Member Paula Hall
Board Member Arturo Solis

Dear President Tarantino:

Greetings. Thank you for the opportunity to submit the monthly Bond Oversight Chair Report. Here are the highlights of Citizen's Bond Oversight Committee (CBOC) activities since the May 26, 2015 Board of Trustees Regular meeting and recent developments in Bond Oversight:

BOND OVERSIGHT MEETING JUNE 17, 2015 AT SOUTHWEST MIDDLE SCHOOL

Issues and Topics were as follows:

1. Site Tour. A 40 minute Site Tour was conducted by Principal Bill Walsh. He explained the Academic Programs of the School and the interrelationship of Stephen Hawkings II and Southwest Middle School (e.g. Science Technology Engineering Arts Math or STEAM Program). The Principal emphasized the strength of the programs, provided a history of the declining enrollment at the school, and the symbiotic relationship between the Charter and Middle Schools. Superintendent Elect Karen Janney was present for the entire CBOC meeting and we appreciate her attendance.

Our CBOC toured several classrooms including a lab, inspected an existing project at the end of construction where the meeting was held (Room 1301), and saw an older building (Music Room/700 Building) that was "gutted" and will be refurbished. It was a good tour, especially to see what can be done to refurbish existing facilities.

While the CBOC was impressed with the interior condition of our meeting room, member O'Neill pointed out several remaining construction deficiency issues on the exterior of the building. He also had issues with the amount of funds being spent on

consultant inspections.

Karl Bradley Planning Program Manager said the District is having negotiations with the contractor to complete the work and final approval of the work has not been completed for Room 1301. There were also discussions during the tour about the impacts of open enrollment on the attendance at such schools as Southwest Middle. Mr. Aguirre also explained the general legal requirements for District's providing space for charter schools.

There were several important "take aways" and items that require further information and discussion by the CBOC:

- First and foremost this site tour when viewed in the context of our other such tours, served as another example of the "have and have not" situation that exists among District school sites. Clearly Southwest Middle has had extensive improvements including the facilities related to the charter school.
- The Committee is continuing to ask questions and discuss how District Project Priorities were developed in the past and how we intend to deal with it in the future. We are demanding more justification of decisions (e.g. cost benefit analysis) as recommended in the Performance Audit.
- This CBOC is made up of people who have strong professional knowledge in areas related to Bond Programs/Projects. As stated above, we are going to continue to ask tough questions and set reasonable periods of time for staff to follow through. Assistant Superintendent Aguirre has been extremely cooperative with listening and trying to respond to questions.

For our next CBOC meeting, there will be the following specific agenda items related to this Site Tour: 1) Charter School Requirements under Proposition 39 2) History and Funding decisions related to Stephen Hawkings II Charter School 3) Cost Benefit Analysis Review of Music 700 Building at Southwest Middle School. 4) A breakdown of inspection costs for Bond Program Projects. Our CBOC wants to make sure the facility needs of Charter Schools are met pursuant to the Constitution and State law while being mindful of the other facility needs in the District.

2. Public Testimony. This was a very well attended by members of the Public, all of whom lived outside of the area associated with the School. Parents/Community Members from Mar Vista High and Bonita Vista High were present (Amy Mudd, Diana Godfrey, Jose Soto, Tracy Telemolista, Josh Godfrey) as well as Kathleen Cheers and Maty Adato.

The Mar Vista and Bonita Vista Community members emphasized what has been quite evident in our tours: there are some schools that have received virtually no Proposition O funds when compared to other schools and the wonderment of how the past priorities were developed. There was also mention of the need for greater accountability for

contractors and consultants, particularly in the area of change orders.

It was stated in a prior Chair Report and worth emphasizing:

As the Master Plan Project Priority process is eventually fully developed, our CBOC will consider the costs/benefits of making refurbishments to existing buildings versus construction of new facilities. One of the challenges any Bond Program has is to resist the temptation where appropriate to construct new more visible buildings and improvements when it may be more cost effective to remodel and upgrade existing assets.

The CBOC will be diligent in holding the District accountable for its spending decisions, particularly in relationship to the Proposition O Ballot Language.

3. Performance Audit Implementation Review. Our CBOC, working with District staff, will have a status report on the implementation of the Performance Audit Recommendations at each meeting. Accounting for Staff Costs related to the Bond Program is a very important and required by the California Constitution (i.e. No operating costs other than expenses directly related to project expenditures can be paid for by bond proceeds).

