



SOUTH BAY UNION SCHOOL DISTRICT \$18 MILLION BOND MEASURE

July 2018

SDCTA Position:

SUPPORT

Rationale for Position:

South Bay Union School District's proposed bond measure meets key provisions of SDCTA's Bond Support Criteria, and no reason has been found that would prevent the District from executing the projects outlined in its program.

Title: Measure 'X'

Jurisdiction: South Bay Union School District

Type: Bond Issue

Vote: 55% Supermajority

Status: On the November 6, 2018 General Election Ballot

Issue: \$18 Million Bond Measure

Description: The issuance of \$18 million of Proposition 39 General Obligation Bonds with an increase in property taxes by a maximum of \$30 per \$100,000 of assessed value to fund school modernization.

Fiscal Impact: The total cost of the bond, including principal and interest, is estimated at \$31 million. The District is proposing to raise the tax rate by an estimated \$19.68 per \$100,000 of assessed valuation.

Background

Established in 1920, South Bay Union School District (SBUSD) consists of 9 schools, 1 preschool, and 2 dependent charter schools over 14.38 square miles in Imperial Beach, San Ysidro, and South San Diego. The District currently serves approximately 7,871 students from preschool to eighth grade.

The District created a 2008 Long-Range Facilities Master Plan that outlined \$148 million in facility needs district-wide. That year, voters in SBUSD approved a \$59.4 million bond measure titled Proposition X, which SDCTA supported. This bond proposal was put forward to modernize the facilities at each of the District's campuses to address learning and safety needs. In 2009, project costs for Proposition X were found to be grossly underestimated, with revised estimates exceeding the original amounts by approximately 60%. To address this issue, several personnel changes were made, timelines were changed, and scope was revisited.

In 2012, the District decertified some of the remaining \$43.8 million in unissued bonds and reauthorized \$26 million through Proposition Y, on which SDCTA took a neutral position.



Following Proposition Y, SBUSD refreshed its Long-Range Facilities Master Plan in 2013 and prioritized projects into four categories. The District was able to use these funds to complete projects at its two oldest campuses. SBUSD is seeking a bond measure for the November 2018 election to address some of the needs outlined in its 2008 Long-Range Facilities Master Plan.

Proposal

On April 19, 2018, the South Bay School District Board of Education voted to place a \$18 million school bond measure on the November 6, 2018 ballot.

The ballot question expected to be put before voters will read as follows:

“To improve access to preschool education by rebuilding and increasing capacity at VIP Village Preschool, including constructing new classrooms and school facilities, and renovating existing restrooms, shall South Bay Union School District issue \$18 million in general obligation bonds at legal rates, under a plan that will not increase existing tax rates with an estimated levy of 2 cents per \$100 of assessed valuation (averaging \$1.5 million annually through 2042), independent taxpayer oversight and annual audits?”

The District has submitted its request for support from the San Diego County Taxpayers Association (SDCTA). The request included materials intended to satisfy the 2018 SDCTA Bond Support Criteria. Those materials have been reviewed and an analysis of the results is provided below. A summary table of the analysis can also be found at the end of this report.

Review of SDCTA Bond Support Criteria

Program Description

Revenue from the proposed bond measure would be used for the reconstruction of the District’s VIP Village Pre-School. This reconstruction will allow the District to potentially serve all of its pre-school students, some of whom currently attend satellite campuses due to a lack of capacity at VIP Village, at one main location. The projects are listed in the ballot text as follows.

“Bond proceeds will be expended to construct, renovate, rebuild, acquire, equip and furnish VIP Village Preschool including:

- Construct new classrooms
- Install fencing, security, and fire and life safety systems and equipment
- Renovate and repair existing restroom facilities
- Replace, repair, and install utilities including water, sewer, electrical and telecommunication on the site
- Construct, furnish and equip classroom, multi-purpose, and support buildings
- Site improvements including play areas, landscape, hardscape, and parking.”

