

**NEWPORT-MESA UNIFIED SCHOOL DISTRICT
MEASURE F CITIZENS OVERSIGHT COMMITTEE**

**MINUTES AND REPORT OF THE MEETING OF
January 29, 2013**

The Citizens' Oversight Committee met on Tuesday, January 29, 2013, at the Roderick H. MacMillian Board Room, Education Center, 2985 A Bear Street, Costa Mesa, CA 92626

Members Present:

Judy Berry, At-Large Representative (Bona Fide Taxpayer's Organization – active member)
Cindy Brahs, Corona del Mar High School Zone
Kimberly Claytor, Newport Mesa Federation of Teachers (N-MFT) Representative
Sharon Comer, Board Appointee (Business Organization – active member)
Ben Koontz, Newport Harbor High School Zone
Guy Olguin, Newport Mesa Administrators Association (NMAA)
Eleanor Rebard, Classified, California School Employees Association (CSEA)
Tod Ridgeway, At-Large Representative (Business Organization – active member)
David Stiller, Board Appointee (Senior Citizens Organization – active member)
Mitch Vance, Corona del Mar High School Zone

Members Absent:

Tristan Aley, At-Large Representative
Suzanne Gauntlett, Harbor Council Parent Teachers Association (HCPTA)
Sandra Logiudice – Estancia High School Zone
Judy Mader, At-Large Representative
Vicki Snell, Harbor Council Parent Teachers Association (HCPTA)

Also Present:

Paul Reed, Deputy Superintendent and Chief Business Official
Patty Dreher, Executive Assistant
Tim Marsh, Administrative Director - Facilities, Maintenance and Operations
Jim Lamond – Director Facilities Development, Planning and Development

Project Management Team:

Craig Scaringi, Project Manager, CMHS
Bill Gray, Project Manager, CDHS

Handouts: Audit and Performance Report - June 30, 2012
 Measure F Expenditures-to date Report
 Measure F Budget Allocation Summary Report
 Timeline graph for Corona del Mar High School and Costa Mesa High School
 Projects

WELCOME AND INTRODUCTION

Deputy Superintendent and Chief Business Official Paul Reed indicated that there was a Quorum and Chair Mitch Vance opened the meeting at 7:04 p.m. Mr. Vance welcomed the committee and reviewed the duties of the Citizens Oversight Committee. Duties include the review of the annual independent financial audit and independent performance audit; review the planning, scheduling and budgeting of the projects funded by the bond proceeds and to represent the interest of the community through participation and guidance.

ADOPTION OF THE AGENDA AND APPROVAL OF MINUTES

Agenda for January 29, 2013 meeting was adopted as presented.

APPROVAL OF MINUTES

The minutes from the June 25, 2012 meeting were unanimously approved.

GENERAL OBLIGATION BONDS FINANCIAL AND PERFORMANCE AUDITS

Mr. Reed stated that one of the conditions in law for a Proposition 39 bond, which allows for a 55 percent voter approval for a general obligation bond program, is to have an annual performance and financial audit on the use of bond proceeds reported to the oversight committee. Ms. Shilo Gorospe from Vavrinek, Trine, Day & Co., LLP (VTD), auditors for the District, presented the June 30, 2012 Audit Report to the committee members for the General Obligation Bonds Election 2005, Series 2007 and 2011.

Ms. Gorospe stated that the audit report encompasses both the financial and performance audit for the District Building Fund (Measure F). The goal of the financial audit is to provide an opinion that the financial statements being presented are materially stated and the goals of the performance audit are to ensure that the funds of the bonds, the proceeds, are spent in accordance with the bond language. VTD goes through the process of risk assessment, review of internal controls, and sampling of transactions in order to provide the District with the results of their audit and issue their opinions which are stated in the annual report.

The financial audit, which represents the building funds specific to Prop 39, Measure F, is the first part of the report and the second part of the report is the actual independent auditors' report which states that VTD offers an "unqualified opinion". This "unqualified opinion" is the highest level of assurance VTD can provide in this report that the financial statements are fairly stated and that VTD did not have any adjustments or issues with the financial information that was audited.

Ms. Gorospe reported that part of the audit process is to review the internal controls for processing the financial transactions. There were no significant deficiencies, material weaknesses or internal control issues to report from this audit.

The performance report is separate from the financial report. VTD looks at expenditures specific to compliance with the ballot measure and bond language ensuring that the transactions and disbursements are compliant with the bond measures. Again there were no areas of non-compliance.