The Moss Adams report stated:

“The performance audit procedures applied provided reasonable assurance, in accordance with GAGAS, that for the Fiscal Year ended June 30, 2014, Bond proceeds were evaluated for expenditures solely on the Listed Projects with 2006 Proposition O which authorized the sale of the bonds. For District labor charges, we take exception to the ability of the District to demonstrate these charges were accurately and completely identified as Proposition O projects”.

Our CBOC has an active interest in getting this issue resolved. Staff is exploring the processes used by other Districts.

4. Proposition O Priority List. Staff presented a report on their initial thoughts on Project Priorities. This was material discussed at the last Board of Trustees meeting.

Frankly the information raised more questions than answers. What has been evident in the CBOC meetings over the past several years and the discussions heard by your new Board: ***“There has not been a systematic, articulated, consistent and specific policy rationale that can be pointed to with respect to the funding of projects.”*** The Project Priority list process should be folded into the Master Plan.

Without such a Project Priority Process the public will remain skeptical on how decisions are made particularly when they view the significant disparity in improvements made at campuses. We also discussed the need to get information requested a number of months ago, a breakdown of expenditures by Project by School

for both Proposition O and BB Bond Programs.

5. Long Range Master Plan Update. Our CBOC remains concerned the momentum for a Master Plan has been stalled due to management changes and understandable concerns on priorities/input raised at the Board. We must move forward and our CBOC is ready to provide our input.

There was also some discussion about the Preliminary Assessed Value Projections released by the County Assessor Recorder Clerk. Mr. Aguirre emphasized the numbers were preliminary but it is very likely to be less debt capacity than the \$200-250 million mentioned in the past. Our Committee requested a report back on the next meeting with a status of the Master Plan and Future Spending Plans.

One of the key Policy Issues facing this Board when the time comes to issuing new debt is whether to fold the Bond Anticipation Notes (\$37.3 million) used to finance the vast majority of Montgomery High Phase 2 (\$23.5 million) and National City Middle School (\$15.6 million) or defer this repayment into another near term bond issue. This will require a review of options by the CFO and Financial Consultants. It is the opinion of the Chair this will require a “drill down” look at near term Assessed Value Projections in light of pending private development projects in the Sweetwater Union High School District.

6. Warranties. Based upon the results of the recent Performance Audit, discussions with staff have ensued regarding compliance with warranty conditions on roofs, and the general due diligence that should be taken regarding making sure facilities are maintained properly. Information has been collected on the history of roof projects, failures, manufactures and location of roof installations. While the Chair appreciates the effort that went into the collection of information, we have yet to receive either in electronic or paper form logs that show the compliance with roof warranty conditions.

7. Contact Information of CBOC Members. The San Diego County Taxpayers Association (SDCTA) Transparency Scorecard Evaluation mentioned below did not give our District and most others their maximum possible score because the contact information for **all** CBOC members was missing. Presently there is a general CBOC email (cboc@sweetwaterschools.org) and my contact information as Chair has been readily available. Our CBOC recommended the District provide us individual CBOC related emails addresses while making it clear we are not District employees in the email naming conventions.

CALIFORNIA LEAGUE OF BOND OVERSIGHT COMMITTEES MAY 19, 2015 ANNUAL CONFERENCE

The Chair attended the California League of Bond Oversight Committees (Calboc) Annual Conference in Sacramento last month. In addition to the actual conference, I held private meetings with Calboc members and the founder of the organization to go over specific issues facing the Sweetwater District (eg. Project Priorities, potential cost

reduction measures, and Performance Audit). A summary of the content of the speakers is as follows:

Theresa Stanley. (Folsom Cordova School Unified District). This District has mandatory cost effectiveness studies for most bond project expenditures and prohibits contractors who gave to political campaigns from receiving District contracts. The District emphasized the spending on the highest priority projects first subsequent to the passage of the bond measure.

Rosann Cochrane (Cooperative Purchasing Agreement). The essence of this presentation is there is the potential for cost savings by pooling the purchasing of agencies and/or buying materials directly from the manufactures and then have it installed by a contractor.

Mac Taylor (Legislative Analyst Office). Mr. Taylor is Director of the of this influential agency for the State Legislature. He indicated the State would likely have less of a future role in school General Obligation measures. The State needs to look at funding for the depreciation costs of school district assets, particularly for the poorer districts.

