



# MEASURE M BOND PROGRAM: ANNUAL REPORT

The independent Measure M Citizens' Bond Oversight Committee is pleased to submit its third annual report to the public.

June 1, 2023

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## Introduction

The Measure M Citizens' Oversight Committee (Committee) is pleased to submit its fourth annual report, as required by Section 15280 of the Education Code. We are using the same format and carrying over some of our comments from previous reports. This report covers Measure M expenditures and activities from July 1, 2022, through January 31, 2023.<sup>1</sup>

### MEASURE M BACKGROUND

On November 7, 2000, California voters approved the statewide ballot measure Proposition 39, also known as the *Smaller Classes, Safer Schools, and Financial Accountability Act*. This measure amended the California Constitution by lowering the voter approval threshold for local school facilities construction bonds from a two-thirds supermajority to a 55% majority. The measure also required that Proposition 39 bond funds be spent only for constructing, reconstructing, rehabilitating, or replacing school facilities and equipping school facilities or for acquiring or leasing real property for school facilities. Further, Proposition 39 prohibits the proceeds from these bonds from being used for teacher or administrator salaries. The issuing district must perform independent financial and performance audits of the bond funds.

After the approval of Proposition 39, the California Legislature passed, and the then-governor signed Assembly Bill 1908 (Chapter 44 Statutes of 2000) to require additional accountability and oversight measures. Among other things, this included that any district that issues Proposition 39 bonds establish and appoint an independent citizens' oversight committee tasked with providing the public assurance that school facilities construction bond proceeds are spent in compliance with applicable laws.

On November 6, 2018, voters residing within the Davis Joint Unified School District (District) passed Measure M, a \$150,900,000 Proposition 39 school bond measure, which authorized funding for school construction projects and upgrades. Measure M passed with 74% voter approval.

The voter-approved Measure M ballot summary reads:

*"To update classrooms, science/innovation labs, and facilities to meet current academic standards, improve accessibility for students, upgrade school safety/security, keep schools well-maintained, and modernize classroom learning technology, shall Davis Joint Unified School District issue \$150,900,000 in bonds, at legal interest rates, raising \$11,000,000 on average annually to repay bonds while outstanding, at an estimated rate*

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<sup>1</sup> Our review period includes the District's fiscal year 2020-21, which ended on June 30, 2021, and mid-year expenditures for the 2021-22 fiscal year, through January 31, 2022. We also reviewed expenditure records maintained by the Facilities Department through March 28, 2022

## Measure M Citizens' Bond Oversight Committee Annual Report

*of \$60 per \$100,000 of assessed value, with citizen oversight, annual audits, no funds for administrator salaries, and funds staying local[.].”*

The full text of Measure M can be found on the District’s website (<https://www.djUSD.net>) and contains a complete list of the types of projects that may be funded with Measure M bond proceeds.

On March 14, 2019, the first bond sale was completed for \$50.3 million to fund Series 1 Measure M projects, based on priorities set by the Board from among the types of projects listed in Measure M. The bonds have interest rates ranging from 3.5% to 5%, maturing on August 1, 2047. On April 28, 2020, the District completed a second bond sale, providing the District with an additional \$100.6 million for Measure M projects. The bonds from the second sale have an interest rate ranging from 3% to 5%, maturing on August 1, 2043.

The balance sheet for Measure M, as reflected in the independent financial audit for the fiscal year 2019-20 (July 1, 2020, through June 30, 2021), is as follows:

DAVIS JOINT UNIFIED SCHOOL DISTRICT  
MEASURE M GENERAL OBLIGATION BONDS  
BALANCE SHEET  
June 30, 2023

### ASSETS

Cash in County Treasury	\$ 78,671,384
Total assets	<hr/> \$ 78,671,384

### LIABILITIES AND FUND BALANCE

#### Liabilities:

Accounts payable	\$ 2,504,397
Due to other funds	23,367

Total liabilities	<hr/> \$ 2,527,746
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Fund Balance-restricted	\$ 76,143,620
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Total liabilities and fund balance	<hr/> \$ 78,671,384
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## Measure M Citizens' Bond Oversight Committee Annual Report

The statement of revenues, expenditures, and change in fund balance as of June 30, 2022, is shown below.

