



SAN DIEGO UNIFIED SCHOOL DISTRICT \$3.5 BILLION BOND MEASURE

July 2018

SDCTA Position:

OPPOSE

Rationale for Position:

San Diego Unified School District's proposed bond measure does not meet key provisions of SDCTA's Bond Support Criteria, and reasons, such as overlapping project lists between bond measures and proposal, failing to meet FCI projections, and bond frequency, have been found that would prevent the District from executing the projects outlined in its program.

Title: "Measure X"

Jurisdiction: San Diego Unified School District

Type: Bond Issue

Vote: 55% Supermajority

Status: On the November 6, 2018 General Election Ballot

Issue: \$3.5 Billion Bond Measure

Description: The issuance of \$3.5 Billion of Proposition 39 General Obligation Bonds with an increase in property taxes by a maximum of \$60 per \$100,000 of assessed property value to fund school modernization.

Fiscal Impact: The total cost of the bond, including principal and interest, is estimated at \$7.5 billion. The District is proposing to raise the tax rate by an estimated \$0.06 per \$100,000 of assessed valuation. The total repayment ratio is anticipated to be 2.14 to 1.

Background

As the second largest district in California, the San Diego Unified School District serves 105,793 students from pre-school through grade 12. Founded in 1854, the District encompasses more than 226 educational facilities under a \$1 billion annual operating budget: 117 elementary schools, 9 K-8 schools, 24 middle schools, 22 high schools, 13 atypical schools, and 49 charter schools. On its four geographic corners, the District limits UCSD, Point Loma, Paradise Hills, and Scripps Ranch.

In 2008, the District created a Long-Range Facilities Master Plan that outlined \$7.5 billion in district-wide facility needs, directed at upgrading the District's school facilities to 21st century learning and solving code and safety issues. To address these needs, voters in the District approved Proposition S that same year, authorizing the District to issue \$2.1 billion in bonds to construct, rehabilitate, repair, furnish and equip school facilities. The bond amount and issuance schedule was an extension of Proposition MM, approved in 1998, as opposed to a tax increase for property owners.



During the San Diego County Taxpayers Association’s (SDCTA) review of Proposition S, the San Diego Unified School District indicated that it expected the bond to eliminate the total deferred maintenance backlog, to modernize campuses, and to construct three new campuses. Unconvinced, the SDCTA opposed this measure citing “unreliable deferred maintenance backlog estimates,” “no detailed spending plan,” and that “hard and soft costs (30%) are given by categorical expenditure,” among other things. After District revisions, the SDCTA approved Proposition S.

In 2012, voters approved Proposition Z, which issued \$2.8 billion in school bonds and effectively increased tax rates again by an additional \$60 per \$100,000 of assessed valuation. At the time of the proposal, the District had spent less than twenty-five percent of the \$2.1 billion bond program approved by voters in 2008, and the SDCTA estimated that the combined tax rate would be approximately \$127 per \$100,000 of assessed valuation. Citing the District’s inability to manage taxpayer dollars prudently, to address its structural budget deficit, and to fulfill the commitments it made to the Association regarding the management of the Proposition S bond measure, the SDCTA opposed Proposition Z.

Proposition S’s project list included school repairs, upgrading vocational facilities improving school safety and security, and removing hazardous substances. These highly overlap with the justification for Proposition Z and for the justification of the District’s most recent bond proposal, which is discussed in this analysis. The District has disclosed that it has spent \$778 Million from Proposition S, \$1.062 Billion from Proposition Z, and received \$75.8 Million of matching state grants for both.

Proposal

On July 10, 2018, the San Diego Unified School District Board of Education voted to place a \$3.5 Billion school bond measure on the November 6, 2018 ballot. The resolution passed 4-0.

