

Citizens' Bond Oversight Committee Meeting Measure J

Education Center Board Room
1901 Arena Boulevard

Monday, April 25, 2016 - 7:05 – 7:35 p.m.

The Purpose of the Committee is to inform the public at least annually concerning the expenditure of bond proceeds approved by the voters by issuing a written report. (Bylaws Section 2)

AGENDA

No Quorum
No Minutes
No Action Taken

I. ROLL CALL

II. COMMUNICATIONS

- a) Welcome/Introductions

III. PUBLIC COMMENTS

Presentations from the public are limited to two (two) minutes regarding any item that is within the Committee's subject matter jurisdiction. Please note that Government Code Section 54954.2(a) limits Committee Members responses to public comments.

IV. INFORMATION ITEMS

- a) Committee Membership
- b) 2015-16 Performance Audit RFP
- c) Measure J Projects and Financial Update
- d) Form 700

V. ACTION ITEMS

- a) Approve January 25, 2016 Meeting Minutes
- b) Election of Officers – Chair & Vice Chair (1-Year Term)
- c) Approve Establishing Finance Subcommittee and Assign Members
- d) Approve Meeting Dates for 2016-17

4th Monday 2016-17 school year:

August 22, 2016

October 24, 2016

January 23, 2017

April 24, 2017

VI. NEW BUSINESS

VII. FUTURE AGENDA ITEMS

VIII. ADJOURNMENT

Note: Assistance for the Disabled: Please contact the Deputy Superintendent's Office at (916) 567-5457 at least 24 hours before the scheduled Citizens' Bond Oversight Committee meeting to request disability-related accommodations in order to participate in the public Citizens' Bond Oversight Committee meeting at the Education Center.

Citizens' Bond Oversight Committee – Measure J

Education Center, Board Room
1901 Arena Boulevard, Sacramento

Monday, January 25, 2016 – 7:15 PM

MINUTES - draft

1. ROLL CALL

Present:	Committee Members	Staff	
	David Kawada	Anita Lopez	Paul Anderson
	Danielle Marshall	Christopher McGreal	Mark Covington
	Jennifer Slay	Eric Stern	Sherry Duschka
			Brenda Monson
			Jennifer Mellor
			William C. Young
Absent:	Carol Fieldhouse	Christina B. McCaskill	
	Joe Julio		

Meeting called to order by Chair, Christopher McGreal at 7:15 p.m. and established a quorum with 5 members in attendance. (Member Danielle Marshall arrived late - 6 members attending.)

II. COMMUNICATIONS

a) Welcome/Introductions

Bill Young welcomed attendees and extended regrets for missing the last meeting due to illness. He introduced Brian Quint, District Bond Counsel for Measure J and explained that some good questions came up at the last Measure D meeting. Mr. Quint was invited to attend this meeting to help answer specific questions.

III. PUBLIC COMMENTS – None

IV. INFORMATION ITEMS

a) Committee Member Status

Bill Young reported that Measure J continues to advertise for a new CBOC member to fill the Tax Payers' Organization vacancy. He added that everyone is a recruiter and encouraged members to continue to spread the word in the community about the opportunity to apply to serve on the committee.

b) Measure J Projects and Financial Update

Mark Covington reported the following as projects move forward:

201 New School Facility (STAR Academy): Currently under construction.

202 New School Facility (Westlake Charter): Plans are at DSA (Division of State Architecture); approved plans are expected back as early as the end of February.

207 Security Cameras: Evaluating types of cameras continues to prepare for district-wide upgrades to security cameras.

208, 209 Bannon Creek Conversion: Site Work Portion and the Building Portion have been submitted to DSA for State review. The Site Work Portion (includes demolishing the existing buildings, grading and infrastructure work) is expected out of DSA in the coming weeks. With that timeline, the project bid will follow and be on track for Board approval of a contract at the March 9, 2016 Board meeting. Site Work would begin this summer.

210 Exterior Lighting Upgrade: In the evaluation stages; funding is a combination of Measure J and Maintenance funds.

2011, 219 Leroy Greene Academy Renovation: Upgrades to a 21st Century Science Labs and converting the Library to a Business Unit. Plans were submitted to DSA mid-December. Wiring upgrades will also be done, which is part of Measure D.

212, 213 New Classroom Building (Heron School): In the design phase.