DAVIS JOINT UNIFIED SCHOOL DISTRICT  
MEASURE M GENERAL OBLIGATION BONDS  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGE IN FUND BALANCE  
For the Year Ended June 30, 2022

Revenues:	
Other local sources	\$ 668,008
Net decrease in fair values of cash in county Treasury	<u>(1,545,522)</u>
Total revenue	<u>(877,514)</u>
Expenditures:	
Classified salaries*	484,166
Employee benefits*	182,346
Books and Supplies	231,596
Contract services and operating expenditures	2,277,003
Capital outlay	<u>48,855,942</u>
Total expenditures	<u>52,031,053</u>
Change in fund balance	(52,908,567)
Fund balance July 1, 2021	<u>129,052,187</u>
Fund balance June 30, 2022	<u>\$76,143,620</u>

\* These expenditures are permissible. As we explain later in the report, the California Attorney General has advised that Proposition 39 bond funds may be used to support the salaries and benefits of administrative staff that work on the bond program.

## Measure M Citizens' Bond Oversight Committee Annual Report

The statement of revenues, expenditures, and the change in the Measure M fund balance, as reflected in the second interim report issued by the District as of January 31, 2023, is as follows:

DAVIS JOINT UNIFIED SCHOOL DISTRICT  
MEASURE M GENERAL OBLIGATION BONDS  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGE IN FUND BALANCE  
(Unaudited) For the Period Ending January 31, 2023

Revenues:	
Other state sources	\$ 44,618
Other local sources	<u>7,466,954</u>
Total revenue	<u>7,511,572</u>
Expenditures	
Classified salaries*	-
Employee benefits*	-
Books and supplies	-
Contract services and operating expenditures	-
Capital outlay	-
Other Outgo (excluding Transfers of Indirect costs)	<u>7,458,881</u>
Total expenditures	<u>7,458,881</u>
Deficiencies of revenues over expenditures	52,691
Other financing sources:	
Proceeds from the issuance of debt	<u>-</u>
Change in fund balance	52,691
Fund balance June 30, 2022	<u>\$6,582,346</u>
Fund balance January 31, 2023	<u>\$6,731,603</u>

\* These expenditures are permissible. As we explain later in the report, the California Attorney General has advised that Proposition 39 bond funds may be used to support the salaries and benefits of administrative staff that work on the bond program.

## EXECUTIVE SUMMARY

Based on our activities and the information we reviewed during this period, our overall conclusions are as follows:

The District complied with the various procedural requirements of Proposition 39 throughout this period. These include, among others, maintaining an independent oversight committee and conducting independent financial and performance audits.

We conclude that Measure M expenditures in the 2021-22 fiscal year were allowable and consistent with applicable provisions of the California Constitution and Measure M.

Although expenditures after the close of the 2021-22 fiscal year through January 31, 2023, have not yet been audited by the District's independent auditor, we conclude that those expenditures were also allowable. We describe the review and analysis that allowed us to reach this conclusion later in this report.

We remain concerned the District had in the past made interest-free loans from the Building Fund, which contains the proceeds from the sale of Measure M Bonds. Making short-term loans from this fund is permissible for the District, potentially maintaining the bonds' tax-exempt status and ability to pass future bond issues. While making short-term loans from this fund is permissible, we interpret applicable law to require that the loan and the fundamental rules of finance and lending be repaid with the amount of interest the loaned money would have earned if it had remained in the fund. The District, to date, has refused to adopt our recommendation that it modifies District policy to require the payment of interest on these loans.

We wrote last year: "To be blunter, this policy has diminished the purchasing power of the bonds to an extent estimated at more than \$182,000" by the end of FY20-21. See the calculations made by District staff in Appendix A of last year's report and included in this report as well. We asked District staff to update the estimated loss of interest earnings through the end of the last fiscal year by completing a similar set of calculations through FY21-22. That request was not honored.

Concerning whether the District is taking appropriate steps to maximize the use of Measure M bond funds, our conclusion in this area is that the District is effectively using best practices to manage its construction projects and related expenditures to maximize the use of Measure M funds. We commend the District for its ability to minimize labor and material costs impacts due to the COVID-19 Pandemic and construction inflation impacts by employing effective and efficient contracting practices.

## Measure M Independent Oversight Committee

A key accountability measure in Proposition 39 is the requirement to form an independent citizens' oversight committee with a prescribed composition and specified roles and responsibilities. That committee must meet regularly, in compliance with the applicable open meeting law, and must report at least once annually to the public.

### COMMITTEE MEMBERSHIP

Proposition 39 provides that the Committee shall have at least seven members who shall serve for a minimum of two years and no more than three consecutive terms. The Education Code requires that five of the members represent specific constituencies, as follows:

- 1 member must be an active member of the business community.
- 1 member must be active in a senior citizens' organization.
- 1 member shall be active in a bona fide taxpayers' organization.
- 1 member shall be the parent or guardian of a student enrolled in the District's schools.
- 1 member shall be the parent or guardian of a student enrolled in the District's schools and active in a parent-teacher organization.

In addition, no employee or officer of the District may serve on the Committee, nor may any vendor, contractor or consultant of the District serve on the Committee.

