

**CITIZENS' OVERSIGHT COMMITTEE  
MEETING MINUTES  
July 14, 2003**

Chairman Al Valdez called the meeting to order at 5:00 p.m. with Roger Larkin, Maurice Ayala, Stuart Holland, Michael Calta, Geoffrey Vanden Heuvel and Paul Andersen present. Glenn Duncan arrived at 5:02 p.m. Andy Anderson, Gary Ovitt, Gerald Bruce, and Gary Larson were absent. Bill Fawell, Bond Appraiser, and Warren Hennagin from Glenn M. Gelman & Associates, bond performance auditors, were also present.

**1. Review/Approval of Minutes, May 19, 2003**

Mr. Ayala requested that the minutes be changed to say that he abstained from the vote taken in Item No. 2, regarding the 2003-2004 Space Plan for Marshall Elementary School. However, since nothing was said at the time the motion was made, this change cannot be made to the previous minutes. The current minutes will reflect that he wished to abstain. This motion was to support the request to move forward with two Measure M projects on Marshall's list: restroom renovations and the parking lot expansion, to support additional enrollment at the school.

Mr. Larkin moved and Mr. Calta seconded a motion to approve the minutes.

**2. Performance Audit Consultant Report**

Dr. Andersen explained that for a bond passed under Proposition 39, there is a requirement for the District to conduct a performance audit. At the last meeting copies of the Request for Proposal document were given to the committee members. The selection committee was composed of Chairman Valdez, Dr. Andersen, and Board Member Lonnie Truett. They interviewed two consultants for the project and were favorably impressed by the credentials and answers to questions received from Mr. Warren Hennagin of Glenn Gelman & Associates. They unanimously agreed to recommend this firm for Board approval. He introduced Mr. Hennagin to give a brief overview of this process to the committee.

Mr. Hennagin explained that his firm specializes in contractors, which comprise approximately 90% of their practice. He felt that with their expertise in construction, they could lend a hand to the performance audit. They will start the fieldwork of the audit the following Tuesday, take a tour of a few of the sites, and take digital pictures. They will conduct exit interviews with Dr. Andersen's staff and notify him of any complaints or compliments. They will produce a preliminary report; finalize the report; make a presentation to the Board; as well as return to make a presentation to the committee in September. The following topics were discussed:

- The audit would develop what the procedure should be, test the system on three different jobs: a new job from ground up that's part of the bond measure and two of the remodels. They will test the procedures that his department has in place and see if they are in fact being carried out. If district policy is that the procedure includes steps 1-10, he will test at least 3-4 different jobs to see if that's what happened and if there are any problems with the procedures.
- Focus is entirely on Measure M money.
- The district has an in-house person who is in charge of seeing that procedures are being followed.
- The investigation will cover the previous year.
- The objectives are standard, and Government Auditing Standards "Yellow Book" will be used.
- Mr. Larkin asked if other districts have done performance audits, and Mr. Hennagin stated that no one has done one in the State of California. All performance audits for other districts are in progress.
- Mr. Hennagin said that he's the chairman of the Yorba-Linda Bond Oversight Committee.
- Performance audits need to be conducted yearly and they follow the financial audit.
- Performance audits are related to how procedures are followed which encompasses how money is spent.
- Mr. Hennagin said he and Dr. Andersen would just go to the sites. Dr. Andersen's staff will be interviewed without him there.
- The fee is a fixed bid for \$32,000, they are looking into whether or not this fee is payable from Measure M funds, it is a gray area. The only thing strictly mandated that cannot be paid from Measure M is school district salaries.
- Mr. Vanden Heuvel said he hopes the costs for the performance audits go down in the future because it seems there would be a lot of redundancy.

### **3. Sale of Second Issuance of Bonds Report**

Dr. Andersen introduced Bill Fawell, the independent financial advisor that the District retained for advice regarding the sale of the second issuance of bonds. Previously San Bernardino County provided some independent oversight for districts in the sale of bonds. The County no longer offers this service, and staff thought it was important to have independent advice regarding the bond sale. The "Bond Pricing Report" prepared by Mr. Fawell was previously mailed to the committee members for review.