215 Library Upgrade (Two Rivers Elementary): In the design phase.

214 Science Lab Upgrade (Natomas High School): Submitted to DSA 3 days ago (last Friday)

216 CTE Facilities (Natomas High School): Submitted to DSA 3 days ago (last Friday). Plan approval at DSA is typically a 4 to 5 month approval process.

217 Renovation (Discovery High School): In the design phase. A 3,000 square feet extension to existing building to support the new Culinary Program.

218 New Classroom Building (Natomas Park Elementary): In the design phase. A 2-story classroom building.

219 Hardscape Repairs: In the design phase.

Financial/Expenditure Report: Mark Covington reported that the financial reports are prepared in the Facilities department with support from Business Services, which is a shift to track the project expenditures in conjunction with project activity. This keeps one main budget/expenditure database and maintains efficiency in reporting. He walked members through the format of the new report and noted the year to date (as of Dec. 31, 2015) expenditures to be \$4,375,996. Jennifer Slay asked if the DSA plan approval process is quicker for renovation projects. Mark Covington said it depends on if DSA has a backlog of projects in line; but it is possible for renovation projects to take less than 4 months. He added that they generally plan for a 4 month turn around for DSA approval. Paul Anderson explained that anything with a structure takes longer at DSA.

c) 2015-16 Performance Audit Firm Search and Selection Process

Bill Young explained that the Request for Proposal (RFP) is being prepared (for both Measure D and Measure J) and will be shared with Measure J committee members once it is finalized. He asked committee members to notify staff if they are interested in serving on the review and interview teams. He noted that while the audit firm of Crowe Horwath will continue to conducting the

District audit for 2015-16, they will not be doing the 2015-16 Performance Audits for Measures D or J. Jennifer Slay asked whether the District intends for the Measure D and J audits to be conducted by one firm. Bill Young explained that in some cases, there is a cost savings when one firm conducts both audits and it could be the same company for both Measure D and J; but it depends on the proposals that come in.

d) Certificates of Participation (COPs)

In response to questions that came up at the November meeting, Bill Young spoke to the committee about what steps led up to, what was shared with the Board and what actions the Board of Trustees took regarding the COP that was issued as well as the considerations behind the Board's decision to go with a COP to begin projects district wide. He explained that with Measure J, the message to the community was grounded on a platform to serve all our kids, all our schools; and as shown in the project status report the Board's intentions to touch every site that needs work. He explained that the \$129,000,000 Measure J Bond will only cover about one-third of the FMP projects. Over a 10-year plan the District will look at how to tackle funding the other two-thirds. Bill Young explained that a 4-part series to transition out of the building moratorium was shared publically and presented to the Board of Trustees (August 2014 through December 2014). The 3-part series that followed "FMP Implementations" (February 2015 – April 2015) focused on the financial challenges of implementing the FMP along with recommendations to meet the objectives of the FMP after the moratorium is (was) lifted.

Mark Covington continued by explaining that the objectives of the 3-part implementation series presentations were to 1) articulate to the Board funding realities as strategies are developed for implementation of the 2014 Facilities Master Plan over the next few years and to 2) articulate to our stakeholders there is a need for additional funding in order to support all the work outlined in the 2014 Facilities Master Plan. Staff recommendations were presented from the 2014 Facilities Master Plan. The three (3) areas for initial implementation were: 1) Address Safety and Security at all schools 2) Construction of three new schools 3) Staff recommended, Trustee approved, immediate Facility needs and FMP projects. It was reported that there wasn't enough money to fund everything in those categories without bridge financing options. He reminded the committee that not all of Measure J funds are available at once; even so - the entire \$129 million doesn't cover all FMP identified facility needs. He explained that all the information being shared tonight is available on the District website. The FMP is available on the District website under the Facilities & Strategic Planning link. All other presentations are found under the Board Meeting Information link (refer to date ranges given earlier by Bill Young).

Bill Young reported that agreements for new facilities with our Charters have been in place for some time. Those agreements played a role in the Board's rationale when considering funding options to implement the FMP. Addressing immediate safety and security needs and planning for district growth also played a part. In addition to the Charter schools, a new elementary school and property purchases for future schools are necessary to be poised and ready for the student growth.

