

Eureka City Schools
Citizens' Oversight Committee
For Bond Measures S and T

SECOND ANNUAL REPORT TO THE COMMUNITY
July 1, 2003--June 30, 2004

Summary:

This is the second annual report to the community by the Citizens' Oversight Committee (COC) concerning the status of the school improvement bond measures approved by Eureka voters in March 2002. Bond Measure S authorized \$32.5 million for the middle and high schools, while Bond Measure T authorized \$10.6 million for the elementary schools. Pursuant to state law, the Eureka City Schools' Governing Board appointed the Citizens' Oversight Committee primarily to help ensure that bond funds are spent only on bond projects and that independent audits of the two improvement bonds are prepared annually by a CPA firm.

For the second fiscal year ending June 30, 2004 (subject to audit) \$4,161,000 was spent for bond projects: \$2,437,000 for Measure S, \$1,538,000 for Measure T, and \$187,000 for the Central Kitchen financed with bond interest income.

The COC believes that expenditures of Measures S and T bond proceeds have been properly made for projects described in the bond measures; and no bond funds have been spent on District operating expenses as of June 30, 2004. These expenditures are subject to required independent financial and performance audits to be completed by this December and to be reviewed by the COC. Audit results will be communicated to the community as a supplement to this report.

Background:

On March 5, 2002 Eureka voters passed school improvement bonds, Measure S for the high school and middle schools, and Measure T for the elementary schools. Combined, the bonds provided approximately \$43 million to modernize and make safe the classrooms and facilities of the Eureka Unified School District with an anticipated \$16.5 million in state matching grants.

The Citizens' Oversight Committee members represent local businesses, senior citizen organizations, taxpayer organizations, parents of students in the affected schools, and community members at large. The primary purpose of the COC is to ensure that the expenditure of taxpayers' money is consistent with the bond language and that bond revenues are expended only for the construction, reconstruction, rehabilitation or replacement of school facilities and that no funds are used for salaries or general operating expenses. The COC also has the responsibility to report its activities to the public

annually, and alert the public to any waste or improper expenditure of school construction bond money. The COC is an independent group of concerned citizens, who volunteer their time to monitor the progress of the Bond projects to ensure that the end result will be a safer and more effective learning and teaching environment for the future. While the COC can make recommendations in an advisory capacity to the Governing Board, it cannot establish education policy nor authorize the expenditure of taxpayer funds.

COC Activities 2003-2004:

The COC generally meets on the 4th Monday of the month from 4:30 PM to 6:00 PM in the Governing Board chambers located at 3200 Walford Avenue in Eureka. In accordance with the Brown Act, the meetings are open to the public. The Superintendent, the District staff, and the Program Manager have been very helpful and cooperative in providing the COC with updated information on the Bond measures and the anticipated projects. The District's Business Services Administrative Assistant acts as the secretary for the COC, posting the meeting agendas and taking minutes. As part of community outreach, the COC has a dedicated web page on the District's official web site that contains the minutes of each meeting and is updated regularly by District staff. It can be found on the internet at www.eurekacityschools.org/bonds/measuresandt.

In June of this year the Governing Board reappointed all nine members of the COC to a second term of two years. At this time, committee members are limited by statute to serve a maximum of two, two-year terms.

Status of Major Projects:

Subject to vendor qualifications and pricing, most projects are being performed by local area contractors—a practice encouraged by the COC.

Central Kitchen—as mentioned in our Addendum Report to the Community dated, March 12, 2004, the District's Governing Board decided to construct a centralized kitchen facility at the Corporation Yard and convert all kitchens at the school sites to warming/serving facilities. Both bond measures included remodeling and upgrading all school kitchens to meet building and safety codes; however, the costs and necessary space requirements were grossly underestimated. As a cost-effective resolution to this dilemma, the central kitchen concept was developed by staff. The District may be able to generate revenue by selling its food services to other organizations in the Eureka area. In order to finance the central kitchen, the District has decided to use interest earned from bond proceeds held in the county treasury and label it an "Interest Income Project," which transcends both bonds. This project is expected to be completed by January, 2005 for \$2.1 million.

