



SWEETWATER UNION HIGH SCHOOL DISTRICT \$403 MILLION BOND MEASURE

July 2018

SDCTA Position:

OPPOSE, with an option to reconsider

Rationale for Position:

Staff recommends **OPPOSE**, with an option to reconsider if the District's Board adopts SDCTA's best practices. It is unclear from the information available and its performance history whether the District has or will adopt SDCTA recommended best practices. The District did not express an intent to adopt these practices on their August 13, 2018 Board meeting, or any other in the future.

Title: Measure 'X'

Jurisdiction: Sweetwater Union High School District

Type: Bond Issue

Vote: 55% Supermajority

Status: On the November 6, 2018 General Election Ballot

Issue: \$403 Million Bond Measure

Description: The issuance of \$403 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 repairs and modernization.

Fiscal Impact: The total cost of the bond, including principal and interest, is estimated at \$786 Million. The District is proposing to raise the tax rate by an estimated \$24.50 per \$100,000 of assessed valuation for 30 years. The repayment ratio is estimated to be 1.9 to 1.

Background

Founded in 1920, the Sweetwater Union High School District serves more than 42,000 students in grades 7 through 12 and more than 32,000 adult learners across 32 campuses in the cities of Chula Vista, Imperial Beach, National City, and San Ysidro.

In 2000, voters passed Proposition BB, allowing the District to issue \$187 Million in bonds to modernize its facilities and raising property taxes by \$26.92 for every \$100,000 of assessed value, with a bond pay-off date by 2030. Two years prior, a broad-based community effort examined school conditions and developed a comprehensive plan to address issues in overcrowded schools between 40 and 60 years old. SDCTA supported Proposition BB due to the District's demonstrated need. The use of external construction management to oversee 13 projects, along with a "summer sprint" program allowed for accelerated completion and saved taxpayers an approximate \$72 Million in inflation costs. This dollar-saving measure earned the District a spot as a finalist on the 2006 SDCTA's Golden Watchdog Awards.



In 2006, voters in the District passed Proposition O, a \$644 Million follow-on bond to complete additional work in the District. Proposition O included a 5.25% annual inflation factor and a \$25 Million contingency. Given its fiscal responsibility with its last bond and its demonstrated clear need for the supplemental fund, the SDCTA supported Proposition O. With a recently updated Facilities Master Plan, the District met all of SDCTA criteria for bond endorsement.

After Proposition O's passage, however, the District claimed that it could not meet its commitment to voters. In February 2008, the District's Independent Citizens' Oversight Committee was informed that a significant portion of original projects would not be completed. Additionally, the District pursued a resolution to negotiate the terms of a project labor agreement (PLA) and failed to include a notice of the potential for a PLA in its ballot resolution. The SDCTA expressed concern over the change in construction and bond management companies.

These concerns were not misplaced. In 2011, a series of questionable expenditures and contracts became public. In 2014, four school officials from Sweetwater Union and San Ysidro school districts were charged in a wide-ranging corruption probe for failing to disclose gifts from contractors and voting for their contracts under Proposition O. Under the state's conflict-of-interest law, public officials cannot enter into a contract in which they have a financial interest. If they do, the contracts become void and the money paid should be returned. In 2015, a new board and new superintendent prioritized regaining the public's trust; since, the district has changed policies and increased transparency, obtaining an 84% transparency grade in the 2017 Bond Transparency Scorecard.

Subsequent to authorization, the District has used approximately \$305 Million from Proposition O and has \$339 Million still eligible in general obligation bond funding. Most recently, this funding has allowed the installation of Heating/Ventilation/and Air Conditioning (HVAC) in 190 classrooms, repair and replacement of two high school gym bleachers and restrooms, and the installation of an artificial track and field on one campus athletic field.

Proposal

On July 27, 2018, the Sweetwater Union High School District Board of Education voted to place a \$403 Million school bond measure on the November 6, 2018 ballot. The five-member board voted 4-0 in favor, with one abstention.