Mark Covington explained that the Board of Trustees approved pursuing a State waiver that allowed the District to increase its bonding capacity from 2.5% to 3% on the first issue of Measure J. This first issue of Measure J bond funds, inclusive of a State waiver, was released to the District on July 30, 2015 in the amount of \$69M. The District worked closely with Financial Advisors and resulted in the first issuance of \$69M versus \$27M. The waiver was a step at bridging the funding gap that was expected in 2016 and provided the funds to begin implementation of prioritized FMP projects. Bill Young pointed out that \$27M wasn't enough to build even 1 of the new schools. We were faced with waiting until 2017 for the next issuance and watching construction costs escalate. In order to move forward it required getting creative, looking at bridge financing so projects can get started now.

Mark Covington reminded the group that without a State voter approved bond, the district didn't receive any funds from the State. Districts used to count on State funding to cover up to 1/3 of project costs – which means in order to move forward to house students, Natomas has to find other means to support project costs. He explained that last year, the planning and speculation collectively done with staff, the board and financial advisors took place with “unknown” factors; and meant speculating how to move forward IF the moratorium lifted and facing the uncertainty of State funding. Staff shared the challenges with the Board and funding options that were explored to address the \$28M shortfall (without matching funds from the State):

- Certificates of Participation (COP)
- Lease Leaseback (LLB) - used on the Inderkum project
- Bond Anticipation Notes (BAN) (not recommended to the Board)
- State Waivers (Earlier Issuance of bond funds)
- WLC proposed using a group that builds schools for less (lack of experience in public school projects)
- Supported NCS Charter \$8.6 M Grant that was applied for (still potential; on a waiting list – and would be way down the line)

In summary, the Board directed staff to begin design on projects and place in que for State funding; discussed covering funding and approved the COP; followed by the State Waiver that resulted in the \$69M on the first issuance allowing work to start right away to touch all campus and address immediate needs. Bill Young explained that by paying off the COP in 2 years, interest costs could be held to \$610,000. Waiting 2 years could cost over \$2M due to (construction) escalation costs. He indicated the District is considering COPs with early payback for future funding and said without a State bond, Developer Fees and Bonds are the only options to fund growth. Mark Covington noted that District projects are currently being submitted for State funds, should a State bond pass.

Anita Lopez asked why the BAN was not an option. Bill Young explained that it comes with a higher interest rate and shorter term (15-yr); and indicated the COP interest rate escalates over time from 2 to 3 ½ percent over 25 years. Eric Stern thanked staff for the presentation and encouraged staff to share future Governing Board presentations with the Citizens' Bond Oversight Committees. He asked if Board Meetings meetings are videotaped or have audio recordings available to the public. Bill Young said not yet. Mark Covington noted the March 11th Board Meeting date and indicated that the COP was approved on April 29th; as Resolution 15-12. Eric Stern asked what conversation

the Board had in regards to weighing the risks of not doing anything, versus the grant money not coming in for the Star Academy. Bill Young said the Board minutes will best capture that discussion, but recalls the discussion was heavy to look at enrollment and housing kids without a new school, how to tackle immediate safety/security needs; and at that time only \$27M was available on the first sale. The housing development pace was unknown. The city has caps on number of building permits for development (residential, single family, multi-family, commercial) with a rolling cap; there could potentially be 2,500 permits issued next year. The growth is happening but not as fast as it was 10-15 years ago; but growth is coming and the new schools are needed. Eric Stern asked to confirm that the \$10M shown as reserve to COPs payments (on the financial report) is similar to when Measure D funds were used to repay on a COP. Jennifer Slay indicated that was on the Inderkum project. Bill Young explained that Inderkum was also a Lease Leaseback (LLB) model. With statewide LLB concerns brought about with Fresno Unified, the District was cautious not to consider LLB until that gets resolved. He added that LLB includes some kind of financing mechanism – such as a COP. In response to questions about Financial Advisors, Bill Young reported that Lori Raineri and her team at Government Financial Strategies, Inc. have helped the District for a number of years and taken advantage of lower interest rates on refunding bonds for cost savings. Lori Raineri can attend a future meeting to help answer questions if wanted. Bill Young concluded that the information provided was prepared to give an overview of the path to launch the many projects underway for Measure J and noted that the \$69M will go pretty quick.