On February 7, 2019, after conducting an open application process, the Board appointed nine members to serve on the Committee. Of the nine, four members were initially set to serve one-year terms, and five were assigned to two-year terms. On February 6, 2020, the Board extended the initial term of the four one-year term members by an additional two years to conform to the controlling statutory provisions. The Board has continued to fill vacant seats or extend terms as needed.

The Committee met approximately quarterly or as needed. The meetings were open to the public and conducted by the Ralph M. Brown Act (Gov. Code § 54950 *et seq.*). The Committee will exist until bond proceeds are fully expended.



Measure M Citizens' Bond Oversight Committee Annual Report

Member	Constituency Represented	Term Expires
Bret Hewitt (Immediate Past Chair)	Senior citizens' organization	5/2023
Ken Nason (Current Chair)	Parent	5/2024
Andrew Cullen (Immediate Past Vice-Chair)	At large	5/2025
Linda Lingbloom (Current Vice-Chair)	Parent/PTA	5/2025
Grace Bassett	At large	5/2023
Jim Belenis	Business	5/2023
Amanda Cattivera	Taxpayer organization	5/2025
Alan Fernandez	Parent	5/2025
Jim Knight	Business	5/2025
Jeff Lee	Parent	5/2025
Michael Lehner	At large	5/2024

## COMMITTEE ROLES AND RESPONSIBILITIES

Section 15278 of the Education Code (Section 15278) sets out the responsibilities of the Measure M Citizen's Oversight Committee. The core responsibility of the Committee is to actively review and report on the proper expenditure of taxpayer money for school construction.

Section 15278 requires that the committee convene to provide oversight for, but not limited to, the following:

- Ensuring that bond revenues are expended only for the purposes described in paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution (see textbox)
- Ensuring no funds are used for teacher or administrative salaries or other school operating expenses.

In furtherance of the requirement that the Committee actively review and report on bond expenditures, Section 15278 explicitly authorizes the committee to undertake certain activities:

(1) Receiving and reviewing copies of the annual, independent performance audit required by subparagraph (C) of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution.

(2) Receiving and reviewing copies of the annual, independent financial audit required by subparagraph (C) of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution.

(3) Inspecting school facilities and grounds to ensure that bond revenues are expended in compliance with the requirements of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution.

(4) Receiving and reviewing copies of any deferred maintenance proposals or plans developed by a school district or community college district, including any reports required by Section 17584.1.

(5) Reviewing efforts by the school district or community college district to maximize bond revenues by implementing cost-saving measures, including, but not limited to, all the following:

(A) Mechanisms designed to reduce the costs of professional fees.

(B) Mechanisms designed to reduce the costs of site preparation.

## Prop 39

## Constitutional Requirements

-Bond proceeds may be used only for 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.

-Bond proceeds may not be used for teacher and administrator salaries and other school operating expenses.

-Bond measure must contain a list of the specific school facilities projects to be funded and certification that the school district board has evaluated safety, class size reduction, and information technology needs.

-The school district board must conduct annual, independent financial and performance audits to ensure that the funds have been expended only on the specific projects listed.

(C) Recommendations regarding the joint use of core facilities.

(D) Mechanisms designed to reduce costs by incorporating efficiencies in school site design.

(E) Recommendations regarding using cost-effective and efficient reusable facility plans.

Other provisions of the Education Code require that the issuing district provide the necessary support to its bond oversight committee and prohibit the expenditure of bond funds from supporting the oversight committee (Educ. Code § 15280).

In performing our role as an independent oversight committee, we considered these requirements in the California Constitution and the Education Code to guide our work and analysis. Two fundamental questions directed the Committee:

1. Is this Measure M expenditure or use consistent with the purposes outlined in the California Constitution and voter-approved Measure M?
2. Is the District taking reasonable measures to maximize the use of Measure bond funds?

## ACTIVITIES OF THE MEASURE M CITIZENS' OVERSIGHT COMMITTEE

The Committee's activities during this period included the following:

- Receiving information on the contracting methods used by the district to spend Measure M funds.
- Receiving updates on proposed budgets for Measure M projects and the status of those projects.
- Receiving information regarding expenditures on construction projects.
- Reviewing the unaudited actuals for Measure M bond proceeds for the 2019-20 fiscal year.
- Reviewing the financial and performance audits that covered the fiscal year from July 1, 2019, to June 30, 2020.

The three subsequent reports were generally written by the Committee as a whole and followed the same format with updates regarding the progress of building projects and the ongoing matter of the District's failure to pay interest on the funds borrowed from the Bond Fund in FY19-20 and FY20-21.