The need for these projects was identified in the District’s 2008 Facilities Master Plan update. The District’s 2013 Master Plan update did not address VIP Village Preschool, and no update has occurred since 2013. SDCTA recommends that the district update its Facilities Master Plan for all District facilities in order to obtain input from the community and Board of Trustees.

Budget, Funding, and Execution Plan

Cost estimates, which include considerations for contingencies but no escalation costs, for the projects proposed to be funded through bond revenues were derived with the help of Balfour Beatty Construction and Westberg + White, Inc. Funds from the bond measure would not be enough to meet all of the needs identified in the 2013 Long-Range Facilities Master Plan. In addition to bond funds, SBUSD would use capital facilities, deferred maintenance, Imperial Beach redevelopment, and other funds to complete the proposed projects

Figure 1: SBUSD Project Cost Summary

Description	Cost
Building Subcontractor Cost Total	\$10,637,255
Fees and Markups	\$2,038,405
Construction Contingency	\$633,783
Total Project Hard Costs	\$13,309,443
Soft Costs (Design, Environmental, Consultants, Planning, Contingency)	\$4,690,557
Total Project Cost	\$18,000,000

The District intends to use capitalized interest or bond anticipation notes to help finance the program. The District used a conservative 3.5% growth rate assumption for the assessed value of property within its boundaries, which affects the estimated property tax rate and future bond revenue.

The District intends to use the help of Eric Hall and Associates to manage and execute its bond program along with its Assistant Superintendent Business Services. The District’s Director of Facilities and Maintenance also has years of experience in facilities and maintenance with the South Bay Union School District. The District has contracted with a firm for portable replacements and will undergo a request for proposals process to obtain the help of other contractors for program execution. SBUSD expects the projects to be complete by the end of 2019.

Ballot Resolution and Language

On April 19, 2018, the District adopted the final ballot language and tax rate statement. The District has submitted language to SDCTA that outlines the ballot question, as well as other items pertaining to SDCTA’s best practices. At its April meeting, the Board of Trustees adopted SDCTA’s Oversight Committee Best Practices



The District's Board of Trustees currently has policies and administrative regulations in place that contain language that satisfies SDCTA recommended policy regarding the use of Capital Appreciation Bonds and SDCTA School Construction and Professional Services Procurement Best Practices.

Deferred Maintenance Funding

The District allocates a half-percent of General Fund revenues annually to its Deferred Maintenance program. This amounted to \$328,959 in 2016-17 and \$327,000 in 2017-18. In addition, SBUSD allocates 3% of General Fund revenues to the Ongoing and Major Maintenance/Restricted Maintenance Account annually. This amounted to \$1,895,408 in 2016-17 and \$2,628,616 in 2017-18. The District has focused on proactive and preventative maintenance and is in the process of developing a deferred maintenance backlog and 5-year expenditure plan.

SDCTA School Bonds Coursework

The SDCTA recommends that senior staff, Board members, or Independent Citizen Oversight Committee members from each school district attend the San Diego Taxpayers Educational Foundation's coursework around best practices for school bond programs. Along with UC San Diego Extension, SDTEF hosts "The Practice of Designing & Running School Bonds" course, a hybrid in person and online course designed for school district superintendents and executive financial staff to learn about the process of designing, campaigning for, and running a school bond program. Along with Point Loma Nazarene University, SDTEF hosts a "Legitimate and Effective School Bonds" Course, an online course designed for school board members and ICOC members, as well as candidates, to learn about their oversight role for a bond program. No representatives from South Bay Union School District have taken SDCTA's coursework.

Fiscal Impact

The measure may increase the property tax rate by a maximum of \$30 per \$100,000 of assessed property valuation by law. The District is proposing to raise the tax rate by a maximum of \$20.00 per \$100,000 of assessed valuation. Assessed valuation growth projections are conservatively estimated as 3.5% annually, whereas the 20-year historical assessed valuation growth had averaged 4.75% per year. The total additional property tax paid by residents living within District boundaries due to school bond programs is nearly \$80 per \$100,000 of assessed valuation.