Ms. Gorospe explained that a sample of expenditures that occurred for fiscal year, starting July 1, 2011 and ending June 30, 2012, along with supporting documents, payment vouchers

and approvals behind the transactions are reviewed for compliance. Based on that sampling, which was over 40 percent of the total expenditures charged for the year, and due to the nature of the dollar amounts of the transactions, VTD is able to validate that the material transactions were compliant. A minimum number of 40 items and up to 100 items are reviewed to get a good representative of expenditures. The auditors review includes matching the general ledger expenditures to the warrant, back up materials and any documentation for the warrant including purchase orders, progress payments from the project management group and all the approvals that go with the warrant transaction.

To summarize, no findings occurred in the current or prior year.

Ms. Gorospe stated that the goal of the Independent Auditors' Report Letter is to provide the Board and the Citizens' Oversight Committee with a summary of the components that are in the audit report plus audit standards that apply but do not necessarily show up in the report. A clean letter to the Board and Citizens' Oversight Committee was received which indicates that there were no difficulties with management, disagreements, adjustments or audit findings.

Ms. Gorospe responded to the question of when the audit occurs by explaining that the process of the audit takes place in two to three phases over the course of the fiscal year. Performance and compliance issues are audited early on and carried through until the books are closed at the end of the fiscal year. Once the books are closed, the financials are reviewed. Two years are reported to ensure that if there were issues to report in a prior year, the committee would know if the issues had been corrected.

Ms. Gorospe was asked whether the District's bond issuance contained capital appreciation bonds (CABs), a topic in the news recently.

Mr. Reed responded to the question regarding capital appreciation bonds (CAB) that the four projects under Measure F do have capital appreciation bonds included in the funding structure. However, Mr. Reed further explained that despite the news coverage that CAB's have been and continue to be used by many governmental agencies as one of the tools of debt issuance. He explained that the tax rate for the combined Measure A and Measure F bonds was capped at the same rate property owners paid in 2005 which was \$18.87 per \$100,000 of assessed valuation (AV) of property. This cap is self-imposed by the Board and will not be increased by any action of the Board, such as selling additional bonds. The District has an overall bond ratio of repayment of amount to be repaid to that issued of 3.9 to 1, not the 10:1 highlighted for some school districts in the recent newspaper articles. Mr. Reed pointed out that communities tend to look at affordability in terms of how much they pay annually, not how much is paid over time, just as homeowners look at mortgages. In that regard the tax rate for the total bonds outstanding is no more expensive than that which was paid in 2005 alone for the Measure A debt. The Board of Education made a deliberate decision to sell the Measure F bonds in the more expensive form of CAB's so that the facilities to be built would be available years sooner, which kept faith with the voters who approved measure F in 2006. Selling bonds in the Recession could be done at lower rates while at the same time taking advantage of the competitive construction market. Both have been advantageous for the District.

Ms. Gorospe offered clarification of the standard language within the audit standards: “Unqualified” is used when there are no exceptions and no findings to report. A “Qualified” opinion means there is an exception and the exception is noted.

Action:

It was moved and seconded that the audit be accepted.

DISTRICT REPORT

Mr. Reed reported that all four projects have been bid and contracts have been awarded. All contractors are on-site or about to be on-site. From the District’s perspective regarding the projects under Measure F, the projects are on time and on budget.

Mr. Reed’s response to the question whether there is money left in this set of bonds for Davidson Field at Newport Harbor High School was that because the total cost for Davidson Field is unknown at this time, the District does not have a budget in place for Davidson Field within the Measure F accounting system. As each project under Measure F is completed, any remaining contingency funds in the projects are put back into the overall Measure F contingency budget for future projects such as Davidson Field.

Mr. Reed further explained that in 2007 a study was done to determine what would be needed to bring Davidson Field up to the level of Jim Scott Stadium. The key feature of the study was the intention of keeping the concrete bleachers which were built shortly after World War II. The 2007 estimate of \$11-12 million did not include the cost of new bleachers if the current bleachers are not structurally acceptable by today’s standards. The cost for this project would increase significantly if new bleachers have to be built or re-structured. Once the bleachers have been checked, the District will have a better idea of how much will be needed to fund the project.

Mr. Marsh responded to the question regarding the seating difference between Jim Scott versus Davidson Field that stadium seating at Davidson is 4500 and seating at Jim Scott is 2500 with bathrooms and access related to capacity.

