

Measure M Citizens' Oversight Committee

ANNUAL REPORT

May 15, 2020

Table of Contents

Introduction.....	2
Measure M Background.....	2
Executive Summary.....	6
Measure M Independent Oversight Committee.....	6
Committee Membership.....	7
Committee Roles and Responsibilities.....	9
Activities of the Measure M Citizens’ Oversight Committee.....	10
Findings of the Measure M Citizens’ Oversight Committee.....	11
The District Expended Measure M Bond Funds Appropriately During the Period of our Review.....	11
The District’s Temporary Borrowing of \$8 Million in Cash from the Measure M Building Fund to Address District Cash Flow Needs Raises a Concern.....	14
Measure M Contained a Specific List of Types of School Facilities Projects to be Funded Along with the Required Certifications.....	16
The District Conducted an Annual, Independent Performance Audit of Measure M Funds.....	16
The District Conducted an Annual, Independent Financial Audit of Measure M Funds.....	16
The Committee did not Find it Necessary to Inspect School Facilities and Grounds.....	17
The Committee did not Receive and Review Copies of any District Deferred Maintenance Proposals or Plans.....	17
The District Uses Best Practices to Effectively Manage Measure M Construction Projects:.....	17
Going Forward the Committee Needs More Timely Access to Expenditure Data.....	18

Introduction

The Measure M Citizens' Oversight Committee (Committee) is pleased to submit its first annual report, as required by Section 15280 of the Education Code. This report covers Measure M expenditures and activities from the beginning of the bond program (November 6, 2018) through January 31, 2020.¹

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 super majority 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 and requires the issuing district to perform independent financial and performance audits of the bond funds.

After the approval of Proposition 39, the California Legislature passed, and Governor Gray Davis 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

¹ Our period of review includes the District's fiscal year 2018-19, which ended on June 30, 2019 as well as mid-year expenditures for the 2019-20 fiscal year, through January 31, 2020. We also reviewed expenditure records maintained by the Facilities Department through February 7, 2020.

Measure M Citizens' Bond Oversight Committee Annual Report

average annually to repay bonds while outstanding, at an estimated rate 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. On April 28, 2020, the District completed a second bond sale which provided the District with an additional \$100 million for Measure M projects.

The balance sheet for Measure M, as reflected in the independent financial audit for fiscal year 2018-19 (July 1, 2018 through June 30, 2019), is as follows:

DAVIS JOINT UNIFIED SCHOOL DISTRICT
MEASURE M GENERAL OBLIGATION BONDS
BALANCE SHEET
June 30, 2019

ASSETS

Cash in County Treasury (Note 2)	\$ 49,365,351
Due from other funds (Note 3)	153,479
Total assets	<u>\$ 49,518,830</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ 26,204
Due to other funds (Note 3)	81,249
Total liabilities	<u>\$ 107,453</u>

Fund Balance-restricted (Note 4)	\$ 49,411,377
Total liabilities and fund balance	<u>\$ 49,518,830</u>

Measure M Citizens' Bond Oversight Committee Annual Report

The statement of revenues, expenditures and change in fund balance as of June 30, 2019 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, 2019

Revenues		
Other state sources	\$	2,533
Other local sources		<u>(372,362)</u>
Total revenue		<u>(369,829)</u>
Expenditures		
Classified salaries		38,813
Employee Benefits		17,004
Books and Supplies		5,912
Contract services and operating expenditures		259,405
Capital outlay		<u>197,660</u>
Total expenditures		<u>518,794</u>
Deficiencies of revenues under expenditures		(888,623)
Other financing sources:		
Proceeds from the issuance of debt		<u>50,300,000</u>
Change in fund balance		49,411,377
Fund balance July 1, 2018		_____
Fund balance June 30, 2019	\$	<u>49,411,377</u>

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, 2020, 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 Ended January 31, 2020

Revenues:	
Other state sources	\$ -
Other local sources	<u>306,197</u>
Total revenue	<u>306,197</u>
Expenditures:	
Classified salaries*	86,256
Employee benefits*	32,332
Books and supplies	24,402
Contract services and operating expenditures	112,363
Capital outlay	<u>420,039</u>
Total expenditures	<u>675,392</u>
Deficiency of revenues under expenditures	(369,195)
Other financing sources	
Proceeds from the issuance of debt	<u>-</u>
Change in fund balance	(369,195)
Fund balance, June 30, 2019	<u>49,411,377</u>
Fund balance, January 31, 2020	<u>\$ 49,042,182</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 who 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, forming an independent oversight committee and conducting independent financial and performance audits.