Mr. Fawell explained that he reviews the whole financing program, including the pricing of the bonds to sell at competitive rates. He also reviews all financing

documents and comments on them to make sure the Official Statement is as accurate as possible. He has worked since 1975 in local government, in city management for 10 years, in 1985 moved into public finance, worked as underwriter of municipal bonds and as financial advisor, and in 1994 he formed his own firm.

Mr. Fawell stated that the District came out very well in terms of a competitive price and all financing goals were achieved. Rates are so low and bond investors don't want to hold a bond that has a coupon value of 1 or 2%. However, they are willing to pay a premium for the bond to get a coupon rate on that bond that's actually higher than the market. They are concerned that when rates go back up, they won't be holding onto bonds that are at extremely low rates. The District received the full \$35 million for construction without having to subtract out the costs of issuance and underwriting discount, which totaled approximately \$500,000. The annual tax for the average homeowner will not exceed the estimated \$40 per year per \$100,000 assessed valuation. Serial bond coupon rates range from 2% in 2004 to 4.75% in 2023, with a term bond at 4.75% from years 2024 to 2027.

He explained the process. They look at the market a week before the sale and pre-pricing took place on Tuesday, June 24. At pre-pricing the underwriter comes back with estimated rates and yields. District and Mr. Fawell reviewed that estimate against what he thought the market would be based on the curve of sales in the market. District officials approved the sale at that price and the final sale date was Wednesday, June 25.

He reviewed the report that was submitted to the members and answered questions. Mr. Vanden Heuvel asked if the bond market prices were so favorable would the District benefit in selling more bonds. Mr. Fawell explained that that even though rates are down, in a bond issue there needs to be a reasonable expectation that the all the bond proceeds could be spent in three years. The District has now sold \$75 million in bonds in the last two years and expects to be able to spend it all within the allotted time. However, additional bond funds might not be spent.

#### **4. Construction Status Report**

Dr. Andersen distributed some paperwork gave a verbal update on the projects currently being planned by WLC Architects as follows:

- Wickman - Classes for Wickman have started at Oak Ridge Elementary School due to the fact that Wickman is year-round. The hope is that the classrooms and a good portion of the administration building ready by mid-August so the students can be transferred to Wickman. The multi-

purpose room and the kitchen will be completed in the month of September.

- Rhodes - The status is similar to Wickman. Three more relocatable classrooms will be installed on the Rhodes campus because the enrollment projection anticipates more growth than the actual population. Therefore, additional capacity is needed there.
- Walnut - It is planned to do the addition first before the modernization. Anticipation is we will get a bid out in late summer and start the new construction.
- Don Lugo - The exterior painting of the campus is in progress. It is hoped that the painting will be completed mid-August so the regular education program in September will not be disrupted. Modernization of approximately 10 classrooms in the older portions of the school will be done first, rotate to another 10, and in the spring, another 10. Hopefully, 30 classrooms will be modernized during the 2003-04 school year.
- Ayala High School Stadium - Fully under construction right now and the buildings are moving well. There are some problems with the footings. Soils are not as compacted as hoped. District is waiting for engineering advice. The plan remains to have the project finished by August.
- Dickson and Cortez - WLC is still finalizing modernization plans for these schools. Staff input has been solicited and Measure M projects, cafeteria additions, are being incorporated.
- Marshall - Work being done here now is not modernization or Measure M projects, it is to be funded from the Capital Facilities Fund.
- Buena Vista - Final drawings are in process.
- Levi Dickey - Also not a Measure M projects.
- The District has hired another architect, Fields Devereaux, to work on modernization at Chino High School and on the Chino stadium. They have started reviewing the facilities and getting engineering reports and checking budgets on these projects.