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

“To repair/upgrade classrooms, libraries, science labs; prepare students for college/careers; expand science, technology, engineering, math instruction; remove hazardous asbestos/lead; fix deteriorating roofs; and improve school safety, shall Sweetwater Union High School District issue \$403 million in bonds at legal rates, raising \$26 million annually over 30 years at approximately 2 cents/\$100 assessed value, with citizen oversight, independent audits, no money for administrator salaries and all money staying local?”



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, Budget & Funding, Execution Plan

Revenue from the proposed bond measure would be used for districtwide campus upgrades to support student health, safety, and security, as well as for site-specific upgrades to prepare students for college and careers, and to meet code compliance standards. The complete Bond Project List as it appears in the ballot resolution can be found at the end of this analysis. The ballot resolution also itemizes projects by site. The District will pursue state matching funds, if and when they become available. It will also pursue joint use facilities.

There are no schedules for construction provided or comprehensive cost estimates to evaluate. The District holds that the final cost of each project will be determined as plans are finalized and projects are completed. Based on the final costs of each project, certain projects described may be delayed or may not be completed.

The District has provided a Master Plan Project Development sample of the modernization of one building, but it is unclear whether it is representative of all projects. The sample includes project name, cost per square foot, unit cost, hazmat abatement costs, construction subtotal, escalation to mid-2019 (10%), district project contingency (20%), soft costs (30%), and fixtures, furniture, and equipment (7.5%).

After the passage of Proposition O, the District implemented a Project Management Plan that specifies the organizational structure, processes, and responsibilities of its Planning and Construction Department, which is staffed by professional employees with knowledge in planning, design, engineering, and program and construction management. The Assistant Superintendent of Facilities and Operations and the Director of Planning and Construction direct the activities of this department. The District currently has three in-house project managers to oversee school construction projects and to support facilities. However, the District does not mention who helped them calculate cost estimates, or which design and construction companies have been involved in the execution of previous bonds.

Project Justification

The District claims that current levels of funding available are not sufficient to address facility needs across the district. Thirty-three percent of the SUHSD’s school buildings were constructed between 1947 and 1966 and another 30% were constructed between 1997 and 2006, showcasing a balance between older facilities and newer facilities.

The District began an effort in 2014 to update its Long-Range Facilities Master Planning and secured the work of an outside consultant to conduct this work in consultation with district staff. In 2015, the facility condition assessment identified \$383.8 Million in need – \$60.3 related to educational adequacy and \$323.4 related to facility deficiency costs. The projected life cycle renewal needs for the District’s facilities over the ten years after was estimated to be \$326.6. By combining needs at the time with the next ten years of anticipated life cycle renewal forecast, the District anticipated \$710.4 Million in facility related needs, outlined in Figure 1. The facility needs assessment also rates campuses for educational suitability and technology, finding that total addressable educational adequacy costs total \$60 Million, which includes \$1.6 Million in technology readiness costs, and represents 20% of the total deficiency cost.

Figure 1: Sweetwater Union High School District Combined 10-Year Need

Deficiency Type	High Schools	Middle/Junior High Schools	Adult Schools	Total
Current Deficiencies	\$194,979,652	\$102,490,538	\$25,946,453	\$323,416,642
Educational Adequacy	\$38,464,271	\$19,207,384	\$2,671,229	\$60,342,884
10-year Life Cycle	\$235,916,287	\$79,364,466	\$11,358,048	\$326,638,801
Total	\$469,360,210	\$201,062,388	\$39,975,729	\$710,398,327

The assessment of the enrollment and capacity study performed in May 2018 indicates a declining trend over the course of the next five-year time period. According to the District, this same 2018 Master Plan Process, which will be presented to the Board of Trustees in September 2018 and is currently unavailable to the public, determined an approximate need of \$1.8 Billion.

Deferred Maintenance Funding

SUHSD continues to maintain a Deferred Maintenance project list and completes projects as funding becomes available. Since the implementation of Local Control Funding in Fiscal Year (FY) 2013-14, which eliminated the dedicated revenue stream for the Deferred Maintenance Program, the District has transferred \$6,811,400 to the Deferred Maintenance Fund from General Fund Base Grant revenue and funded over \$12 Million in Deferred Maintenance projects. In addition, the District allocated funding from legal settlements towards Deferred Maintenance projects.

