



Citizens' Oversight Committee 2011 Annual Report to the Community

March 2012

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COC Duties

- Review Use of Bond Funds
- Document Appropriate Spending of Funds
- Inspect School Facilities & Grounds
- Report to the Community

COC Members

- Grier Graff *President*
- Ken Jensen, *Vice President*
- Mark Aikawa
- William Drum
- Rob Hendrickson
- Ward Lindenmayer
- Margaret Ovenden
- Dana Serleth
- Nava Shaham
- Cory Smegal

Letter from the Citizens' Oversight Committee

The Citizens' Oversight Committee for the Seismic Safety Bond Program (SSBP) is pleased to present our 2011 Annual Report to the community. The Committee, which was formed in June 2006, oversees the expenditure of SSBP funds and ensures that all expenditures are made for the purposes authorized by voters.

The COC is composed of individuals from local businesses, senior citizen organizations, organizations involved with schools, legal, technical, and financial advisors, as well as involved parents of children residing in the Piedmont Unified School District.

The COC reviewed summaries and reports of all expenditures made between July 1, 2010 and June 30, 2011 and determined that the use of SSBP funds as reported is appropriate. Additionally, the COC reviewed recent revisions to the Program budget, projections and project schedules. The committee also reviewed the current and anticipated State funding, revisions to the overall budget, and cash flow projections that are based on the future uncertainty of State matching funds.

The COC is a public body which generally meets each quarter. Regular and special meeting locations, dates and times are posted on the District website at www.pusdbond.org. The public is welcomed and encouraged to attend and participate in our meetings. A copy of the full report is available online and at the District Office.

Thank you for your support.

The Seismic Safety Bond Program Citizens' Oversight Committee

Seismic Safety Bond Program History

Before the Seismic Safety Bond Program, the Piedmont School District's facilities were a mixture of aging one-story and two-story buildings built between 1935 and 1996. All buildings are Field Act-approved, which means that they were built in compliance with the applicable school building codes at the time of construction but some structures do not comply with contemporary code requirements. Building codes changed dramatically after the 1971 San Fernando earthquake and again after the 1989 Loma Prieta and the 1994 Northridge earthquakes, when structural engineers studied how buildings performed during these major earthquakes and improved the building codes accordingly.

Between 2000 and 2005 two independent structural engineering reports identified Piedmont school buildings that would likely pose life safety risks in the event of a major earthquake on the nearby Hayward Fault. On March 7, 2006, Piedmont voters authorized the District to sell up to \$56 million in general obligation bonds to finance the repair, strengthening, and renovation of school buildings. Voter approval was based on comprehensive cost estimates developed by Vila Construction, the District's construction manager, and estimates concerning eligibility for State matching funds.

The District is eligible for State matching funds to help pay for the seismic strengthening, accessibility improvements and modernization of the school facilities. Eligibility is based on the age of buildings, student population, and past receipt of State modernization funds. At the start of the bond program, it was conservatively estimated that the District would be eligible to receive \$11 to \$13 million in State modernization funds. District consultants now believe the amount of eligibility is between \$14.9 and \$15.5 million.

The total budget for the Seismic Safety Bond Program is \$69,156,161, including bond funding (up to the maximum amount of \$56 million), State matching funds for facility modernization (estimated to be close to \$15 million), and City and community funds (\$1,200,000). The mix of funds will be used for seismic safety, enhanced accessibility and modernization. The construction phase started in 2009 and is expected to be completed in 2012.

The Seismic Safety Bonds are sold as needed to fund the bond projects. The District issued the first \$14,999,934 million in August 2006, and an additional \$19 million in October 2009 in long-term bonds. In May 2010, the District issued \$12 million in bond anticipation notes ("BANs"), leaving \$10 million available to issue. In January 2011, the District received an authorization from the State to issue the remaining \$10 million as Qualified School Construction Bonds, or "QSCBs," rather than capital appreciation bonds. QSCBs are essentially subsidized by the Federal stimulus package, which means that Piedmont taxpayers will save very significant interest payments as compared with conventional bond repayments.

The Impact of the State Budget Crisis

The State budget crisis has slowed the payment of matching funds to local school districts for seismic strengthening and facility modernization, including the estimated \$15 million to PUSD.

As a result, the Board of Education has had to consider whether and how to proceed with each phase of the SSBP without receiving State matching funds.

In 2008, PUSD determined there was sufficient local funding – bond funds plus contributions from the City of Piedmont and community members – to complete new construction of Havens and renovation of Ellen Driscoll Auditorium, the Piedmont High School, the Piedmont Middle School (fire safety) and the Maintenance Building. These projects were completed on schedule without receiving any State matching funds. However, some features of these projects were either “value-engineered” out or deferred, to reduce costs and thereby maximize the cash on hand, to make it possible to complete the next phase the SSBP. For example, installation of an ADA-compliant accessible elevator at PMS were deferred.

PUSD then used a combination of the remaining local funding, and the promise of bridge financing from Overaa if needed, to complete both the Wildwood project and design of the Beach project. During this phase, \$4.7 million of State matching funds was paid to PUSD, easing financial pressure on the SSBP and not requiring bridge financing. Nonetheless, several features of the Wildwood project were deferred to make it possible to undertake the final phase of the SSBP, Beach School. The deferred projects include replacement of the Wildwood roof and faulty HVAC systems.