Jennifer Slay asked if the money has already been borrowed. Bill Young said it's been borrowed and is being expended on the STAR Academy; noting that is two-thirds cost of project. Chris McGreal inquired about waiting one year and defer that interest in case the Grant is approved. Bill Young explained that it was prudent to be cautious knowing the uncertainty of the grant and trying to squeeze in all the projects in the two year time frame. He said the option to defer was explored but that meant holding up what needs to be done now for another year or more and would add escalation costs. Christopher McGreal asked if the \$10 M Reserve on the financial report included interest. Mark Covington said yes and explained that numbers have been rounded and flexible for contingency. Responding to a question about start of school/project completion on the STAR Academy, Paul Anderson reported that a staggered opening will open the Administration building earlier than the classrooms, followed by the Multi-Purpose room. Bill Young noted that schedules could be impacted by the rain.

Anita Lopez asked about funding for the Westlake Charter School project. Bill Young said the Board is looking at various options to bridge that gap in funding of the second sale in 2018; and at some point, as a community, we may potentially look at another bond. The third school could possible go with the LLB funding model if those issues are squared away by then. Other needs that go beyond what is covered with J may include another middle school campus and possible boundary changes or new building due to the enrollment impact at Inderkum HS, look at Natomas HS and other areas of growth.

Eric Stern inquired about how the \$30 M (future issuances) in Measure D fits with future Bond plans. Bill Young explained that it affects bonding capacity and that sale is 3 to 4 years out.

e) Discussion: Adding a Finance Committee

Eric Stern explained that this group is looking at establishing a Finance Subcommittee. He acknowledged the efforts of Board of Trustees and staff last year on how to finance a very ambitious FMP and recognizes the needs are very real. He continued to say that it's a good time to move forward with the subcommittee on finance. He noted that like everyone else living in Natomas he's happy to see the Moratorium lifted and getting at NCS into a new school facility. He suggested that other subcommittees be added later as new business before the STAR Academy and other projects are finished. He explained that he envisions audit reports coming from the Finance Subcommittee that present a summary (and be on record) that the Finance Committee has reviewed the financing plans being discussed by the District and share that they (the Subcommittee) have had these conversations with staff about balancing out the expectations of the voters with the facility needs and financing options, including reporting on what steps are being taken (by the District) in regards to applying for State Waivers, BANs, COPs and any other means to financially bridge the gap. He explained that he considers it a function of the Bond Oversight Committee to actively review financial matters with the District and let the tax payers (who approve the bonds) know that we're not just looking at bond expenditures, but actively reviewing the steps taken by the District in regards to financing. He noted that the report doesn't have to be critical or contrary to the Districts' findings, but stated it's good to let them know that the CBOC has looked at what's being done since there is a lot of money and risks involved; and report that the District has weighed those risks. He added that if there were comments to make, they could be made in the report or not. He asked for a sense of whether the group felt it was okay to move forward tonight or wait for a later meeting. Both Jennifer Slay and Bill Young indicated it's on the agenda as information tonight and action would need to occur at the next meeting. Eric Stern agreed it will be put on the next meeting agenda. Bill Young said he is trying to get a better understanding and asked what the parameters of the Subcommittee would be; clarifying to be sure it's understood that he's not arguing against it, just wants to understand it. Jennifer Slay said that instead of an audit report on how the money is being spent, the Finance Subcommittee would report on the financing that the District is planning to use through the lens of Measure J. She used tonight's discussion on COPs as an example explaining that someone from the Finance Committee would meet with Bill Young or Mark Covington to discuss what the Board is looking at or has approved on the COP; then report back to the CBOC (on behalf of the Finance Subcommittee) from what they reviewed from Board of Trustee meeting minutes and/or meetings with District staff. Eric Stern added that his recommendation would be to establish the standing Finance Subcommittee as an adhoc committee to meet on occasion as needed and have a couple people assigned to it. He added that because we only meet quarterly, this action has to wait for another 3 months before being approved, but with the Finance Subcommittee - as a work group - they could be reviewing finance matters during that time. He explained that the scope of the work group would be open ended, to review issues on an adhoc basis, as opposed to the current method of Audit Committees that require a work group to be run through the agenda every time. Jennifer Slay asked if that made things clearer for Bill. Bill Young explained that he has a better understanding and is trying to wrap it back to the actual responsibilities of the CBOC and the law. He commended the group for their efforts and work on the expenditure oversight piece and invited Brian Quint to add his own questions or comments. Bill Young also explained that the finance piece is run through public forum with the Governing Board. Eric Stern firmly stated that it's within the CBOC purview to establish a standing finance subcommittee and if it's approved to do so, stated

Bill Young can take exception to it, but restated that the CBOC is entitled to establish any kind of subcommittee they choose. Eric Stern referenced the line item on the financial report showing the COPS payment and noted that he and the group are entitled to make comments on it. He was resolute that the District is trying to stifle conversation. Bill Young explained that since he missed the last meeting - where this was discussed - he was trying to understand it all. Eric Stern disagreed and indicated he sees it as the District questioning whether the CBOC is authorized to review the finances of the District on bond financing and asked that it be on the record that he finds it to be absurd. He added that should there be a question about whether the CBOC is authorized to review and comment, it's best to error on the side of transparency and accountability. Eric Stern continued by stating this item will be on the next agenda, and the minutes will need to note that the District is questioning the CBOC authority to have the Finance Subcommittee.

