



DEL MAR UNION SCHOOL DISTRICT \$186 MILLION BOND MEASURE

July 2018

SDCTA Position:

SUPPORT

Rationale for Position:

Del Mar Union School District's proposed bond measure meets key provisions of SDCTA's Bond Support Criteria. The District has also been extremely communicative during the bond support application, providing comprehensive submission materials that outline the District's plans for the bond.

Title: Measure 'X'

Jurisdiction: Del Mar Union School District

Type: Bond Issue

Vote: 55% Supermajority

Status: On the November 6, 2018 General Election Ballot

Issue: \$186 Million Bond Measure

Description: The issuance of \$186 Million of Proposition 39 General Obligation Bonds with an increase in property taxes by a maximum of \$29.25 per \$100,000 of assessed value to fund school modernization of 8 elementary schools.

Fiscal Impact: The total cost of the bond, including principal and interest, is estimated at \$316,118,000. A 2018 bond authorization would allow new series of bonds to be issued every three years until 2028. The total repayment ratio is anticipated to be 1.7 to 1.

Background

The Del Mar Union School District (DMUSD) was founded in October 1906. For many years the district was small, serving approximately 1,000 students. While two of its schools are approximately forty to sixty years old, six schools were built to accommodate the growing demand for local services between 1992 and 2007. The District now serves approximately 4,500 K-6 students across eight traditional elementary schools: Ashley Falls, Carmen Del Mar, Del Mar Heights, Del Mar Hills, Ocean Air, Sage Canyon, Sycamore Ridge, and Torrey Hills.

In 2012, the District attempted to pass a \$76.8 Million general obligation bond with the intent of renovating its eight elementary schools, intending to levy a tax of up to \$8.44 per \$100,000 of assessed property valuation. The SDCTA opposed the bond proposal, as it failed to meet key provisions of its Bond Support Criteria. At the time, the District proposed funds paid over four decades to support ongoing, short-term maintenance needs and to pay for student devices with a short lifespan. The measure failed to pass at the ballot, being narrowly defeated.



While District-wide enrollment is not projected to increase over the next three years, shifts in students' residences as identified by the Board of Trustees prompted the District to explore three different approaches to reconfiguring its facilities: to maintain the District's current eight schools; to reconfigure the District's current eight schools by combining the two schools west of I-5 and building a new school in East Pacific Highlands Ranch; and to maintain the District's current eight schools and build a ninth school in East Pacific Highlands Ranch. Although the district-wide enrollment shows a need for eight schools, the District proposed a nine-school option that has faced scrutiny and opposition from the community, which was not in support of closing a school. The District had approved the addition of the Early Childhood Development Center to Torrey Hills School to increase capacity at Sycamore Ridge and "avoid building ninth school."

On July 16, 2018, the Governing Board ultimately approved building a new school while maintaining its current eight while potentially locating district departments and educational programs at Del Mar Hills Academy. This decision also approved District Staff and OBR Architecture to revise the Facilities Master Plan to remove potential "Del Mar West School" to keep both facilities west of I-5 as traditional schools, review needs for portable to permanent construction across the District, rebuild Del Mar Heights School, modernize Del Mar Hills Academy, and update cost estimates. The revised version including these changes was released on July 24, 2018.

Proposal

On August 6, 2018, the Del Mar Union School District Board of Trustees will vote to place a \$186 Million school bond measure on the November 6, 2018 ballot.

The District has provided a draft of the ballot question expected to be put before voters, which reads as follows:

"To improve Del Mar neighborhood elementary schools, repair/upgrade/reconstruct deteriorated school facilities, plumbing, roofs, electrical systems; renovate classrooms supporting science, engineering, math, arts instruction; improve safety/security and technology infrastructure; and construct/equip a new elementary school; shall Del Mar Union School District issue \$186 million in bonds at legal rates, raising \$9.8 million annually over 30 years at approximately 3 cents per \$100 of assessed value, with citizens' oversight, independent audits, all money for Del Mar K-6 schools?"