We conclude that Measure M expenditures in the 2018-19 fiscal year were allowable and consistent with applicable provisions of the California Constitution and Measure M.

Although expenditures after the close of the 2018-19 fiscal year through January 31, 2020 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 do, however, have a concern regarding the fact that the District temporarily borrowed \$8 million in cash from the Measure M building fund to address general fund cash flow needs. We have not concluded that this was a misuse of funds and we recognize that this loan will be repaid prior to the end of the fiscal year. However, based on the risks associated with making such loans we discuss later in this report and because the District does not intend to pay interest on this loan, we recommend that the district not make such loans in the future. If it does continue to make such loans, it should modify existing Board policy to require the payment of interest on any amounts borrowed. This interest should be equivalent to the rate of interest that the amount loaned from the Building Fund would have earned if the loan had not been made. We understand that the District intends to refer this issue to the Board's policy sub-committee for consideration.

With respect to whether the District is taking appropriate steps to maximize the use of Measure M bond funds, our overarching conclusion in this area is that the District is effectively using best practices to manage its construction projects and related expenditures so that it maximizes the use of Measure M funds.

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 state open meeting laws, 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 for no more than three consecutive terms. The Education Code requires that five of the members represent certain 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, and of the nine, four members were initially appointed to serve one-year terms and five were appointed 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 Committee met approximately quarterly, or as needed. The meetings were open to the public and conducted in accordance with 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
James Belenis	Business community (2-year term)
Donna Neville (Chair)	Senior citizens organization (2-year term)
Eric Roe (Vice Chair)	Member in a bona fide taxpayer organization (2-year term)
Bret Hewitt	Parent or guardian of a child in the district (2-year term)
Linda Lingbloom	Parent or guardian of a child enrolled in the District and active in a parent teacher organization or Site Council (3-year term)
Grace Bassett	At large (2-year term)
Jacques Franco	At large (3-year term)
Ken Nason	At large (3-year term)
Ted Tucker	At large (3-year term)

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 that no funds are used for any 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 specifically 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.

Prop 39 Constitutional Requirements

-Bond proceeds may be used only for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities.

-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.

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

(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 the use of 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 to support 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. The Committee was guided by two fundamental questions:

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 Committees' activities during this period included the following:

- Receiving preliminary training from the District's legal counsel and District staff regarding the roles and responsibilities of a Proposition 39 bond oversight committee.
- Receiving a presentation on the Ralph M. Brown Act requirements, applicable conflict of interest laws, and other legal requirements that govern the Committee.
- Receiving a presentation on the school facilities construction process and the District's school construction project management process.
- Receiving information regarding the sale of bonds under Measure M.
- 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 2018-19 fiscal year.
- Reviewing the financial and performance audits that covered the fiscal year that ran from July 1, 2018 to June 30, 2019.

The Committee formed a three-person subcommittee (Grace Bassett, Linda Lingbloom, and Donna Neville) for purposes of writing this report. The subcommittee performed additional tasks beyond those listed above, including presenting questions to the District's auditors regarding the Measure M financial and performance reports, reviewing the unaudited mid-year actual expenditure information provided by Fiscal Services for the

2019-20 fiscal year, and reviewing additional expenditure information maintained by the Facilities Department.

Committee meetings, as required by law, 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, 2020) for the 2019-20 fiscal year provided by the District's Chief Business and Operations Officer; and reviewed the construction project expenditure information maintained by the school facilities program. It should be noted here that this is the first year of the Measure M bond program, and expenditures were relatively light in the context of the overall bond program. Also, as the information below on expenditures shows, expenditures during this period were primarily for planning and design.