As required by law, Committee meetings were held openly under the Ralph M. Brown Act (Gov. Code § 54950 et. seq.). The Committee was fully engaged in its work and had strong attendance.

## Findings of the Measure M Citizens' Oversight Committee

This section presents our findings based on the specific roles and responsibilities outlined earlier.

## THE DISTRICT EXPENDED MEASURE M BOND FUNDS APPROPRIATELY DURING THE PERIOD OF OUR REVIEW

To determine whether bond funds were used only for the reconstruction, rehabilitation, or replacement of school facilities and, more specifically, for the purposes authorized by the voters when approving Measure M, the Committee reviewed the annual financial and performance audits prepared by the District's independent auditor; reviewed the unaudited actual financial information for the second interim reporting period (ended January 31, 2023) for the 2022-23 fiscal year; and reviewed the construction project expenditure information maintained by the school facilities program. Most projects were completed or under construction during the period. The textbox lists the major construction projects that have been approved by the governing board or will be approved soon.

In performing our work, we relied on the conclusions of the District's auditors in the Measure M financial and performance audits for the fiscal year 2021-22. Still, we also reviewed expenditure information independently to confirm that the bond funds had been spent appropriately. More specifically, the report-writing subcommittee members met with the Executive Director of Capital Operations and reviewed all Measure M expenditures through January 31, 2022. In performing this review, we confirmed that Measure M funds had only been spent on permissible purposes. The expenses were consistent with the California Constitution's and Measure M's applicable provisions.

Concerning the use of Measure M funds for salaries, the California Attorney General has opined that proceeds from a Proposition 39 bond may be used to pay the salaries of district employees to the extent they are performing administrative oversight work on construction projects authorized by a voter-approved bond measure (04 Ops.Cal.Atty.Gen 110 (2004)). The amounts the District used from Measure M to pay the salaries and benefits of employees reflect the salaries and benefits of the equivalent of 4.1 full-time District employees (as represented by

## Major Approved Construction Projects and Start Dates

Korematsu Elementary School  
Early Learning Center:  
Completed 9/2021

Emerson/Da Vinci Science  
Project: Completed 10/2021

Birch Lane Elementary School  
Multi-Purpose Room:  
Completed 5/2022

Willett Elementary School  
Multi- Purpose Room:  
Completed 5/2022

North Davis Elementary  
Multi- Purpose Room:  
Expected to be completed  
6/2022

Cesar Chavez Elementary  
School Multi-Purpose Room:  
Expected to be completed  
6/2022

DaVinci Tech Hub: Expected to be  
completed Fall 2022

Davis High School: Projects are  
under design and expected to  
be completed in 2023 and  
2024

Hydration Stations: Complete

the Capital Operations staff) who provide administrative oversight on Measure M projects. Based on our review of the auditor's reports and our review of expenditure information, we conclude that the expenditures subject to review during the audit period were permissible.

We met with the Executive Director of Capital Operations to review the project-based expenditure information maintained by the Facilities Department. We also reviewed expenditure information after the close of the 2021-2022 fiscal year through January 31, 2023. Although the financial information reported by Fiscal Services at mid-year has yet to be audited, we confirmed that all Measure M expenditures were appropriate and consistent with Measure M. We specifically confirmed, among other things, that no Measure M proceeds were used for teacher or administrator salaries and confirmed that Measure M proceeds were not used to support the Committee.

The following information provides a breakdown, by school site, wherever possible, showing the expenditure of Measure M funds as of January 31, 2023, as maintained in the School Facilities project management system.

*Birch Lane Elementary School*

- Multipurpose Room:

Current Budget	Committed Budget	Expensed to Date
\$11,894,881	\$11,741,774	\$11,513,148
- Interim Classroom Relocation from Emerson Junior High School:

Current Budget	Committed Budget	Expensed to Date
\$17,630	\$17,630	\$17,630
- Installation expense of Kindergarten fencing included in District Wide Bond Projects section below.

Construction on the Birch Lane Elementary School Multipurpose Room began on 3/22/21

Birch Lane Rendering



Birch Lane Aerial Site View



Birch Lane Concrete Footings





Birch Lane MPR Construction



Birch Lane MPR Finished



Birch Lane MPR Ribbon Cutting



## Measure M Citizens' Bond Oversight Committee Annual Report

### *César Chávez Elementary School*

- Multipurpose Room:

Current Budget

\$12,673,651

Committed Budget

\$12,535,099

Expensed to Date

\$11,084,138

### César Chávez MPR Groundbreaking



### César Chávez MPR Construction Aerial





César Chávez MPR Finished



César Chávez MPR Ribbon Cutting



*Fairfield Elementary School*

- No expenditures to date.