The District has submitted its request for support from the San Diego County Taxpayers Association (SDCTA). The request included drafts and materials intended to satisfy the 2018 SDCTA Bond Support Criteria. Those materials have been reviewed and an analysis of the results is provided below. A summary table of the analysis can also be found at the end of this report.

Review of SDCTA Bond Support Criteria

Program Description

The Del Mar Union School District is seeking a \$186 Million school bond in order to accomplish many of the projects laid out in the recently revised District’s Facilities Master Plan, which includes the construction of a new elementary school. Proceeds from the general obligation bonds would also be used to repair, renovate, upgrade, replace, and modernize school facilities, as well as to fund related facilities costs. The Board approved the bond proposal’s Bond Project list on July 25, 2018, which includes a comprehensive project list itemized by site and the Master Plan Facilities Projects and Objectives that can be funded by this bond measure, such as installing infrastructure and supporting wiring to enable high-speed data and communications and the installation of solar energy facilities. The complete list for the latter can be found as at the end of this report as Appendix A, along with “All district school sites where renovation, major repairs, and/or new construction to be undertaken” in Appendix B.

Budget, Funding, and Execution Plan

The first bond issuance is projected for early 2019 with a final issuance in summer 2028 and an escalation period of more than six years. Cost estimates for the proposed projects include considerations for contingencies of 18% (15% for design and 3% for construction) and 4% escalation costs. These estimates do not include land acquisition and were derived with the help of TBD Consultants and OBR Architecture on April 2018. A summary of these costs is outlined in Figure 1 and 2.

Figure 1: Del Mar Union School District Bond Program Budget Summary

School	Current Construction Costs	Escalation	Escalated Construction Costs	Soft Costs	Total Project Costs
Ashley Falls	\$12,674,783	\$0	\$12,674,783	\$3,067,297	\$15,742,080
Carmen Del Mar	\$14,007,797	\$0	\$14,007,797	\$3,389,887	\$17,397,684
Del Mar Heights	\$42,964,235	\$0	\$42,964,235	\$10,397,345	\$53,361,580
Del Mar Hills	\$31,739,361	\$0	\$31,739,361	\$7,680,925	\$39,420,287
Ocean Air	\$5,262,643	\$0	\$5,262,643	\$1,273,560	\$6,536,203
Sage Canyon	\$20,659,100	\$0	\$20,659,100	\$4,999,502	\$25,658,602
Sycamore Ridge	\$8,996,066	\$0	\$8,996,066	\$2,177,048	\$11,173,113
Torrey Hills	\$13,083,396	\$0	\$13,083,396	\$3,166,182	\$16,249,577
Total	\$149,387,380	\$0	\$149,387,380	\$36,151,746	\$185,539,126

Figure 2: Estimated Soft Costs

Soft Costs (Calculated as a percentage of the Escalated Construction Cost)		
Architect/Engineering Fees	9.0%	\$13,444,864.21
Topo Surveys	0.1%	\$149,387
Geotech	0.3%	\$448,162
Hazmat Reports and abatement	0.3%	\$448,162
Off-Site	1.0%	\$1,493,874
Permits	1.5%	\$2,240,811
Owner Costs – admin, PM	2.0%	\$2,987,728
Miscellaneous – Field change orders, special inspections, coastal commission, etc.	5.0%	\$7,469,369
Owner’s Contingency/Owner changes	5.0%	\$7,469,369
Total Soft Costs	24%	\$36,151,746

The District used a conservative 4% growth rate assumption for the assessed value of property within its boundaries, which affects the estimated property tax rate and future bond revenue. The District will seek additional project funding for land acquisition through the Community Facilities District 99-1, Fund 25-Capital Facilities Fund, Fund 40-Special Reserve for Capital Outlay, and land sales. The District has also engaged a consultant that specializes in the State funding program to determine if the District qualifies for any State matching funds, but it has not included language in the ballot that expresses this intent.