In performing our work, we relied on the conclusions of the District's auditors in the Measure M financial and performance audits for fiscal year 2019-20, but we also performed our own independent review of expenditure information so that we could satisfy ourselves that the bond funds had been spent appropriately. More specifically, members of the report writing subcommittee met with the Director of Operations, Maintenance and Facilities and reviewed Measure M expenditures through February 7, 2020. In performing this review, we were able to confirm that Measure M funds had only been spent on permissible purposes – that is, the expenditures were consistent with the applicable provisions of the California Constitution and Measure M. The auditor's report did not contain an express statement that no Measure M bond funds were used for teacher or administrator's salaries or for operational support, so we presented questions to the auditors regarding this issue and we were able to confirm that their work had addressed this issue and that they had confirmed that Measure M funds were not used for teacher or administrator salaries. As mentioned earlier, 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

Measure M Citizens' Bond Oversight Committee Annual Report

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 two District employees who provide administrative oversight on Measure M projects. Based on our review of the auditor's reports, the follow-up information we received from the auditors, and our independent review of expenditure information, we conclude that the expenditures subject to review during the audit period were permissible.

We also reviewed expenditure information after the close of the 2018-19 fiscal year through to January 31, 2020, or in the case of expenditure information maintained by the Facilities Department, through February 7, 2020. More specifically, we reviewed the interim, mid-year financial reporting for the 2019-20 fiscal year done by Fiscal Services, which was presented to the Board at its March 19, 2020 meeting, and we met with the Director of Operations, Maintenance and Facilities to review the project-based expenditure information maintained by the Facilities Department. Although the financial information reported by Fiscal Services at mid-year has not yet been audited, we were able to confirm 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 information that follows provides a breakdown, by school site wherever possible, that shows the expenditure of Measure M funds as of February 7, 2020, as maintained in the School Facilities project management system.

Birch Lane Elementary School

- Kindergarten fencing: \$ 49,284
- Multi-Purpose Room architectural design and planning costs: \$ 193,250
- Site total: \$ 242,534

Cesar Chavez Elementary School

- Multi-Purpose Room architectural design and planning costs: \$ 188,286
- Site total: \$ 188,286

Fairfield Elementary School

- No expenditures as of February 7, 2020. _____
- Site total: -

Korematsu Elementary School

- Preschool campus design: \$ 52,875
- Site total: \$ 52,875

Measure M Citizens' Bond Oversight Committee Annual Report

Marguerite Montgomery Elementary School

- Installation of three new gates: \$ 2,426
- Site total: \$ 2,426

North Davis Elementary School

- Kindergarten fencing project: \$ 49,284
- Site total: \$ 49,284

Patwin Elementary School

- Kindergarten fencing project in progress: \$ 5,240
 - Architectural services for HVAC (entire campus): \$ 176,893
- Site total: \$ 182,133

Pioneer Elementary School

- Kindergarten fencing project: \$ 49,284
- Site total: \$ 49,284

Willet Elementary School

- Kindergarten fencing in progress: \$ 5,240
- Site total: \$ 5,240

Emerson/Da Vinci Junior High Schools

- Science classroom project, design and planning: \$ 106,443
- Site total: \$ 106,433

Harper Junior High School

- No expenditures to date. —
- Site total: -

Holmes Junior High School

- No expenditures to date. —
- Site total: -

Davis Senior High School

- Site planning costs for STEM and Aquatic Center: \$ 3,801
- Site total: \$ 3,801

Martin Luther King High School

- Installation of hydration stations: \$ 14,600
- Site total: \$14,600

Da Vinci High School/Children's Center

- Strategic fencing design: \$ 5,240
 - Da Vinci High School project design: \$ 16,200
- Site total: \$ 21,440

District Office/Davis School for Independent Study

- Strategic fencing installed: \$ 7,364
- Site total: \$ 7,364

General Non- Site-Specific Bond Program Expenses

- Program level consultants, bond staff costs, etc.: \$ 271,115
- Site total: \$ 271,115

THE DISTRICT'S TEMPORARY BORROWING OF \$8 MILLION IN CASH FROM THE MEASURE M BUILDING FUND TO ADDRESS DISTRICT CASH FLOW NEEDS RAISES A CONCERN

Although we found that the District expended Measure M funds for allowable purposes, we do have one issue that we believe needs to be brought to the public's attention. During fiscal year 2019-20, the District temporarily borrowed \$8 million in cash from the Measure M building fund to cover district operating costs. It also intends to do short-term borrowing from the Building Fund in future years. As of April 22, 2020, the District had repaid \$4 million of this loan and will repay the remainder when it receives its May 2020 property tax allocation. We emphasize that the District did not misuse Measure M funds. Nonetheless, because the District intends to make such loans in the future without paying interest, and because these loans come with recognized risks, we believe it important to highlight this practice in our report.