Mr. Calta asked if there would be additional costs at Ayala and Dr. Andersen said yes. Mr. Holland asked if the committee would received presentations on remaining projects and Dr. Andersen said one could be arranged for Dickson and Cortez. Mr. Ayala asked what is the scope of Chino High Stadium work and Dr. Andersen said the plans have not been completed yet but said that hopefully it will be a much higher quality stadium when it is completed. Mr. Valdez asked if someone could give the committee an update on Chino High School Stadium plans and Dr. Andersen agreed. Mr. Holland asked what the anticipated enrollment would be at Rhodes and Dr. Andersen said around 620. Dr. Andersen said that the capacity is in the low 700's. The County has an agreement with the District to help build facilities for their special education classes. The District thought this space would be available for use, but the County has let the District know they will need them for their program now. One other classroom will be used as a computer room instead of a standard classroom. To provide for potential expected growth, district staff decided to build out the project now rather than wait

until later. Rhodes attendance area includes portions of the Ag Preserve and in the interim, before facilities are built there, there will be a need for school housing at Rhodes for homes that will be built.

Dr. Andersen explained that all of the projects are at or under budget at this point except for Ayala. There are some unknowns that have occurred at Ayala and the as-built drawings were not accurate so the stadium literally had to be moved over to avoid having to dig up and replace some existing piping.

#### 5. **Quarterly Report Status**

Mr. Valdez said he had emailed a rough draft to the committee members. He asked them to review them and email back their questions or comments. He will take the comments and format the report and email it again for final approval before being submitted to the Board.

#### 6. **Other Topics/Public Comments**

Mr. Larkin referred to a topic that was discussed during the last meeting regarding members that aren't attending the meetings. He said the bylaws state that the Board can remove a committee member for cause including failure to attend three consecutive meetings. Then they can use their process to reappoint someone to that position. Mr. Ayala asked who would notify the Board that there was a member that wasn't attending the meetings. Mr. Larkin said the committee should notify the Board. Mr. Ayala pointed out that very little of Ontario is actually in the district and perhaps the bylaws could be amended to say that a "representative" of each city should be on the committee, as opposed to the member having to be a council member. He said council members have a lot of commitments, and maybe the city council could appoint someone else. Mr. Ayala made a motion to change the bylaws to say "a representative" of the city council, and Mr. Vanden Heuvel seconded the motion. All were in favor except Mr. Duncan. He thought the amendment is opposed to what the cities were told ahead of time, what the school board had assured the cities going into the bond issue. Mr. Valdez suggested that they make a recommendation to the school board and they can decide what to do. Mr. Duncan suggested that the agendas be sent out earlier. He had received his agenda a half-hour before the meeting. Mr. Vanden Heuvel said they had been mailed out earlier, but Mr. Duncan's mail goes through city staff before he gets it. Mr. Valdez suggested the agendas be sent via email and faxed to Mr. Ayala.

Mr. Ayala clarified his motion. He stated that the bylaws that were adopted say "a council member from each city," is to be on the committee, and he would like to strike that and state "a representative chosen by the council of each city." The representative could be a councilperson or someone else chosen by the council.

Mr. Ayala said he would write out the proposed amendment and submit it to the chairman.

Mr. Larkin said he would like the board, upon approval of the amendment, to contact the city council and have them reassign a person to the position.

Mr. Calta asked about the recent increase in fees to B.E. McMurray. He asked if there could be some explanation to the committee as to how this firm estimates their fees. Dr. Andersen said they propose a "general condition" which basically covers their staff costs, rental for their facility, insurance costs. In addition to general conditions there is a profit, which at this point is 3-3/4% of the project cost. General conditions are usually somewhat more than 3-3/4%, and if those were put together, it would come to approximately 8-9% of the project cost. Mr. Calta wants to be able to evaluate the costs. Dr. Andersen suggested the committee could look at other firms to get comparison costs.

Mr. Valdez asked if there were any public comments. Earl DeVries, the chairman of the Ontario-Montclair bond oversight committee, had some questions regarding the financial audit, using bond money to pay off a C.O.P., the feasibility of selling more bonds, and asked who the tax representative was on the committee.

Mr. Valdez said he was going to try to present the committee's reports at the next board meeting on August 28th. He will email the reports within the next 10 days for their review and comment.

The next meeting date was chosen for September 15th, at 5:00 p.m.

Meeting was adjourned at 6:13 p.m.