District staff and administration will be primarily responsible for establishing a program and project organization. The District Superintendent will lead these efforts, along with the Assistant Superintendent, Business Services, Executive Director, Capital Programs & Technology and the Director of Maintenance, Operations & Facilities. The Financial Advisor for the District, Fieldman, Rolapp & Associates, will assist in the preparation of certain materials related to the District’s bond program, including cash-flow analysis, the estimated timeline for the issuance of bonds, the financial instruments that will be used to complete the bond program, revenue earnings, expected annual property tax rates, and the amount of project proceeds generated by the bond program. The District has also disclosed that it intends to work with Koppel & Gruber Public Finance, Atkinson, Andelson, Loya, Ruud & Romo, and Corinne Loskot Consulting, Inc.

Once the project timeline has been established, the Bond Implementation Team will work with Bond Counsel and the Financial Advisor to determine the size, structure and schedule of the initial bond issuance. The District intends to appoint an Independent Citizens’ Oversight Committee within 60 days of the date that the Governing Board of Trustees enters the election results in its minutes pursuant to Education Code 15274.

Program Justification

In 2014, LPA, Inc. assisted the District in creating a comprehensive Facilities Master Plan development process that assessed the state of the existing eight school sites as well as the District's mission for educational programming. In 2017, the District began an initiative to revise its Facilities Master Plan with input from the community. Since, the District's Governing Board of Trustees has directed the District to pursue reconfiguration as a way to address enrollment shifts and concerns about its facilities, as reflected in the most recently revised 2018 Facilities Master Plan. Over the next three years, however, the District projects a stable districtwide student population and the Facilities Master Plan does not include Facilities Condition Index (FCI) metrics that assess the need for school repairs and modernization.

The District claims that there is no other budget with sufficient funds to fix deteriorating school facilities and replace old portables. The State does not provide funding for school facilities improvement or reconstruction, where 87.3% of the District budget funds teacher and staff salaries and 12.7% funds operational costs. Previous District projects identified in the 2014 Facilities Master Plan have been completed using various measures and sources of funding, including Fund 1 General Fund, Fund 14 Deferred Maintenance, Fund 25 Capital Facilities Fund, Fund 40 Special Reserve for Capital Outlay and Fund 49 Community Facilities District. The District applied for and was awarded Prop 39 California Clean Energy Jobs Act funds from the State to fund HVAC and LED lighting projects throughout the District.

The District also provided SDCTA with information on its two special tax bond measures:

- **CFD No. 95-1** was approved with a not to exceed amount of \$100 million and issued \$19,955,000 in June 2007. A refinancing was completed in August 2017 and currently \$14,660,000 remains in principal outstanding. Additional parity bonds are allowed pursuant to certain conditions of the Fiscal Agent Agreement. CFD No. 95-1 is unlikely to ever be able to issue the not to exceed amount of \$100 million. It is anticipated that CFD No. 95-1 will issue approximately \$5,500,000 to assist with the funding for projects within the Facilities Master Plan.
- **CFD 99-1** approved \$50,000,000 and issued \$10,620,000 in October 2003. A refinancing was completed in June 2012 and currently \$3,420,000 remains in principal outstanding. Additional parity bonds are allowed pursuant to certain conditions of the Fiscal Agent Agreement. It is anticipated that CFD No. 99-1 will issue approximately \$24,000,000 to assist with the funding for projects within the Facilities Master Plan.

Ballot Resolution and Language

The Board will vote to approve a ballot resolution on August 6, 2018.

The draft ballot resolution submitted as part of the District's application includes SDCTA-recommended language regarding fair and open competition for bond-related construction projects and joint use of facilities. The Del Mar Union School District currently has four sites that are joint use areas with the City of San Diego and has included language in the draft of its ballot resolution



that articulates its intention to pursue all practical opportunities to expand community joint use facilities in every new or expanded construction project.

Bond Financing & Technology

The District currently has Board policies previously adopted for its 2012 bond measure that satisfy SDCTA's recommended policy regarding the use of Capital Appreciation Bonds, although it does not include any language on the ballot resolution.

With funding from this general obligation bond, the District would move the Main Distribution Frame (MDF) from Ashley Falls School to the proposed East Pacific Highlands Ranch School and re-wire each school site with CAT-6 fiber. Moving the MDF will provide necessary cooling and ventilation for the equipment, as well as improved access for technology staff to service this equipment when needed at an estimated cost of \$220,000 for the equipment cost for this space will be built into the construction of this school. Re-wiring six school sites with CAT-6 fiber and pulling new network drops for wireless connectivity is estimated to cost \$2.4 million. The estimated useful life for the MDF and the CAT-6 is 15-20 years. The District does not propose to fund any devices such as tablets and laptops with proceeds of the bonds issued under the proposed measure.