*Korematsu Elementary School*

- Early Learning Center:

Current Budget

\$7,573,950

Committed Budget

\$7,571,486

Expensed to Date

\$7,500,805

Construction on the Korematsu Elementary School Early Learning Center began on 10/27/20

ELC Rendering



ELC Groundbreaking Ceremony



ELC Aerial View



ELC Aerial View





ELC Completed



ELC Ribbon Cutting



*Marguerite Montgomery Elementary School*

- Installation expense of three new gates included in the District Wide Bond Projects section below.

*North Davis Elementary School*

- Multipurpose Room:

Current Budget	Committed Budget	Expensed to Date
\$12,558,057	\$12,386,503	\$10,921,602

- Installation expense of Kindergarten fencing included in District Wide Bond Projects section below.

North Davis MPR Groundbreaking



North Davis Construction Aerial



North Davis MPR Construction Interior





## Measure M Citizens' Bond Oversight Committee Annual Report

### North Davis MPR Construction



### North Davis MPR Finished



### North Davis MPR Ribbon Cutting



*Patwin Elementary School*

- Architectural modernization services for HVAC (entire campus):

Current Budget	Committed Budget	Expensed to Date
\$ 35,709	\$35,709	\$35,709
- Installation expense of Kindergarten fencing included in District Wide Bond Projects section below.

*Pioneer Elementary School*

- Installation expense of Kindergarten fencing included in District Wide Bond Projects section below.

*Willett Elementary School*

- Multipurpose Room:

Current Budget	Committed Budget	Expensed to Date
\$11,206,049	\$11,087,926	\$9,714,341

Willett MPR Rendering





Measure M Citizens' Bond Oversight Committee Annual Report  
Willett MPR Groundbreaking



Willett Construction Aerial



Willett MPR Construction





Willett MPR Finished



Willett MPR Ribbon Cutting



- Bike Rack Paving Project:

Current Budget	Committed Budget	Expensed to Date
\$73,096	\$73,096	\$73,096
- Installation expense of Kindergarten fencing included in District Wide Bond Projects section below.

*Emerson/ Da Vinci Junior High Schools*

- NextGen Science Labs:

Current Budget	Committed Budget	Expensed to Date
\$ 6,145,742	\$ 5,986,504	\$ 5,945,242
- Installation expense of Strategic fencing included in District Wide Bond Projects section below.

Construction on the Emerson/Da Vinci NextGen Science classrooms began on 11/23/20.

Emerson/Da Vinci Rendering



Emerson/Da Vinci Service Trenches



## Emerson/Da Vinci Modular Building Delivery and Installation



## Emerson/Da Vinci Finished Exterior Construction



## Emerson/Da Vinci Ribbon Cutting





## Measure M Citizens' Bond Oversight Committee Annual Report

### *Harper Junior High School*

- No expenditures to date.

### *Holmes Junior High School*

- No expenditures to date.

### *Davis Senior High School*

- Site Planning:

Current Budget	Committed Budget	Expensed to Date
\$ 124,950	\$ 0	\$ 0
- STEM Building:

Current Budget	Committed Budget	Expensed to Date
\$39,257,963	\$35,533,900	\$3,238,116

### Davis Senior High School STEM Building Groundbreaking



## Measure M Citizens' Bond Oversight Committee Annual Report

### Davis Senior High School STEM Building Construction



### Davis Senior High School STEM Building Construction



• Tennis Relocation:	Current Budget	Committed Budget	Expensed to Date
	\$ 2,899,782	\$ 1,791,551	\$273,293

## Measure M Citizens' Bond Oversight Committee Annual Report

- Aquatic Center:

Current Budget	Committed Budget	Expensed to Date
\$15,296,988	\$1,779,144	\$1,049,870
- CTE Agriculture:

Current Budget	Committed Budget	Expensed to Date
\$ 3,369,049	\$ 3,210,239	\$ 3,045,252

### Davis Senior High School CTE Ag Construction



### Davis Senior High School CTE Ag Finished





Davis Senior High School CTE Ag Greenhouse Finished



• CTE Auto:		
Current Budget	Committed Budget	Expensed to Date
\$4,080,688	\$3,871,292	\$3,182,726

Davis Senior High School CTE Transportation Rendering



Davis Senior High School CTE Transportation Construction



Davis Senior High School CTE Transportation Finished





## Measure M Citizens' Bond Oversight Committee Annual Report

- CTE Engineering Robotics:

Current Budget  
\$8,476,268

Committed Budget  
\$8,283,221

Expensed to Date  
\$5,531,463

### Davis Senior High School CTE Robotics/Engineering Rendering



### Davis Senior High School CTE Robotics/Engineering Construction



Davis Senior High School CTE Robotics/Engineering Construction (Close to Completion)



*Da Vinci High School + CTE*

- Da Vinci High School project design:

Current Budget	Committed Budget	Expensed to Date
\$16,930,800	\$16,863,754	\$16,600,329
- Installation expense of Strategic fencing included in District Wide Bond Projects section below.