Financial Status

The District listed its outstanding debt as the following:

Figure 2: Sweetwater Union High School District Long-Term Debt Obligations

	Outstanding Debt as of 8/01/18	Year Maturity	Interest Rate
General Obligation Bonds			
Prop. BB – G.O. Bonds 2000 - C	\$21,946,121.45	2026	4.260-5.270%
Prop. BB – G.O. Refunding Bonds 2011 Series	\$13,085,000.00	2025	3.390%
Prop. BB – G.O. Refunding Bonds 2014 Series	\$76,940,000.00	2029	3.44-5.27%
Prop. BB – G.O. Refunding Bonds 2016 Series	\$167,985,000.00	2047	4.00-5.00%
Prop. BB – G.O. Bonds 2006 Series 2016B	\$97,000,000.00	2040	2.00-3.375%
Prop. BB – G.O. Bonds 2006 Series 2018C	\$28,000,000.00	2047	3.50-5.00%
Qualified Zone Academy Bonds			
QZAB 2005	\$5,000,000.00	2021	
QZAB 2010	\$2,545,000.00	2025	2.300%
Certificate of Participation			
Mello-Roos – COP's			
Series 2017 Refunding	\$31,395,000.00	2029	2.00-5.00%
Special Tax Revenue Bonds			
Mello-Roos – Special Tax Revenue Bonds			
2013 Refunding Revenue Bonds	\$54,645,000.00	2027	3.00-5.00%
Lease Revenue Bonds			
Federally Taxable Lease Revenue Refunding Bond			
Series 2016	\$34,200,000.00	2035	1.230-3.955%

Ballot Resolution and Language

On July 27, 2018, the District adopted a ballot resolution to put a \$403 Million bond measure to vote in November. No information has been provided to verify if the District has adopted SDCTA’s recommended language and best practices in its policies. The District has not included SDCTA’s recommended language regarding deferred maintenance, intents in regard to Project Labor Agreements, selection of bond agency, and “No Pay to Play” policy in its ballot measure.

The District has not included within its pertinent Board of Education policy the suggested SDCTA language, nor has it listed within its submission all classroom technology items proposed to be funded and the funding mechanism intended to be used to finance the equipment.

Selection of Bond Agency and Bidding Process

SUHSD follows public work bidding guidelines as outlined in Public Contract Code 20111. The District has a Project Labor Agreement that went into effect on July 11, 2016 and is applicable to projects over \$1 million and funded through Prop O and Mello Roos.

The District proposes to use either a competitive and/or a negotiated sale and does not anticipate using a private offering. For each service, the District accepted bids for an average of seven days. Figure 3 outlines the selected team and the agreed compensation.

Figure 3: Sweetwater Union High School District’s Historical Selection of Bond Agency

Service	Advertising	Applications	Team Selected	Compensation
Bond Legal Counsel	06/16/17-06/23/17	9	Atkinson, Andelson, Loya, Ruud, & Romo	Cost of Issuance
Bond Underwriting	01/08/18	7	Citigroup Global Markets, Inc.	Cost of Issuance
Bond Legal Counsel – Pre-Election Services	06/16/17-06/23-17	9	Dannis, Woliver, Kelly (DWK)	Hourly
Bond Legal Counsel – Disclosure Counsel	06/16/17-06/23/17	9	Dannis, Woliver, Kelly (DWK)	Cost of Issuance
Communication Consultant	02/28/18	3	CliffordMoss	Contractual
Financial Advisor	10/30/15-11/06/15	6	Fieldman, Rolapp & Associates, Inc.	Cost of Issuance
Voter Opinion Consultant	9/15/17	4	Under Evaluation	Contractual

The District has not adopted a “No Pay to Play” policy.