Deferred Maintenance Funding

The Governing Board of Trustees of the Del Mar Union School District adopted Resolution 2011-20 on June 15, 2011, committing Fund 14 towards Deferred Maintenance. The District provided its actual activity in Fund 14 Deferred Maintenance for 2008-2009 through 2017-2018 estimated actuals, where its ending fund balance was at its lowest in 2015-2016 with \$11,542, at its highest in 2008-2009 with \$796,706. Currently, deferred maintenance actuals are \$478,649.

The District has stated that it remains committed to the approach of preventive maintenance and an ongoing schedule to prevent a large backlog of major repair and maintenance. On July 25, 2018 the Governing Board of Trustees approved to commit to an annual 0.50% contribution of the current year's property tax revenue toward Deferred Maintenance.

Figure 3 includes existing school site Deferred Maintenance projects that have been included in the 2018 Facilities Master Plan; escalation is taken to the midpoint of construction, estimated to be 2024. Deferred maintenance for the new school is projected in future cycles. Total cost includes construction markup, design contingency, soft costs, and a 4% annual increase.

Figure 3: Districtwide Deferred Maintenance Plan

Scope of Work	Facilities Master Plan 2018-2028	Years 1-5 2029-2033
Asphalt Slurry Seal	-	\$435,782
Classroom Lighting	-	\$1,633,019
Electrical	\$2,864,453	-
Flooring	\$3,483,372	-
Mechanical (HVAC)	\$2,421,006	\$1,953,914
Painting	\$1,954,853	\$562,270
Play Structures	\$2,421,006	-
Plumbing	\$50,438	-
Roofing	\$3,724,959	\$6,334,385
Security Cameras	\$726,302	-
Turf Replacement	\$20,435,746	-
Total Deferred Maintenance Cost	\$38,082,135	\$10,919,370

Selection of Bond Agency & Bidding Process

The Bond Implementation Team will determine which procurement method will best provide the projects as outlined in the bond language. The District will solicit competitive proposals for the construction at school sites and does not intend to have a Project Labor Agreement. Its Governing Board of Trustees approved a “No Pay to Play” policy at the April 25, 2018 Regular Board Meeting, including language for Conflict of Interest provisions.

All members of the finance team will be compensated on a contingent basis, upon successful closing of the District’s bonds. While some school districts have undertaken competitive sales, the District is not considered a very frequent issuer and has never issued a general obligation bond before. The District has determined that current conditions in the municipal marketplace dictate sale on a negotiated basis, as it will provide more flexibility in the timing of the sale, an increased ability to structure the Bonds to fit the needs of specific purchasers, and a greater opportunity for the Underwriter to pre-market the Bonds to potential purchasers prior to the sale, all of which will contribute to the District’s goal of achieving the lowest cost of borrowing for its taxpayers.

SDCTA School Bond Coursework

The SDCTA recommends that senior staff, Board members, or Independent Citizen Oversight Committee members from each school district attend the San Diego Taxpayers Educational Foundation’s coursework around best practices for school bond programs. Along with UC San Diego Extension, SDTEF hosts “The Practice of Designing & Running School Bonds” course, a hybrid in person and online course designed for school district superintendents and executive financial staff to learn about the process of designing, campaigning for, and running a school bond program. Along with Point Loma Nazarene University, SDTEF also hosts a “Legitimate and Effective School Bonds” course, an online course designed for school board members and ICOC members, as well as candidates, to learn about their oversight role for a bond program.



District administration and school board members from the Del Mar Union School District have registered and taken several courses sponsored by the San Diego Taxpayers Educational Foundation, as outlined in Figure 4.