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

“To improve Neighborhood and Charter schools by: improving school security, emergency communications, controlled-entry points, door locks; upgrading classrooms/labs for vocational/career, science, technology, math education; repairing foundations, bathrooms/plumbing; removing lead in drinking water and hazardous asbestos; shall San Diego Unified School District issue \$3.5 billion in bonds at legal rates, projecting levy of 6-cents per \$100 of assessed valuation for 39 years, estimating \$193 million average annual repayments, requiring independent annual audits and citizen oversight?”

The District has submitted its request for support from the SDCTA. The request included materials intended to satisfy the 2018 SDCTA Bond Support Criteria. The SDCTA has reviewed these materials and provides an analysis of the results 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 improvement of student safety, and career-specific classroom upgrades, including repairs to foundations, the removal of health hazards, and security equipment enhancements. The projects are listed in the ballot text as follows:

- Improving school security, emergency communications, controlled-entry points, door locks;
- Upgrading classrooms/labs for vocational/career, science, technology, math education;
- Repairing foundations, bathrooms/plumbing;
- Removing lead in drinking water and hazardous asbestos;

The District expects an enrollment increase only for its charter schools, representing approximately 1,000 more students over the next three years. The bond proposal pledges \$558.0 Million to charter school improvements, matching the current 16.8% of students currently enrolled in charters, where expenditures are flexible if charter enrollment fluctuates.

The need for these projects was identified in the 2008 District Long-Range Facilities Master Plan. In their resolution, the District provides a detailed description of the specific projects to be completed by bond measure funding by their location, as summarized in Figure 1. However, the District did not include a schedule with benchmarks for completion. A complete project list is attached in Appendix A.

Figure 1: SDUSD’s School Repair and Student Safety Measure of 2018 Project Goals

Project Goal	Designated Cost
Major Repair and Renovation to Schools	\$702,100,000
Student Security, Health, and Safety	\$353,300,000
Increasing Access to Technology	\$311,800,000
Neighborhood Learning Support	\$773,000,000
Charter School Projects	\$558,000,000
Accessibility and Code Compliance (ADA)	\$79,500,000
Energy Efficiency and Sustainability	\$151,000,000
College, Career, and Technical Education (CCTE)	\$259,600,000
Facilities for Education Pathways (STEAM, VAPA)	\$240,900,000
School Site Projects	\$10,600,000
Bond Total	\$3,500,000,000

Budget, Funding, and Execution Plan

Cost estimates for the project list have been prepared using historical estimates for San Diego Unified School projects realized during Proposition S and Z, as outline in Figure 2. Architect’s and Engineer’s third-party estimates are used to compile a scope catalog with unit costs. The facility needs at each campus are assessed by the district for Major Repair and Replacement (MRR), safety and security, infrastructure, energy efficiency, changing enrollment patterns, and then balanced against the educational requirements at each campus to create a Facilities Condition Index (FCI). San Diego Unified has 15.1 million square feet of school buildings. Therefore, San Diego Unified manages between 50 and 100 large and small active school renovation and construction projects at any given time.

To anticipate cost escalation, San Diego Unified escalates the current estimates to the mid-point of the planned 10-year bond program. The overall project list is scheduled and then escalated based upon the individual project’s mid-point of construction. The current AV growth rate projection is 4%.

Figure 2: SDUSD’s School Repair and Student Safety Measure of 2018 Project Cost Summary

Description	Percent	Cost
Facilities Construction and Equipment	80.0%	\$2,800,000,000
Total Project Hard Costs	80.0%	\$2,800,000,000
Planning and Design	14.8%	\$518,000,000
Program Management Office (staffing for management of capital bonds)	5.2%	\$182,000,000
Total Project Soft Costs	20%	\$700,000,000
Total Project Cost	100%	\$3,500,000,000

The San Diego Unified bond program has been awarded over \$700 million in private, deferral, state, and local capital funds over the past 20 years. The District may require the State of California matching grant funds to finish the projects, estimating that the passage of this bond will open the opportunity to capture approximately \$150 Million of future state matching grants, although those funds have not yet been secured. Alternatively, if the District obtains unexpected funds from non-bond sources with respect to listed projects, such projects may be enhanced, supplemented or expanded to the extent of such funds. The Bond Project List does not authorize non-capital expenditures. Additionally, it does not include budgets or estimates; the District does not to publish them so that it does not “provide some bidders with an unfair advantage.”