SDCTA School Bonds Coursework

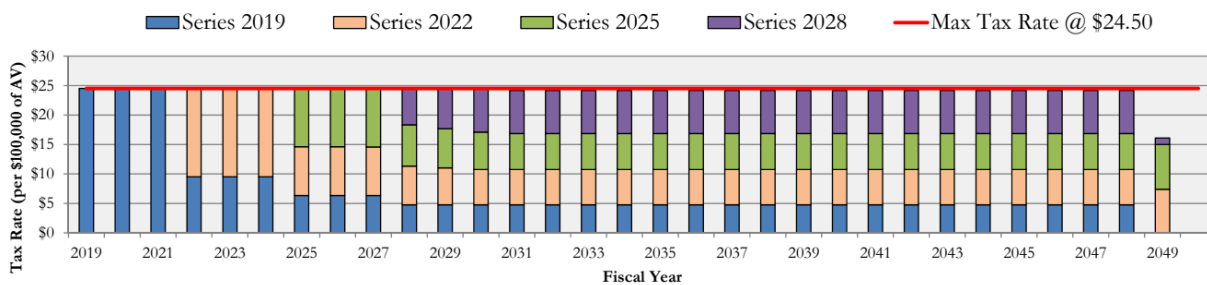
The SDCTA recommends that senior staff, Board members, or Independent Citizen Oversight Committee members from each school district attend the San Diego Taxpayers Educational Foundation’s coursework around best practices for school bond programs. Along with UC San Diego Extension, SDTEF hosts “The Practice 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.

Sweetwater Union School District’s School Board President participated in SDTEF’s school bonds course in November of 2017. Additionally, three members of the District’s Citizens’ Bond Oversight Committee took SDTEF’s school bonds course in September of 2016.

Fiscal Impact

This bond would require residents to pay an additional \$24.50 per \$100,000 of assessed property for 30 years. The averaged assessed values of a home and expected property tax increase in cities within the district were not provided. The District did not provide a schedule of prior years’ Assessed Valuation (AV) history, but the SDCTA was able to retrieve information that placed it at 9.36% in 2016 and at a 3.61% 10-year average. The District assumes growth of by 4.90%, 5% coupons and a 10-year ‘A’ average MMD scale. In its calculations, they note an increasing repayment ratio that averages out to 1.91 to 1.

Figure 4: Sweetwater Union School District Projected Tax Rates and Repayment Ratio



	Series 2019	Series 2022	Series 2025	Series 2028	Total
Dated Date	2/1/2019	2/1/2022	2/1/2025	2/1/2028	-
Par Amount	105,000,000	105,000,000	95,000,000	98,000,000	403,000,000
Project Amount	104,275,000	104,275,000	94,325,995	97,310,000	400,185,995
Final Maturity	8/1/2048	8/1/2049	8/1/2049	8/1/2049	8/1/2049
Repayment Ratio	1.77	1.98	2.00	1.90	1.91

Sweetwater 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
			3) Project list within proposed ballot resolution is site specific
Program Budget and Funding	Yes	Yes	1) District has estimated that the added tax rate will be \$24.50 per \$100,00 of assessed valuation, assuming a 4% AV growth
			2) The total cost of the bond, including principal and interest, is estimated to be \$786 Million.
			3) The District intends to pursue matching state funding and joint facilities, and provided a cash flow analysis including the estimated timelines for the issuance of bonds and expected annual property tax rates
			4) The District did not provide information on expected foals or estimated benchmarks for completion
Cost Estimation and Feasibility	Yes	No	The District provided a sample of cost estimates for one building, which may not be representative of the cost estimates for all projects
Program Justification	Yes	No	1) The District anticipated \$710.4 Million in facility related needs from 2015 to 2020; most recently, it preliminarily estimates \$1.8 Billion in facility related needs in a report to be presented to the Board on September 2018
			2) The District conducted a comprehensive needs assessment prior to the creation of a bond and its project list
			3) Enrollment is expected to decline over the next five years
Program Execution Plan	Yes	Yes	The District provided its Program Management Plan and intends to use three in-house professionals for its execution
Fair and Open Competition	Yes	No	The District has a PLA agreement that went into effect in 2016, but it does not list the organizations used for project expenditures
Bond Financing & Technology	Yes	No	The District did not list within its submission all classroom technology items proposed to be funded and its funding mechanisms
Deferred Maintenance and Major Repair & Replacement Plan	Yes	No	The District did not provide information on deferred maintenance funding for the previous 10 fiscal years, nor the current lists of projects and their costs within the deferred maintenance backlog
Financial Status	Yes	Yes	The District outlined all of its long-term debt and described disclosure procedures for bond-related information
Selection of Bond Agency	Yes	Yes	The District provided information on the process and compensation for bond professionals
Joint Use of Facilities	Yes	Yes	The resolution calling for the bond election includes SDCTA-recommended language on joint-facilities