Figure 4: Del Mar Union School District SDETF’s Courses Participants

Representative by Title	Course	Date
Superintendent	School Bonds – UCSD Extension	November 2017
	School Bonds – USD	September 2016
Assistant Superintendent, Business Services	School Bonds – UCSD Extension	November 2017
	School Bonds – USD	September 2016
	School Bonds Certification Course	March 2015
Director of Finance	School Bonds – USD	September 2016
	School Bonds Certification Course	March 2015
Assistant Superintendent Business Services	School Bonds Certification Course	March 2015
Executive Director of Capital Program and Technology	School Bonds – PLNU (online)	June 2018
Governing Board of Trustees		
<ul style="list-style-type: none"> • President • Clerk • Board Member (2) 	School Bonds – PLNU (auditing online)	February 2018

Fiscal Impact

The measure may increase the property tax rate by a maximum of \$30 per \$100,000 of assessed property valuation. With a median assessed value in the District’s boundaries of \$923,038 (FY 17-18), the proposed tax rate of \$29.25 per \$100,000 would cost median homeowners approximately \$270 per year. The District is assuming a not-to-exceed growth factor of 4% annually, whereas the 15-year historical assessed valuation growth had averaged 6.12% per year.

The repayment ratio is expected to be 1.7 to 1 and the total cost of the bond, including principal and interest, was originally estimated to be \$360 Million, but decreased to \$316,118,000. The District estimates an additional \$200,000 - \$225,000 per bond issuance for Cost of Issuance, and approximately 0.6% - 0.7% of Par Amount for the Underwriter’s Discount.

Del Mar Union School District Bond Support Application and SDCTA Bond Support Criteria			
Criteria Item	Info Provided?	Criteria Met?	Comments
Program Description	Yes	Yes	1) Bond program outlines the needs and proposed projects at each of the District's schools
			2) Itemized project list has been drafted and adopted
			3) Estimated project costs have been provided
Program Budget and Funding	Yes	No	1) District assumes a 4% AV growth rate after a 6.12% 15-year AV growth average
			2) Total cost of the bond, including principal and interest, fluctuated from \$360 Million to \$316,118,000
			3) District has estimated that the added tax rate will be \$29.25 per \$100,000 of assessed valuation
Cost Estimation and Feasibility	Yes	Yes	1) Cost estimates for projects developed with the help of TBD Consultants and do not include land acquisition costs
			2) Proposed bond issuance of \$186 million for various safety and security needs, the construction of another elementary school, and modern learning facilities
Program Justification	Yes	No	1) The District outlines the need for the measure to complete the projects listed in its 2014 facility needs assessment and 2018 Long-Range Facilities Master Plan
			2) The funds from this bond would be sufficient to complete projects, but the District intends to use other funding sources such as revenue from land sales
			3) Funding would modernize District facilities, improve security and various campus assets, and build a new school
			4) Needs assessment does not include a Facilities Condition Index
Program Execution Plan	Yes	No	1) Estimated bond issuance schedules have been provided
			2) Estimated program timeline not provided
			3) District plans to oversee projects with the help of various staff members and advisors
Fair and Open Competition	Yes	Yes	1) District included language stating that the DMUSD Board will promote fair and open competition for all bond-funded construction projects within its draft ballot resolution
			2) District indicated that it does not intend to use a project labor agreement to build and maintain its bond-funded capital facilities