Based on cash flow projections and the estimated timeline for the sale of bonds the District has outlined a reasonable financing plan for a November 2018 bond. The District expects to issue bonds in one series.

There will be no Capital Appreciation Bonds included in the entire bond program and the repayment ratio is expected to be 1.72 to 1. Total cost of the bond, including principal and interest, is estimated to be \$31.0 million.

South Bay Union School District Bond Support Application and SDCTA Bond Support Criteria			
Criteria Item	Info Provided?	Criteria Met?	Comments
Program Description	Yes	Yes	1) Bond program outlines the needs and proposed projects at each of the District's schools
			2) Project list focuses on modernizing facilities and infrastructure, improving safety, and replacing aging portables
			3) Estimated project costs have been provided
			4) Project list within proposed ballot resolution is site specific
Program Budget and Funding	Yes	Yes	1) Bond financing scenarios made using 3.75% assessed valuation growth rates
			2) Costs associated with borrowing included, as well as expected interest revenues
			3) District has estimated that the added tax rate will be \$19.68 per \$100,000 of assessed valuation
			4) The District will be using 30-year current interest bonds as the debt financing mechanism
Cost Estimation and Feasibility	Yes	Yes	1) Project cost estimates, which include hard and soft costs, developed were derived with the help of Balfour Beatty Construction and Westberg + White, Inc.
			2) Preliminary budget included with expected timeline for completion of projects
			3) Needs estimated at \$18,000,000
Program Justification	Yes	Yes	1) The District justifies the need for the measure to complete the projects for VIP Village Preschool listed in its 2008 Facilities Master Plan
			2) The funds from this bond would be sufficient to complete the proposed projects with additional sources
			2) Funding would help construct new classrooms, improve security, replace and repair existing restrooms and utilities, and create other site improvements.
Program Execution Plan	Yes	Yes	1) Estimated bond issuance schedules have been provided
			2) Estimated program timeline and construction schedules provided
			3) District plans to oversee projects with the help of several contractors with extensive experience
Fair and Open Competition	Yes	Yes	1) District has Board policies in place with language stating that the District will promote fair and open competition for all District construction projects
			2) The District has indicated that it does not intend to use a project labor agreement

South Bay Union School District Bond Support Application and SDCTA Bond Support Criteria			
Criteria Item	Info Provided?	Criteria Met?	Comments
Bond Financing & Technology	Yes	Yes	1) District has Board policies in place containing provisions regarding the use of Capital Appreciation Bonds
			2) No technology devices will be purchased with bond funds
Deferred Maintenance and Major Repair & Replacement Plan	Yes	No	1) District included a description of deferred maintenance and major repair and replacement funding
			2) District is developing a deferred maintenance backlog and funding plan
Financial Status	Yes	Yes	1) District provided a listing of all outstanding debt
			2) District described procedures for disclosing bond-related information
Selection of Bond Agency	Yes	Yes	1) District described process used to select financial professionals
			2) District outlined the process for selecting a method of sale
Joint Use of Facilities	Yes	No	1) District has not included language within the ballot resolution intent to pursue practical opportunities to incorporate joint-use because the program does not include new construction, but rather replacement of outdated modular buildings.
Complete Ballot and Resolution Language	Yes	Yes	1) Ballot language and resolution for \$18 Million was adopted on April 19, 2018
			2) Ballot language outlines project list by site
Bidding Process	Yes	No	1) District has not adopted a “No Pay to Play” policy
Provision for an “Independent Citizens’ Oversight Committee”	Yes	Yes	1) District adopted SDCTA Oversight Committee Best Practices on April 19, 2018
Adoption of SDCTA School construction and Professional Services Procurement Best Practices	Yes	Yes	1) District has Board policies in place containing language that satisfies SDCTA School Construction and Professional Services Procurement Best Practices
Education of Governing Board Members and Oversight Committee Members	Yes	No	1) No District representatives have attended SDCTA bond-related coursework.
Opposition to Special Elections			