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<sup>2</sup> The funding for CTE (Career Technical Education, Agriculture, Auto, and Engineering/Robotics) is funded, in part, from state funding, and the District provides a 50% match using Measure M funding.

## Measure M Citizens' Bond Oversight Committee Annual Report

### Da Vinci High School + CTE Rendering



### Da Vinci High School + CTE Aerial





Da Vinci High School + CTE Construction



Da Vinci High School Finished



Da Vinci High School Ribbon Cutting



*Martin Luther King High School*

- Installation expense of hydration stations included in District Wide Bond Projects section below.

*District Office/Davis School for Independent Study*

- Installation expense of Strategic fencing included in District Wide Bond Projects section below.

*District-Wide Bond Projects – Series 1, 2 & 3*

- All Gender Restrooms:

Current Budget	Committed Budget	Expensed to Date
\$423,690	\$0	\$0
- Hydration Stations installation & equipment:

Current Budget	Committed Budget	Expensed to Date
\$ 551,872	\$314,721	\$286,021
- Access Control:

Current Budget	Committed Budget	Expensed to Date
\$243,374	\$ 228,659	\$228,659

## Measure M Citizens' Bond Oversight Committee Annual Report

- Strategic fencing:

Current Budget	Committed Budget	Expensed to Date
\$ 365,269	\$ 270,602	\$ 266,582
- District-Wide Technology:

Current Budget	Committed Budget	Expensed to Date
\$1,000,000	\$0	\$0
- District Wide Furniture & equipment:

Current Budget	Committed Budget	Expensed to Date
\$ 861,521	\$0	\$0

### *General Non-Site-Specific Bond Program Expenses*

- Program level consultants, bond staff costs, etc.:

Current Budget	Committed Budget	Expensed to Date
\$3,833,445	\$2,762,393	\$2,429,438

## THE DISTRICT'S CONTINUED PRACTICE OF MAKING INTEREST-FREE LOANS FROM THE BUILDING FUND TO ITS GENERAL FUND DEPRIVES THE BUILDING FUND OF INTEREST EARNINGS TO WHICH IT IS ENTITLED

Last year we wrote: “In our prior two reports, we raised the issue of the District’s practice of making short-term loans from the Building Fund to the district’s general fund to address cash flow issues. We recognize that the Education Code permits these loans, but we believe that the District must repay these loans with interest. More specifically, case law dictates that the District must make the Building Fund whole upon repayment of these loans by paying the amount of interest that money would have earned if it had remained in the Building Fund. Despite our repeated requests that the DJUSD governing board modify the current board policy to require interest payment, it has failed to do so. The board’s legal counsel has advised the board that she is unaware of any interest requirement related to the Building Fund and that she is unaware of any judicial decisions requiring the interest payments. We respectfully disagree. This legal advice is contrary to the view of other legal experts. It contradicts the advice provided to school districts throughout California by the Fiscal Crisis Management Assistance Team, which advises school districts on various fiscal matters. We requested the Board to add the issue of interest-free loans to their agenda during the presentation of the FY19-20 Annual Report and received no response.

Further, we wrote: “The Official Statement for the Measure M bonds indicates that all of the principal and interest earned on that principal must be used for Measure M purposes. When the District makes interest-free loans from the fund, it fails to honor this commitment and diminishes the interest earned on the principal. Further, numerous California cases stand for the general legal principle that where a fund is entitled to retain interest, it follows that a loan made from that fund must be repaid with interest.

Further, we stated that “The District’s refusal to modify its current policy has, so far, deprived the Measure M Building Fund, as estimated by District staff, of more than \$182,000 (June 2022 dollars) in interest that it would have otherwise earned. (See Appendix A of this report.) We stand by our original recommendation that the Board should modify the current District policy to require

the payment of interest. This would align the District with the guidance provided by the Fiscal Crisis Management Assistance Team to all school districts throughout California and with the practices of other public agencies. By not paying interest, the District reduces the amount of funding available for Measure M .

This is a policy and practice that continues to concern this Committee as it has diminished the purchasing power of the Measure M funds. The interest was calculated based on the amount of time the cash was recorded within the General Fund instead of the Measure M Bond Fund and the interest for the County Fund for the recorded dates. See Appendix A for a list of the inter-fund transfers and calculated interest from FY19-20 and FY 20-21. This Committee finds this methodology to be sufficiently correct and had formally requested a similar calculation through FY21-22. That request was not forthcoming as of the date of this report

Note that the level of lost purchasing power continues to grow in a higher interest rate environment and with the need to compound interest on unpaid interest through the date of this report.