Del Mar Union School District Bond Support Application and SDCTA Bond Support Criteria			
Criteria Item	Info Provided?	Criteria Met?	Comments
Bond Financing & Technology	Yes	Yes	1) District Board adopted SDCTA-recommended provisions related to Capital Appreciation Bonds on April 25, 2018
			2) District has not proposed to spend bond funds on technology devices
Deferred Maintenance and Major Repair & Replacement Plan	Yes	Yes	1) District included a deferred maintenance or major repair and replacement plan funding 10-year history
			2) District's deferred maintenance and major repair and replacement needs will be addressed through the bond measure, and the District provided a deferred maintenance plan for the five years thereafter
			3) The Facilities Master Plan does not include Facilities Condition Index (FCI)
Financial Status	Yes	Yes	1) District provided a listing of all outstanding debt
			2) District described procedures for disclosing bond-related information
Selection of Bond Agency	Yes	Yes	1) District described process used to select financial professionals
			2) District outlined the process for selecting a method of sale
Joint Use of Facilities	Yes	Yes	1) District included within the draft of its ballot resolution that it intends to pursue practical opportunities to incorporate joint-use facilities
Complete Ballot and Resolution Language	Yes	No	1) Final ballot language and resolution have not yet been adopted
			2) A draft of the ballot resolution includes a project list by site
Bidding Process	Yes	Yes	1) District Board of Trustees voted to adopt a "No Pay to Play" policy on April 25, 2018
Provision for an "Independent Citizens' Oversight Committee"	Yes	Yes	1) District Board of Trustees voted to adopt SDCTA's Oversight Committee Best Practices on May 23, 2018
Adoption of SDCTA School construction and Professional Services Procurement Best Practices	Yes	No	1) District intends to adopt SDCTA School Construction and Professional Services Procurement Best Practices no later than the date that the final resolution is adopted
Education of Governing Board Members and Oversight Committee Members	Yes	Yes	1) The District's Superintendent, Assistant Superintendent-Business Services, Executive Director of Capital Programs & Technology, and Trustee members participated in SDCTA's bond-related coursework, most recently in 2018
Opposition to Special Elections			

APPENDIX A: Master Plan Facilities Projects and Objectives

1. Install and upgrade Security/Safety systems to meet needs for Student Safety and Campus Security
2. Redesign and reconstruct Del Mar Heights School
3. Modernize and upgrade District school facilities at Ashley Falls School, Carmel Del Mar School, Del Mar Hills Academy, Ocean Air School, Sage Canyon School, Sycamore Ridge School, and Torrey Hills School
4. Design and construct a new elementary school in East Pacific Highlands Ranch
5. Renovate, upgrade, replace, install, and provide repairs of school site infrastructure (Plumbing, Electrical, HVAC, Communications, and Security Networks)
6. Ensure safety and structural integrity of buildings for student and employee safety by making seismic and safety upgrades and retrofits
7. Remove and/or replace portable classrooms with permanent classrooms
8. Install infrastructure and supporting wiring in order to support broadband access for high-speed data and communications
9. Relocate technology offices and Main Distribution Frame (MDF)
10. Upgrade and modernize District schools to provide for compliance with Americans with Disabilities Act (ADA)
11. Improve energy efficiency to reduce costs and reduce energy consumption (producing reductions in environmental impacts), through the use/installation of energy-efficient facilities including the construction/installation of solar energy facilities
12. Upgrade Landscape and Irrigation, using recycled water where available
13. Provide facilities for Storm Water Management
14. Provide facilities for Child Nutrition Services and centralized District kitchen
15. Replace, update and improve access and parking facilities with the goal of reducing traffic congestion in the vicinity of District school

APPENDIX B: All District School Sites where Renovation, Major Repairs, and/or New Construction to be Undertaken

- Remove and mitigate hazardous materials (e.g. asbestos, lead, PCB, mold, mildew, etc.) where necessary.
- Improve contingencies as required to comply with existing building codes and state/federal requirements, including access requirements of the ADA.
- Provide adequate furniture and equipment for all classrooms, and spaces to be newly constructed or reconstructed.
- Acquisition of any of the facilities on this School Facilities Project List through temporary lease or lease-purchase arrangements or execute purchase option under lease for any of these authorized facilities.
- Necessary site preparation/restoration in connection with renovation or remodeling, including ingress and egress, removing, replacing, or installing irrigation, utility lines, trees and landscaping, relocating fire access roads, and acquiring any necessary easements, licenses, or rights of ways to property.
- If the Governing Board of Trustees determines that replacement is more economical than rehabilitation, improvement, or renovation of existing classrooms/school facilities, in those particular cases replacement/new construction will be explored/pursued.
- Provide temporary (interim) classrooms and other school facilities as needed to accommodate students and school functions displaced during construction, including, but not limited to, relocation costs.
- The costs to demolish/remove facilities when no longer needed and the costs to restore site and utility systems after removal.
- Modernization upgrade or replacement of structures includes permanent, portable, or modular structures.