The District intends to use the help of staff and in-house professionals to manage and execute its bonds program. While it also plans to develop partnerships with inspection, construction and project management professional firms, the following District staff provides the core for the execution of the project planning, contract awards, contract management, design, inspection, and construction oversight:

1. Chief, Facilities Planning, and Construction (21 years of facilities experience)
2. Director of Project Management (18 years of experience)
3. Director of Construction Management (19 years of experience)
4. Director of Fiscal Controls and Information Systems (8 years of experience)

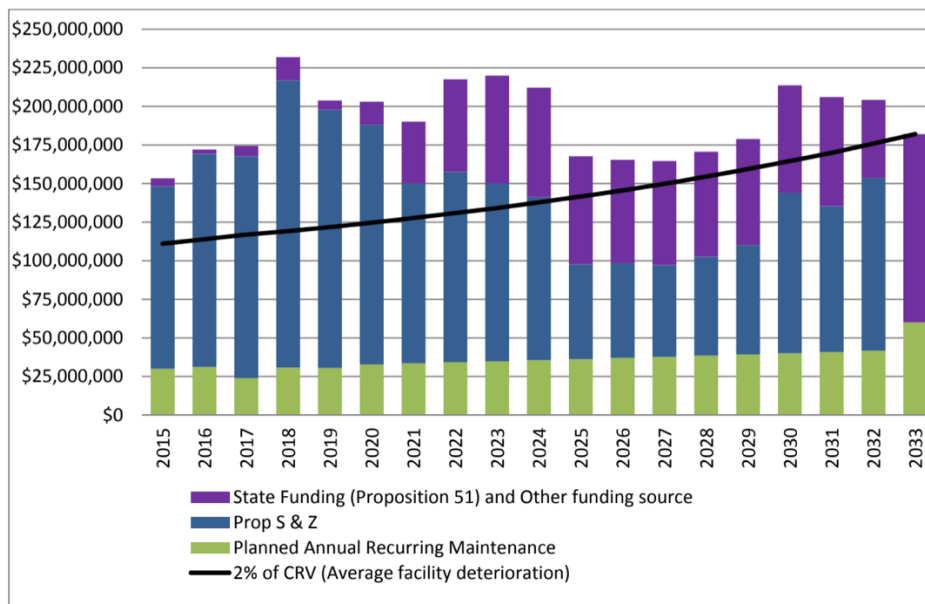
The District’s outreach plan emphasizes the use of local labor and Emerging Business Enterprises for the proposed construction projects. The district employs local contracted staff for expertise in specific areas of need. The current firms that the district uses for staff support are AECOM, Gafcon, and Harris & Associates. The district also uses the services of over 20 San Diego Architectural and Engineering firms

Program Justification

The average building age across the District is 48 years. The District claims in materials submitted to the SDCTA that state budget allocations for facilities do not keep up with the district’s facility needs and therefore required repairs get deferred to compound the deterioration rate of facilities, where current funds are insufficient to overcome the annual recurring deferred maintenance as shown in Figure 3.

The District uses another metric, the Facilities Condition Index (FCI), as an estimate of the facilities’ conditions and deficiencies. According to APPA, an FCI of 5% is good; between 6% and 10% is fair; and greater than 10% is poor. It is estimated that the FCI was about 22% prior to 1998. While the District claimed that funds from previous bonds would drive that metric to fair estimates, at the end of fiscal year 2017 the FCI was 18.6%. The District projected a 16.9% FCI at the end of Fiscal year 2019, accounting for current Proposition S & Z MRR expenditures.