## MEASURE M CONTAINED A SPECIFIC LIST OF TYPES OF SCHOOL FACILITIES PROJECTS TO BE FUNDED ALONG WITH THE REQUIRED CERTIFICATIONS

The Committee reviewed the bond measure and the Facilities Master Plan. It concluded that the bond measure contained a specific list of the types of projects to be funded by Measure M and the certifications required by applicable provisions of the California Constitution.

## THE DISTRICT CONDUCTED AN ANNUAL, INDEPENDENT PERFORMANCE AUDIT OF MEASURE M FUNDS

As required by law, the District contracted for this independent audit, which was presented to the Board in February 2023. The audit was also provided to the Committee, which reviewed this performance audit at its February 16, 2023, meeting. This performance audit focused primarily on whether the District had complied with the various accountability measures contained in Proposition 39. The performance audit did not contain any findings of non-compliance with the Constitutional or statutory requirements or made no recommendations. A full copy of the Measure M performance audit can be found on the District's website at <https://www.djUSD.net/>

The audits performed comply with Generally Accepted Government Auditing Standards. However, as the District moves forward with the Measure M program, it may wish to expand the scope of the performance audit. More specifically, the performance audits for the 2018-19, 2019-20, and 2020-21 fiscal years focused exclusively on whether the District complied with various Proposition 39 requirements. The auditing standards also allow, as an



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alternative to, or in addition to, a compliance focus, for the performance audit to focus on economy and efficiency. The California School Boards Association and others recommend

the economy and efficiency approach because it allows the auditors to delve into such issues as a review of the District's contracting policies and procedures and whether it has effective construction management practices, among other things. As the Measure M program moves forward, the Committee suggests the District expand the scope of its performance audit. A full copy of the Measure M financial audit can be found on the District's website at <https://www.djUSD.net/>.

## **THE DISTRICT CONDUCTED AN ANNUAL, INDEPENDENT FINANCIAL AUDIT OF MEASURE M FUNDS**

### **THE COMMITTEE VISITED ONGOING CONSTRUCTION TO INSPECT SCHOOL FACILITIES AND GROUNDS**

The committee can inspect school grounds and facilities by law to determine whether bond funds are used appropriately. Individual members scheduled appointments DURING 2022 and 2023 with the Executive Director of Capital Operations and visited several project sites, including the NextGen Science Lab project at Emerson/Da Vinci Junior High School, the Early Learning Center project at Korematsu Elementary School, and the Multipurpose Room at Birch Lane Elementary School. Notable work was observed at all sites during the period by expenditures to date.

### **THE COMMITTEE DID NOT RECEIVE AND REVIEW COPIES OF ANY DISTRICT DEFERRED MAINTENANCE PROPOSALS OR PLANS**

The District has no formal deferred maintenance plan, so we did not conduct such a review. The purpose of obtaining a deferred maintenance plan would be to confirm that the District used Measure M bond funds only for authorized purposes. As a general matter, Proposition 39 bond funds cannot be used for routine or scheduled maintenance. Still, they may be used for deferred maintenance if that maintenance falls within the range of uses permitted by the California Constitution and the voter-approved bond measure.

### **THE DISTRICT USES BEST PRACTICES TO MANAGE MEASURE M CONSTRUCTION PROJECTS EFFECTIVELY**

Practical management school construction projects and the associated costs are two of the most to date factors for a successful Measure M program. Throughout its first two years, the Committee received numerous presentations, including an overview of the requirements that apply to K-12 school facilities construction in California, an overview of state law and District policies regarding public contracting and procurement, and information on the management of ongoing projects. We also received information regarding proposed project budgets, expenses to date, and amounts encumbered for various projects.

Throughout these presentations, it has been clear to the Committee that the District employs highly competent project management and financial management staff, who collaborate closely in overseeing Measure M. We observed various practices considered best practices in school construction projects and financial management. When spending bond funds, the District used multiple strategies designed to achieve cost-effectiveness. One such method was using the same design template at various school sites for the same type of project. The new multi-purpose rooms at Cesar Chavez Elementary, Birch Lane Elementary, North Davis Elementary, and Willett Elementary all used essentially the same architectural design, which helped to achieve an economy of scale. In addition, the District staff is aligned with the construction schedules of similar projects to gain additional efficiencies. The four MPRs started construction within a few months of each other in 2021 and were built by the same construction company. In other words, the District has attempted to build similar buildings at different school sites simultaneously to drive cost savings because it can purchase supplies and materials in greater quantities.