To provide context as to why a district might temporarily borrow from its building fund, the Committee recognizes that many school districts in California have cash flow management issues. This happens because there is a disconnect between when districts incur certain expenditures and when they receive revenue. Districts have regular, ongoing monthly expenditures for many activities, including payroll. However, Districts receive their property tax allocations, which typically comprise twenty percent of total school district funding, twice a year – in January and May. Consequently, the District, like many other school districts in California, often has a cash shortfall prior to the receipt of that tax revenue. Districts have various options to address this cashflow issue. One common method is the use of a Tax Revenue Anticipation Note ("TRAN"), a short-term note issued by the district and secured by the anticipated tax revenues to be collected in the same fiscal year. There are also other, alternative methods of borrowing. Because it is generally less expensive and more expedient, many districts prefer to temporarily borrow internally from other available district funds. According to the District, it saved approximately \$400,000 by borrowing internally and not using a TRAN.

While it may be legal to temporarily borrow from the building fund, the California State Treasurer warns that there are risks associated with this practice. The California Debt

Issuance Advisory Committee (CDIAC), within the State Treasurer's Office advises that temporary borrowing from bond funds may pose risks to issuers, bondholders, and creditors of the borrower. These risks include the potential loss of tax-exempt status for district-issued bonds. This can happen when bond funds are used as "working capital" beyond the purposes described in the bond disclosure agreements. In this case, the District intends to fully repay the short-term loan, and its position is that this short-term loan from the Measure M building fund did not present any risk. Nonetheless, when a district borrows from its school facilities construction bond fund, this can erode public trust. Regardless of whether the loans are repaid, a skeptical electorate may become concerned about how well the bond funds are managed.

Regarding the payment of interest on these loans, the District has been advised by its bond counsel that it is not legally required to pay interest on this temporary loan. Regardless of whether it is legally obligated to pay interest or not, we believe that any loan made from the building fund should be repaid with interest that is equivalent to the amount of interest that money would have earned if the loan had not been made. Otherwise, the building fund would not be made "whole" upon the repayment of the loan because it will have forgone whatever amount of interest would have been earned on that money had it remained in the building fund. We also think that this is what the voters would expect. The voters approved the sale of Measure M bonds and expect the proceeds from the sale of these bonds, as well as any interest these funds earn, should be fully dedicated to the Measure M facilities program. By not paying interest on any loans it makes from the building fund, the amount of money ultimately available for school facilities projects is reduced.

To provide balance, we point out that the District has exercised due diligence in making the decision to temporarily borrow from the Measure M bond fund to cover district operating costs. The District consulted with its bond counsel and was advised that the borrowing was permitted by law. The District also consulted with its financial advisor and the Yolo County Office of Education and was advised that these loans were permissible. The District also followed the general provisions in the Education Code regarding temporary borrowing, the procedures set out in the School Accounting Manual; and the 2019 California State Accounting Manual. Consistent with these requirements, the Board approved a resolution in October 2019 authorizing this short-term borrowing. The District has also been advised that it is not legally required to repay interest on short term loans made from the Building Fund. However, after we raised this concern with District staff, it agreed to ask the Board's policy subcommittee to review this issue.

The Committee recommends that the District not make loans from the building fund as the Measure M bond program moves forward. However, if it does make such loans, the Board should modify its existing Board policy (DJUSD BP 3110, Transfer of Funds) to ensure that it requires that any loan made from the Measure M Building Fund be repaid at

a rate of interest that is at least equal to the investment earnings the building fund would have earned if the inter fund loan had not occurred.