He felt a need for some type of annual facilities grant which would be allocated and adjusted for prior State funding of District funding (ie. Those Districts who received significant less funding than need in the past would receive greater consideration for future projects). The Grant could be structured similar in concept to the Local Control Funding Formula (LCFF) for District operations.

Michael Cohen. (Director, State Department of Finance). As the Trustees are aware, the bulk of additional forecast revenue for the State Budget must be allocated to schools. Since 1998 the State has issued \$35 billion in school bonds which have a debt service of \$2.4 billion annually. The Governor has continuing concerns regarding the amount of State debt. He has not taken a position on whether he would actively oppose a citizen initiative for a November 2016 General Obligation Bond Measure for School Construction.

Mr. Cohen emphasized the need to reform the overly complex system of awarding State Bond Grants that rewards on a first come first serve basis. He feels there needs to be more local control with some type of grant like LCFF.

Don Mullinax (Certified Fraud Examiner and former Inspector General of the Los Angeles Unified School District). Mr. Mullinax has an extensive fraud examination with local, State, and Federal Government and clearly has a wealth of knowledge on the subject. He mentioned poor internal controls, lack of segregation of duties, management override of internal controls, and limited/ no/ or unclear policies and procedures as conditions that are more prevalent when there **may** be fraud. Such conditions do indicate less than ideal Government Best Practices or Standards.

RECENT DEVELOPMENTS IN BOND OVERSIGHT

Sweetwater Scores High on the San Diego County Taxpayers Association School Bond Transparency Scorecard. On June 2, 2015 the SDCTA released their latest Bond Transparency Scorecard. Of the 21 local School Districts four were ranked highest including the Sweetwater Union High School District (Grossmont Cuyamaca Community College District, San Diego Community College, San Marcos Unified). Two key factors resulted in these high scores: 1) a robust, detailed, and descriptive Annual Report 2) an Expanded Performance Audit. Both of these two factors have been high priority of this and prior CBOC's.

Lease Leaseback Court Decision. The Fifth District Court of Appeal (Stephen K. Davis vs. Fresno Unified School District) found that the Lease Leaseback approach where a site is leased for a nominal amount to a contractor, a contractor is selected in part based upon qualifications (i.e. Not a pure lowest responsible bid pursuant to the Education) is not legal. The Court stated: "we conclude that Davis's allegations are sufficient to state a cause of action for a violation of the competitive bidding requirements in section (Education Code) 17417 or Public Contract Code section 20111."

The lease leaseback approach was used for the National City Middle School. The Courts Decision is not believed to have any impact on this project but may impact future decisions on procurement methods for projects.

SUMMARY OF ACTIONS AND PENDING ITEMS FOR THE NEXT CBOC MEETING

Our next meeting will be held Wednesday July 22, 2015 at Bonita Vista High School. Our CBOC wants to revisit this school which was toured last November. This prior tour was an eye opening experience with less than ideal facility conditions.

The actions and pending Agenda Items for our next CBOC meeting are summarized as follows:

1. Preliminary Concepts for setting Project Priorities.
2. A schedule for the Master Plan Process and Issuing of debt
3. Proposition O and BB Expenditures by Schools and Projects
4. Charter School Requirements under Proposition 39
5. History and Funding decisions related to Stephen Hawkings II Charter School
6. Cost Benefit Analysis Review of Music /700 Building at Southwest Middle School.
7. A breakdown of inspection costs for the bond program
8. A plan to more accurately track in house staffing costs
9. Actual Warranty and District Records (e.g. logs) that show compliance with the terms and conditions of the Warranty(s) for the following building systems in the

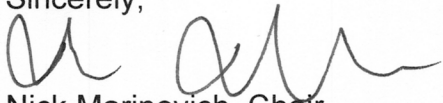
last three years: Roofs, fire alarms, security, including costs if they exist of warranty compliance

Clearly, this is quite bit of information. Subsequent to docketing this Chair Report these work products and timing will be discussed with Mr. Aguirre on Monday. The Chair is mindful of the resources and demands required of staff.

In theory, some of this information should be readily available. One item our CBOC is adamant about is getting as detailed an explanation as possible of project expenditures by school for Proposition O and BB Programs.

As always, I am prepared to answer questions at the Board meeting.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Nick Marinovich', with a stylized, flowing script.

Nick Marinovich, Chair
Sweetwater Bond Oversight Committee