Figure 3: Proposed Annual Recurring Maintenance Funding Plan



Projections provided by the San Diego Unified School District



It is important to note that many, if not all, of the projects that they have outlined as part of the proposed bond measure to address issues in their Facilities Master Plan have been or were scheduled to be covered by bond measures passed by voters in the past. In response to our concerns, the district noted that the 2018 bond project list and ballot language is 187 pages and that, in comparison, Proposition Z's is 107 pages, and that school districts use common building system words that people understand to describe school building components. Over the next 10 years, the total deterioration rate is estimated at over \$1.24B, which increases the District school facilities needs requirement to \$3.5 Billion from approximately \$120 Million per year.

Deferred Maintenance and Major Repair and Replacement Plan

The Association of Physical Plant Administrators (APPA) recommends between 2% to 4% of a district's aggregate Current Replacement Value (CRV) to be allocated annually for recurring funding maintenance, RR, and MRR. APPA recommends that when a backlog of deferred maintenance has been allowed to accumulate, spending should exceed minimum levels until the backlog has been eliminated. Based on factors such as a mild climate, age of facilities and type of construction, a 2% deterioration rate best approximates the school facility deterioration rate at the District, which equates to approximately \$118 Million a year. The District plans to use the bond to address the estimated \$702.1M in Major Repair and Renovation to schools and to significantly decrease the deferred maintenance backlog. It also estimates that the bond proposal is projected to improve the FCI, driving it down to 7.4% by 2028.

Financial Status

San Diego Unified School District's capital improvements are funded by two General Obligation (GO) bond measures--Propositions S and Z. A board-approved phasing plan for bond projects is being implemented by the district's Facilities Planning Construction Division. The District has provided a comprehensive list of all outstanding public and private debt issuances. While the District did not describe its procedures for disclosing bond-related information, it scored a 96% in the San Diego Taxpayers Educational Foundation's 2017 Bond Transparency Scorecard, which assesses how much information the Independent Oversight Committee shares with taxpayers. It is important to consider that this metric only makes note of the existence of the criteria examined and does not comment on the quality of the material available or the ease of access.

Figure 4: SDUSD’s Long-Term Debt

Governmental Activities	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
GO Bonds	\$2,986,296,724	-	\$133,428,533	\$2,852,868,191	\$131,520,184
Unamortized Premium	\$219,139,229	-	\$16,588,117	\$202,542,112	\$14,393,629
Accreted Interest	\$199,160,333	\$47,341,720	\$10,201,467	\$236,300,586	\$10,880,816
Total GO Bonds	\$3,404,587,286	\$47,341,720	\$160,218,117	\$3,291,710,889	\$156,803,629
Net Pension Liability	\$1,094,321,000	\$253,816,000	-	\$1,348,137,000	-
Compensated Absences	\$27,299,718	-	\$1,005,960	\$26,293,758	-
SERP Liability	\$23,828,481	\$79,441,125	\$7,942,827	\$95,326,779	\$23,831,052
Net OPEB Obligation	\$16,966,366	\$7,695,956	\$3,231,454	\$21,430,868	-
Totals	\$4,567,002,851	\$388,294,801	\$172,398,358	\$4,782,899,294	\$180,634,681

Ballot Resolution and Language

The District adopted the final ballot language and tax rate statement on July 10, 2018. The District has submitted materials to SDCTA that outline the ballot question and a ballot resolution that outlines items pertaining to SDCTS’s best practices.

The District has 77 joint use agreements in place and is in negotiations on 50 additional agreements with the city of San Diego under its “Play all Day” Program. Under the terms of these agreements, the District provides the design and development costs while the city provides the operation and maintenance costs for each field. Each agreement lasts 25 years and is separately negotiated to provide fairness to the parties based on the specific circumstances of each joint-use project. The city and the District share the costs and savings of maintenance and development.