PROJECT MANAGER REPORT

Mr. Scaringi reported that all four large projects have now been bid for the Costa Mesa High School and Corona del Mar High School theaters and enclaves. At Costa Mesa High School the enclave project was awarded to Swinnerton Builders and the theater project was awarded to Sinanian Development, Inc.

Costa Mesa High School:

Aerial views of Costa Mesa High School were shown with descriptions of where the projects are located on the campus. Foundations have been dug and electrical is starting soon. Structural steel will be erected sometime in April.

The summer of 2014 is the anticipated completion date for the theater and enclave buildings; however, not all smaller projects will be completed at this time. Modernization and/or demolition of existing buildings will take place after the enclave and theater buildings are completed as these buildings will continue to be used until the new buildings are ready for

use. Functions occupying the existing middle school now will move to the enclave when completed.

It is anticipated that the old Lyceum, or school theater, will be torn down after the new performing arts center is completed along with moving the photo lab and the ceramics/art station, sometime during the summer 2014. Entry way and front parking lot will also be completed in the summer of 2014.

Mr. Scaringi described the plans for a new entry that leads into the administration area, new store front window elevation to be more like an office environment. There will be fencing in place to guide everyone to the new front entry of the administration building which will include the addition of a new reception counter. Small projects to replace the low softball backstop with a higher wall to protect cars in the parking area will also be done in the summer of 2014.

Mr. Reed responded to the question regarding the length of time involved, that for a project of this size it is normal to take up to 1½ years from DSA plan approval to the actual completion of the project.

Mr. Scaringi responded to questions regarding the site and summer activities: Summer activities will likely be limited during the summer of 2013 due to power and water being shut down for periods of time for construction. Summer programs such as summer school and various sports programs will be moved to other sites as necessary. It was noted that the construction going on at Costa Mesa High School will not interfere with the Orange County Fair traffic as McCarthy will be working with traffic control for Arlington and Fairview during the fair as they have in previous years. It was also noted that there will be no public parking this year at Costa Mesa High School for the fair.

Modernization of existing buildings to include the front of the administration building and the facade of the windows will change in the administration building, new doors will be added and the lobby will have a reception counter. Functions in some of the classrooms will get moved to the enclaves and the remainder of the classrooms will be renovated for other uses.

Corona del Mar High School:

Mr. Scaringi showed aerial views of the Corona del Mar High School site showing the progress of the enclave project, which was awarded to KPRS, and the structural steel which is being erected. Pinner Construction was awarded the bid for the theater project.

The enclave project is expected to finish before the theater due to logistics of the campus and the front parking lot, front entry and modernization projects will be done towards the end of the project during the summer of 2014.

The elevator being built on the enclave site is for access to the three story classroom building and the two story laboratory building with an interconnecting bridge that will connect the two buildings.

Mr. Scaringi reviewed the fiscal numbers and also reported that due to the favorable pricing with the general contractors, previously budgeted dollars have now been taken out of program contingency and distributed into each of the individual projects.

Mr. Scaringi responded to the question regarding the differences in the cost of the projects at each of the high schools that the differences in the cost of these projects have to do with the peculiarities of each of the sites. Like projects were designed and built to the same sets of educational specifications as to features.

Costa Mesa has a bigger site area to work with but has more components involved such as site work including the front parking lot area, new clock tower, demolition of two existing buildings and the restoration of the parking lot after construction is completed. Corona del Mar required a re-location of the water system, however, due to an outdated water system, Costa Mesa required modernization of the much older water system. It was also necessary to build a new weight room at Corona del Mar as the previous weight room had to be torn down to make way for the new projects.

Question regarding how long the District was in DSA: approximately 14 months for Corona del Mar High School and a little longer for Costa Mesa High School. The major construction of the four projects will be done by September 2014 but smaller projects will be done during summer recess or as time permits.

The funding was reviewed as follows:

<u>Total Bond Dollars</u>	<u>Hardship Dollars from the State</u>	<u>Interest from Bond Dollars</u>	<u>Total Expenditures to Date</u>
\$70 million			
\$95 million	\$14.9 million	\$5.562 million	\$98,147 million

PEOPLE'S CHOICE

Next meeting will be May 7, 2013 in the Roderick H. MacMillian Board Room, Education Center, 2985-A Bear Street, Costa Mesa, CA 92626.

ADJOURNMENT

Chair Vance adjourned the meeting at 8:17 p.m.

These minutes are distributed to the members of the Measure F Citizens Oversight Committee and the community organizations represented in the District.