The District also relies on the authority in state law to do “piggyback” contracts for some of the construction work under Measure M. The piggyback process allows the District to select building plans for public entities such as schools that have already gone through the public bidding process and received the lowest bid. This way, the process is competitive, but the District can rely on an already bid contract and save time in the contract award process. For example, the District used a piggyback process to purchase the modular buildings for the Emerson/Da Vinci Junior High School Science Classroom project and the Early Learning Center Project. The District also uses a piggyback method to purchase new furniture for the new classrooms district-wide. A consultant was hired to select the same type of furniture throughout the District that will create greater efficiency and cost savings.

The District is also considering that certain types of construction have an impact on labor and material costs. Due to high construction costs in California, the District has decided to use prefabricated modular buildings wherever possible, which saves on construction costs and length of the construction schedule, to minimize the disruption to a school campus.

Also, different contracting methods have been used where appropriate. The Design-Bid-Build method was used for the Korematsu Early Learning Center and the Emerson/Da Vinci NextGen science classrooms because they were relatively simple projects. The Lease-Leaseback method was used for the more complicated MPR projects. The Lease-Leaseback construction law authorizes a school district to lease a school site to a contractor for a token amount (for example, \$1 per year) if the lease contract requires the contractor to construct or provide for the construction of a building to be used by the school district, so long as the title to the building would vest in the school district at the end of the lease. The Lease-Leaseback method allowed the District to select the contractor during the pre-construction phase to help develop the final plans and “value engineer” the project for greater design efficiencies and cost savings. The projects went to bid during the pre-construction phase based on preliminary plans. Once a contractor was selected, the District worked with the architect and contractor to develop final plans with the goal of design efficiency and cost savings in mind. The District anticipated the Lease-Leaseback contracting method may have saved the bond fund as much as 8-10% in total project cost for the four MPR projects.

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Another method of saving money used by the District was to partner with the City of Davis on a Sacramento Area Council of Governments (SACOG) grant application for funds to enhance the traffic flow and safety of Anderson Road in front of Chavez Elementary as part of their new MPR connectivity plan.

Finally, the District staff is acutely aware that project delays could escalate construction costs, so they work diligently to keep projects on schedule. Several projects, such as the Chavez Elementary MPR and the Davis Senior High School Aquatic Center, underwent additional public outreach. This caused a small amount of delay and additional planning costs. However, the outcome made for a much better project for the stakeholders; therefore, we believe the delay was worth it. Despite the extra time the additional outreach took during the Chavez MPR placement process, the District was able to catch back up and constructed the will start the project during the same time period as the other three MPR projects.

### THE DISTRICT HAS HERETOFORE AVOIDED SIGNIFICANT CONSTRUCTION INFLATION

Due to good management practices, conservative budgeting, and timely execution by the Construction Operations staff, the District has avoided significant inflation in the various construction projects currently underway and/or completed. Most of the MPR projects' contracts or Guaranteed Maximum Price ("GMPs") were let some eighteen months ago, well before the Pandemic-caused supply-chain misfunctions in the economy gave rise to inflationary pressures. That acknowledged later projects were not immune to inflationary pressures (e.g., four to eight percent inflation expectations were included in some of the GMPs). The District's sound management practices may have been aided by a bit of luck beyond the advantageous timing of the various GMPs. The lack of rain during the 2021-2022 MPR construction period also helped with timely construction progress.

The two larger high school projects (the STEM Building project broke ground in Fall 2022 and the Aquatic Center approximately eighteen months later) could be impacted by inflation. However, some recent signs of construction-related inflation may be moderating.

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In compliance with the requirements of subparagraph A of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution, we verify that this is an authentic and valid annual report. We look forward to continuing to serve the public, and the Davis Joint Unified School District community as the Measure M bond program moves forward.

Respectfully submitted,

Members of the Measure M Citizens' Bond Oversight Committee

## Appendix A

<b>Action</b>	<b>Date</b>	<b>Amount</b>
General Fund borrowed cash from Building Fund	October 18, 2019	\$8,000,000
General Fund repaid cash to Building Fund	March 23, 2020	(\$4,000,000)
General Fund repaid cash to Building Fund	May 13, 2020	(\$4,000,000)
<i>Calculated Interest FY19-20</i>		<i>\$83,213</i>
General Fund borrowed cash from Building Fund	August 19, 2020	\$15,000,000
General Fund repaid cash to Building Fund	January 15, 2021	(\$7,500,000)
General Fund repaid cash to Building Fund	May 14, 2021	(\$7,500,000)
<i>Calculated Interest FY20-21</i>		<i>\$99,086</i>
<b><i>Total Interest FY19-20 and FY20-21</i></b>		<b><i>\$182,299</i></b>

\* The lost interest potential was calculated by District staff and provided to the Committee upon request.