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 and concluded that the bond measure contained a specific list of the types of projects to be funded by Measure M as well as 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 and it was presented to the Board at its February 5, 2020 meeting. The audit was also provided to the Committee, which reviewed this performance audit at its February 26, 2020 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 and did not make any 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 audit for the 2018-19 fiscal year focused exclusively on whether the District complied with various Proposition 39 requirements. The auditing standards also allow, as an alternative to, or an 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 District may wish to expand the scope of its performance audit. The Committee is not making a formal recommendation in that regard at this point.

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

The District contracted for this independent audit and it was presented to the board at its February 5, 2020 meeting. The audit was also provided to the Committee, which reviewed the audit at its February 26, 2020 meeting. The financial audit did not contain any findings of non-compliance with the Constitutional or statutory requirements and did not make any recommendations. A full copy of the Measure M financial audit can be found on the District's website at <https://www.djUSD.net/>.

THE COMMITTEE DID NOT FIND IT NECESSARY TO INSPECT SCHOOL FACILITIES AND GROUNDS

By law, the committee has authority to inspect school grounds and facilities to determine whether bond funds are being used appropriately. Although the committee considered visiting school facilities/grounds, we decided that it was more appropriate to wait until later in 2020 when there will be construction to observe. We tentatively plan to make our first site visit to Emerson Junior High to observe the construction of its science buildings. This visit, to comply with the Ralph M. Brown Act, will be scheduled as an open public meeting.

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

The District does not presently have a 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 but 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 EFFECTIVELY MANAGE MEASURE M CONSTRUCTION PROJECTS:

It is our view that effectively managing school construction projects and the costs associated with those projects are two of the most important factors for a successful Measure M program. Throughout its first year, the Committee has 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 that are considered best practices in school construction project and financial management. First, the District hired a nationally recognized consulting firm, Government Financial Strategies, to conduct the sale of bonds under Measure M. Both bond sales conducted under Measure M were very successful and resulted in significantly more revenue for the District than originally anticipated, in large part because of the timing of the sale.

Moreover, when spending bond funds, the District uses various strategies designed to achieve cost effectiveness. One such strategy is the use of the same design template at

multiple school sites for the same type of project. The new multi-purpose rooms at Cesar Chavez Elementary, Birch Lane Elementary, and North Davis Elementary all plan to use essentially the same architectural design, which helps to achieve an economy of scale. In addition, the District staff is attempting to time the construction of similar projects so that additional efficiencies are achieved. In other words, the District is attempting to build similar buildings at different school sites at the same time because this results in further savings because it can purchase supplies and materials in greater quantities. The District is also relying on the authority in state law to do “piggyback” contracts for some of the construction work under Measure M. This way, the process is competitive, but the District can rely on an already bid contract and can save time in the contract award process. The District is also considering that certain types of construction have an impact on labor costs and is taking that into consideration. Finally, the District staff are acutely aware that delays in projects could result in escalating construction costs, so they are working diligently to keep projects on schedule.

One note of concern that the Committee has as the District moves ahead with Measure M is that any changes in project priorities or project schedules may have a significant impact on costs. The Committee urges the Board to adopt a complete set of project priorities for the entirety of Measure M funds that considers the financial impacts of priorities and schedules.

GOING FORWARD THE COMMITTEE NEEDS MORE TIMELY ACCESS TO EXPENDITURE DATA

The Committee met five times over the past year. Prior to each meeting, the Committee chair met one or more times with District staff to request and review the materials and information to be provided at the upcoming meeting. These meetings were productive, and it was clear that District staff was supportive of the work of the Committee. Nonetheless, the Committee chair had some difficulty in obtaining requested expenditure information for the Committee to review and discuss at its meetings. Ultimately, the Committee was able to receive the expenditure data it requested (at its February 26, 2020 meeting), but as the Committee moves forward with its work it needs to be assured that the information it requests, unless confidential, will be provided in a more timely manner, so that all Committee meetings can be productive. At one of its upcoming meetings the Committee will discuss and agree on the specific information that it needs for its meeting and will communicate these expectations to District staff. Hopefully, this will provide the District enough time and clarity regarding the Committee’s information needs.

In compliance with requirements of subparagraph A of paragraph (3) of subdivision (b) of Section 1 of Article XIII A, of the California Constitution, we the undersigned members of the Measure M Citizens' Oversight Committee do verify that this is a true 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.