Christopher McGreal asked if there were any other comments. Brian Quint sought clarification asking if it is more a sense of reporting to the committee the discussions at the Board level on financing alternatives. Eric Stern indicated he doesn't believe that question is relevant – explaining that what they intend to do with the information as a Finance Subcommittee doesn't matter, adding that he doesn't like that line of questioning. Bill Young informed the committee that he will take this back and report to the Superintendent and Board. He said he's trying get an understanding of the purpose of the Finance Subcommittee so that he can share it with the Governing Board and Superintendent as we move forward with the CBOC. He explained that it's not ill intended and he's tried to inquire in the most respectful way that he can; adding that it's within his right to ask questions and seek clarification. Eric Stern responded that he communicated his intent to have a standing Finance Subcommittee that would periodically review issues about bond issues and financing of the projects that are supposed to be used for the bond proceeds including backfilling alternative financing with bond proceeds similar to when Measure D proceeds were used for payments to backfill a COP. Bill Young ask for some history on this and whether anyone recalled similar Finance Subcommittees groups from other CBOCs. Jennifer Slay replied that there was evidence in a report on Measure D, in which someone looked at COP payments as expenditures, but not as part of a Finance Subcommittee. Eric Stern indicated the first work product out of the Finance Subcommittee will be to summary of the lengthy discussions held at the last two meetings regarding reserve for COPS payments. He is concerned the public doesn't realize that Measure J is only going to stretch so far, adding it would good to have the long-term plan it on record. He would like to see the District support and encourage the CBOC to ask these questions about work the District is doing the financing areas. Bill Young responded that the flow of information hasn't been blocked and indicated that bringing the presentation on COPs tonight was a direct response to the questions asked at the last meeting. The District has been as open and transparent as possible during these meetings; and while it is perceived as being a block, he's trying to understand. He reminded the group that the meetings and minutes are open to the public, and emphasized that there are opportunities for the public to get this information from both Bond Oversight Committee meetings as well as public Board meetings. He indicated the District has pushed out as much communication as possible to let the voters know their approval to pass Measure J was much appreciated, but it's not enough moving into the future as growth continues. He noted that concerns have been addressed and deferred to the chair to take the next steps. He thanked Eric Stern for sharing the purpose of the committee and noted that no ill intention was intended for him to quickly take that position.

V. ACTION ITEMS

A. Approve Meeting Minutes for November 2, 2015

Eric Stern moved to approve the November 2, 2015 meeting minutes. Motion seconded by Anita Lopez. Discussion followed to amend the minutes replacing the phrase "There was some confusion from the committee about why there was a COP issued when the voters approved the Measure J bond to use for funding these projects" with "Committee members asked why there was a COP issued when the voters approved the Measure J bond to use for funding these projects". Further discussion was held whether to amend Jennifer Slay's comment regarding the timing on the issuance of the COP. Ms. Slay said the minutes accurately reflect her comments at the meeting. Motion to approve (with one amendment) carried 6-0.

VI. NEW BUSINESS

VIII. FUTURE COMMITTEE AGENDA ITEMS

Approve Proposal to Establish Standing Finance Subcommittee and Assign Members Election of Officers

2016-17 Meeting Schedule

Discussion was held about whether the STAR Academy project is ready for an audit review. Mark Covington explained that typically the audits occurring after the dollars are expended. Sherry Duschka added that historically, the audit is done when 90% of the payments are expended. Eric Stern suggested assigning a standing subcommittee to review procurement, the bid process and construction to date. Jennifer Slay indicated that preconstruction work and bid process are under Measure D. Jennifer Slay reported that no projects are at 90% -ready for audits yet.

VIII. ADJOURNMENT

Committee Chair Christopher McGreal adjourned the meeting at 8:16 p.m. and announced the next meeting will be held April 25, 2016.

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