Selection of Bond Agency & Bidding Process

Where appropriate, San Diego Unified utilizes a competitive selection process. Their compensation varies. Because of the size, structuring considerations and large retail interest in San Diego Unified bond issuances, the district utilizes negotiated sales for its debt issuances. The bond financial advisor, which is charged with giving San Diego Unified advice regarding the entirety of the district’s financial operations, is compensated on an annual basis without regard to the number of bond issuance deals it may recommend. Bond and Disclosure Counsel and Underwriters are



compensated on a deal-by-deal basis. The District uses the San Diego County Treasurer instead of a Trustee for its bond transactions.

The San Diego Unified School District negotiated a Project Stabilization Agreement with the San Diego and Imperial County Building and Construction Trades and the Southwest Council of Carpenters. The District has not committed to a “No Pay to Play” policy.

Bond Financing & Technology

The District has language in the ballot resolution that satisfies SDCTA’s recommended policy regarding the use of Capital Appreciation Bonds.

As the largest issuer of short-term debt for technology purchases in San Diego County, San Diego Unified incorporated in its bond program the use of short-term bond financing, which has a maturity of 5 years, to purchase technology assets that typically have an expected useful life of 5 to 7 years.

SDCTA School Bonds Coursework

No representatives from San Diego Unified School District have taken SDCTA’s 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.

Fiscal Impact

This is the third and largest bond measure that the District has placed on the ballot over the last decade. If passed, all three bonds total \$8.4 billion. The measure may increase the property tax rate by a maximum of \$60 per \$100,000 of assessed property valuation by law, which would translate into a \$300 tax on a property valued at \$500,000. The District is proposing to raise the tax rate by an estimated \$0.06 per \$100,000 of assessed valuation and estimated that an average \$193 million would be raised annually for the repayment of the authorized bonds over 39 years. The estimated tax rate would result in a 30-cent tax hike on property taxes. The total repayment ratio is anticipated to be 2.14 to 1.

San Diego Unified School District determines bond issuance costs on a deal-by-deal basis at the time of issuance and discloses it at the time of issuance. San Diego Unified issued \$471 million 2016 Series F&G bonds in November 2016 to finance school facilities improvements. The



estimated interest rate savings on the series F&G issuance exceeded \$20 million based on the increase in credit rating to AAA from FITCH. For the remaining authorization of Prop S and Z, the interest savings will exceed \$150 million over the life of the programs.

San Diego Unified School District Bond Support Application and SDCTA Bond Support Criteria			
Criteria Item	Info Provided?	Criteria Met?	Comments
Program Description	Yes	No	1) Bond program outlines the needs and proposed projects at each of the District's schools
			2) Project list focuses on improving school security, upgrading classrooms/labs, repairing bathrooms, and removing lead in drinking water and hazardous asbestos
			3) Estimated project costs have been provided; the District did not disclose how it calculated these estimates
Program Budget and Funding	Yes	No	1) The District assumes a 4% AV growth rate projection
			2) District has estimated that the added tax rate will be \$0.06 per \$100,000 of assessed valuation
			3) District does not provide a cost estimate by site or benchmarks for completion,
Cost Estimation and Feasibility	Yes	Yes	1) Cost estimates for the project list have been prepared using historical estimates for San Diego Unified School projects realized during Proposition S and Z
			2) Preliminary budgets included, but expected timeline and benchmarks for completion of projects were not included
Program Justification	Yes	No	1) The District justifies the need for the measure to complete some of the projects listed in the needs assessment in the Facilities Master Plan
			2) Many of the projects outlined as part of the proposed bond measure to address issues in their Facilities Master Plan have been or were scheduled to be covered by bond measures passed by voters in the past
Program Execution Plan	Yes	No	1) Estimated bond issuance schedules have not been provided
			2) Estimated program timeline and construction schedules not provided
			3) District plans to oversee projects with the help of several contractors and internal staff with extensive experience
Fair and Open Competition	Yes	No	1) District stated in its application that it does have a Project Stabilization Agreement and that PSA reports are regularly provided to the ICOC
			2) District does not state whether or not it plans to use a PLA/PSA in the ballot resolution