Complete Ballot and Resolution Language	Yes	Yes	1) Ballot language and resolution for \$403 Million was adopted on July 27, 2018
			2) Ballot language outlines project list by site
Bidding Process	Yes	No	The District did not provide any information on whether it intends to adopt a “No Pay to Play” policy.
Provision for an “Independent Citizens’ Oversight Committee”	Yes	No	1) The District did not provide any information on whether it has or intends to adopt SDCTA’s Best Practices
			2) The District has a member of SDCTA serving on its ICOC
Adoption of SDCTA School construction and Professional Services Procurement Best Practices	Yes	No	The District has not provided information on whether it intends to adopt SDCTA’s “School Construction and Professional Services Procurement Best Practices”
Sweetwater Union School District Bond Support Application and SDCTA Bond Support Criteria			
Criteria Item	Info Provided?	Criteria Met?	Comments
Education of Governing Board Members and Oversight Committee Members	Yes	Yes	1) The District’s School Board President and three members of the District’s Citizens’ Bond Oversight Committee have taken SDTEF’s courses on school bonds
Opposition to Special Elections			

Appendix A: Bond Project List

The specific projects authorized to be financed with proceeds of the bonds under the adopted resolution language are as follows:

1. Acquire and install classroom intrusion alarms, video surveillance cameras, safety locks on classroom doors, fencing, gates, related safety infrastructure, and exterior lighting for student safety.
2. Upgrade emergency communications, marquees, related infrastructure, and technology backup systems.
3. Update aging classrooms and facilities to meet current fire, seismic safety and disability access codes.
4. Improve student safety and traffic circulation by upgrading or providing additional school drop-off areas, safe paths of travel and parking facilities.
5. Resurface asphalt areas, patios and lunch areas to improve student safety.
6. Remove and abate hazardous materials such as asbestos and lead paint from school sites.
7. Upgrade and install classroom ventilation and air conditioning systems.
8. Improve or repair campus infrastructure, including replacement of outdated and deteriorating utility infrastructure, electrical, lighting, plumbing, heating, sewer and ventilation systems.
9. Perform code and regulatory compliance reviews for all school facilities and remediate non-conformance.
10. Repair or replace leaky roof systems.
11. Install, replace or update energy efficiency equipment and systems, including solar energy systems, to improve energy efficiency and implement sustainability and best/green energy practices.
12. Improve site accessibility and install ramps to meet disability access codes.
13. Improve site curb appeal by repairing, restoring or refreshing building interiors, exteriors, finishes and fixtures, hardscape and landscape, including signage and marquees.
14. Renovate and expand restrooms for students and staff.
15. Improve, add, or upgrade school site technology and infrastructure in order to enhance network-based content and curriculum delivery and network security; and acquire computer hardware for student use in the classroom that is current and up-to-date.
16. Build new or transform and upgrade existing spaces to ensure functional and safe kitchens, cafeterias, outdoor common areas, eating areas, and multi-purpose rooms.
17. Construct, install or repair outdoor shade structures, shelters and canopies for student comfort and safety.
18. Remove or demolish aging portable buildings and restrooms and replace with permanent construction.
19. Repair or replace natural and synthetic fields and associated facilities and scoreboards for safety and compliance.
20. Relocate and reconstruct or upgrade grounds and custodial yards/facilities, including utility support vehicles and equipment.
21. Acquire land and construct new schools.
22. Consolidate district operations by centralizing administrative programs and offices on single site for improved operational efficiency.
23. Perform major building systems repair and replacement as follows:



- Renovate, upgrade and/or repurpose existing classrooms, labs and buildings to accommodate 21st century learning methods.
- Construct new classrooms and classroom buildings, science labs, innovation and maker spaces, and career technology education spaces.
- Reconfigure and/or refurbish or replace athletic/physical education facilities, locker rooms, courts, fields, gymnasiums and accessory facilities.