PUSD then used a similar combination of the remaining cash on hand and the promise of bridge financing from Cahill Construction, if needed, to proceed with the Beach project. In proceeding with the Beach project the Board considering the strong likelihood of receipt of some State funding in late 2011 or early 2012. The Board anticipated that it might need to split the Beach project into two phases: Seismic strengthening and modernization of the school building to be completed in 2011/12; and site work and landscaping, including construction of new retaining walls and installation of a garden, to be completed during the summer of 2013.

In December 2011, the State released \$1 billion in bond proceeds to schools and PUSD received \$8.45 million from this allocation. PUSD has now received sufficient State funding to complete all outstanding projects, though the District is still owed as much as \$2.9 million in additional funds. The Beach project is currently on schedule for completion in August 2012.

Seismic Safety Bond Program Developments

The following is a partial list of Bond Program developments from July 1, 2010 through June 30, 2011. During that period, the District:

- Approved a Preliminary Services Agreement for \$99,000 with Overaa Construction in anticipation of approval of a lease-lease back contract.
- Approved the Site Lease, Site Agreement, and the Facilities Lease/Lease-Back Contract with Overaa Construction for the Wildwood project, with a Guaranteed Maximum Price (GMP) of \$4,715,000.00.
- Approved increases to the Wildwood project to \$5,127,661, due to changes in scope, unforeseen conditions, and conditions not reflected in the original plans.
- Approved Notices of Completion for Havens, Ellen Driscoll, the PHS Quad/Library Building, and PHS Student Center projects.
- Applied for and obtained a California Department of Education allocation of \$10,000,000 Qualified School Construction Bonds (QSCBs).
- Completed design development and obtained Division of the State Architect (DSA) approval for the Beach project.
- Approved the Site Lease, Site Agreement, and the Facilities Lease/Lease-Back Contract with Cahill Construction for the Beach project, with a GMP of \$7,258,865. The Agreement provided for additional financing as a contingency in the event of further delays in the payment of State matching funds. (NOTE: With the receipt of State matching money in December 2011, the District will not need to use the bridge financing from Cahill.)

The original budget of \$69.1 million for the bond program remains unchanged.

Oversight of Seismic Safety Bond Program

To oversee and ensure proper expenditure of bond funds, the COC is authorized to do the following:

- Actively review and report on the proper expenditure of taxpayers' money for school construction.
- Advise the public as to whether the school district is in compliance with the requirements of Article XIII A, Section (b)(3) of the California Constitution.
- Convene to provide oversight for (without limitation):
 - Ensuring that bond revenues are expended only for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities.
 - Ensuring that no funds are used for any teacher or administrator salaries or other school operating expenses.

- Receiving and reviewing copies of the annual independent Performance Audit required by Article XIII(A).
- Receiving and reviewing copies of the annual independent Financial Audit required by Article XIII(A).
- Inspecting school facilities and grounds to ensure bond funds are expended in compliance with Article XIII(A).
- Receiving and reviewing copies of any deferred maintenance proposals or plans developed by the school district.
- Reviewing efforts by the school district to maximize bond revenues by implementing cost saving measures.

The COC reviewed summaries and reports of all expenditures made between July 1, 2010 and June 30, 2011 and determined that the use of bond funds as reported is appropriate.

The individuals who served on the COC during the time period covered by this report, or who joined after the time period covered by the report but who participated in the review of expenditures, are: Grier Graff, Ken Jensen, Mark Aikawa, Philip Cardon, William Drum, Rob Hendrickson, Ward Lindenmayer, Margaret Ovenden, Dana Serleth, Nava Shaham, and Cory Smegal.

Seismic Safety Bond Program Expenditures through 6/30/11¹

<u>Revenue</u>	Prior Periods	Current Period	Total
	\$47,651,837	\$10,540,225	\$58,192,062
<u>Expenditures</u>	Prior Periods	Current Period	Total
	\$42,919,832	\$8,612,631	\$51,532,463

Audits

Article XIII of the California Constitution requires the District to complete (i) an annual Performance Audit and (ii) an annual Financial Audit of Seismic Safety Bond Program. These audits were conducted in conjunction with the District's own internal audit and are available for review at the District's Bond Website, <http://www.pusdbond.org/program/financial.html>.

The District's independent auditor, Vavrinek, Trine, Day (VDT) and Company, LLP, conducted its annual review of the Districts' financial statements of the Building Fund which captures all expenditures related to the Seismic Safety Bond Program. The audit findings conclude that "consistent with prior year findings, the financial statements are fairly presented and free of material misstatement." The audit findings note that:

1. The funds are kept and accounted for in a segregated fund;

¹ These figures represent audited financial information.

2. Cash is accounted for accurately and according to generally accepted U.S. accounting standards;
3. Strong internal controls are present;
4. District and state bidding processes are being following; and
5. Funds are spent in accordance with the bond authorization.

For More Information

If you would like additional information regarding the Seismic Safety Bond Program Program, please contact the Office of the Superintendent at (510) 594-2614.

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