San Diego Unified School District Bond Support Application and SDCTA Bond Support Criteria			
Criteria Item	Info Provided?	Criteria Met?	Comments
Bond Financing & Technology	Yes	Yes	1) The District has language in the ballot resolution that satisfies SDCTA's recommended policy 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 does not address deferred maintenance backlog and funding plan in detail
Financial Status	Yes	Yes	1) District provided a listing of all outstanding debt
			2) District did not describe procedures for disclosing bond-related information; however, they have a positive history of bond program transparency.
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	Yes	1) District has several existing joint-use facility agreements
Complete Ballot and Resolution Language	Yes	No	1) Ballot language and resolution for \$3.5 Billion was adopted on July 10, 2018
			2) Ballot language does not outline 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) Ballot language states that an ICOC will be established. District has utilized an ICOC for bond programs for over 20 years
Adoption of SDCTA School construction and Professional Services Procurement Best Practices	No	No	1) District has not provided information on adoption of policies.
Education of Governing Board Members and Oversight Committee Members	No	No	1) No District representatives have attended SDCTA bond-related coursework.
Opposition to Special Elections			

APPENDIX A: Bond Project List

Identified Areas of Need	Projects
Student Security Health and Safety Improvements	School site security (lighting, fencing doors, locks, and intrusion safeguards)
	Asbestos remediation and lead solder removal
	Emergency Communication Systems
	Fire alarm systems, smoke and heat detectors
	Seismic structural safety
	Food service area and prep kitchen renovation
Classroom and Student Technology¹	Student computing device replacement
	Projection system replacement and sustainability
	Teacher device replacement
	Emergency Backup Systems
	Network infrastructure, high-performance backbone, and voice-over internet
	Wireless and wired connectivity speed and reliability
	Upgrading data centers
Neighborhood Learning Centers	Build school facilities to enable students to attend quality schools in the neighborhoods
	Remove and replace aging portable classrooms with new permanent classroom buildings
	Develop Science, Technology, Engineering, and Math (STEM), Visual and Performing Arts, athletic facilities, and joint use fields
	Facilities to meet the needs of special education students
New Facilities to Support Innovations in Education and Pathways	Learning environments for today and tomorrow
	Indoor and outdoor collaborative learning spaces
	STEM Labs and Makerspaces
	Expansion of successful programs and pathways: Visual and Performing Arts, Languages, STEAM, International Baccalaureate Program School
College, Career, and Technical Education²	Provide learning environments for: Automotive, Business, Biotech, Computer, Culinary, Multimedia, Sustainable/Green Technologies, Marine Science/Blue Tech
Accessibility and Code Compliance	Americans with Disabilities Act (ADA): Provides equal access and reduces potential for legal liability
	Portable Certification to bring them up to current standards
	Title IX gender equity (athletic facilities)

¹ Bond enables the district to obtain technology matching funds (E-rate) \$101.5M received as of June 30, 2018

² CTE projects are eligible for matching grants under the state’s Career Technical Education (CTE) program

<p>Energy Efficiency and Sustainability</p>	Improvements to save General Fund Operating Funds for utility expenses
	Energy Efficient air conditioning and heating
	Solar panels and solar lighting
	Recycled water for irrigation
	High efficiency LED lighting
	Building insulation and dual-pane windows
	Replacement of inefficient mechanical systems
	Recycled water for irrigation
<p>Public Charter School Projects within SDUSD/Compliance with Proposition 39</p>	Site reconfiguration to better accommodate charter school co-location
	Development of new facilities for charter schools
	Provide classroom capacity, including furnishings and equipment
	Construction, renovation, or replacement of district charter school facilities: furnishings and equipment, acquisition or lease of real property for charter school facilities