Eureka High School Phase 1—due to extremely high estimated costs for a complete FEMA 31 seismic retrofit of the Eureka High main building and gymnasium (*i.e.*, using seismic codes for brand new buildings), the District has decided to follow a 2-phased approach to modernize the campus. Phase 1 would use Measure S bond funds to update the main building to the minimum, safe, 1961 Field Act seismic and ADA code requirements, and a new gym would be built in front of the old Jay Willard facility, which would then be

demolished. Also, some industrial education (IE) programs would be relocated to a new building adjacent to the Ag Department. The IE Building would be upgraded to a community technology center. Other campus improvements would be incorporated to bring the total Phase 1 budget to \$25.4 million. Phase 2 would be funded from sources other than Measure S at sometime in the future.

Financial Report:

In this year's March election voters approved Proposition 55, which provides a pool of state matching funds for local school construction projects. All construction plans for the elementary and secondary schools have been submitted to the Division of State Architect. As they are approved by the DSA, they will qualify for more than \$20 million in state matching funds that will augment the \$43.1 million provided by the S and T bonds, plus \$2.1 million of bond interest income.

Attached to this report is a spreadsheet (see Attachment) that summarizes project budgets and spending through June 30, 2004 by school facility. All spending data is subject to the annual independent audit that is expected to be completed in December 2004, the results of which will be communicated to the community as an addendum.

Issues and Concerns:

The tracking of costs related to Bond funded projects is of vital interest to the COC. There are many projects on the table and some utilize "blended funding" (funding from more than one source). The Project Management firm (3D/I) has provided a financial tracking, budgeting and reporting system that accounts for the Bond monies spent and committed to date, plus spending projections, and project timelines. This information can be found on the District's website.

Project prioritization is crucial to future planning and spending. A function granted by the Board to the COC is to offer prioritization advice. The Project Manager and District staff are developing critical timelines relative to project prioritization in order to determine both schedule and financial performance.

As in any renovation project, hidden defects are often encountered. The District has taken steps to mitigate unforeseen costs as much as possible. Aging facilities, particularly at Eureka High School, could have hidden problems that may not be discovered until demolition begins, such as hazardous materials, infrastructure issues, or lack of as-built drawings. Inflation is taking its toll on construction spending. This year inflationary cost increases as high as 40% are being incurred for such items as concrete, lumber, steel, and plywood. The requirement to pay State-approved "prevailing wages" for public works projects is also eating into the bond budgets. It remains to be seen how much of the scope of the original projects contemplated by the bond measures will actually be accomplished, even with the Proposition 55 state matching funds. The District and its Project Manager are searching for additional, innovative funding such as hardship grants for major seismic retrofit, in addition to innovative modernization techniques.

Findings and Conclusion:

As of June 30, 2004, the Citizens' Oversight Committee believes that expenditures of Measures S and T bond proceeds have been properly made, subject to independent audits that are to be completed in December 2004. The COC believes the District is in compliance with the requirements of Article XIII A, Section 1(b)(3) of the California Constitution which provides that Bond revenues are expended only for the construction, reconstruction, rehabilitation or replacement of school facilities, including furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities; and, no funds are used for any teacher or administrative salaries or other school operating expenses.

Summary of Future COC Activities:

The COC will provide input to parameters for the required annual independent financial and performance audits of the Bond projects. Results of the second annual financial and performance audits will be available in December 2004 and communicated to the community.

The COC will work with the District to refine the periodic public financial and performance reporting system as Bond projects progress. The COC will continue to provide input in establishing project priorities as well as monitor all Bond related projects, including Proposition 55 funded activities.

The Committee members look forward to seeing Eureka City Schools' facilities renovated and upgraded for the benefit of the students, the staff, and community.

Citizens' Oversight Committee Members:

Melinda Ciarabellini
Marge Custis
Larona Farnum
Kurt Kramer
Fred Nelson

Bob Marino, Vice-Chair
Susan Seaman
Liana Simpson
Ken Skaggs, Chairman

December 31, 2004

Attachment:

Eureka City Schools - Status of Bond Measures - as of July 2004

(\$ in thousands)

	Funding			Expenditures	
	Budgets for Original Bond Funds	Projected State Matching Funds	Total Budgeted Funds	Commitments thru 6/30/2004	Spent thru 6/30/04 (unaudited)
Measure S					
District Wide/Corp Yard	\$ 923	\$ -	\$ 923	\$ 137	\$ 12
Eureka High School	17,703	7,650	25,353	2,860	1,144
Annex (Marshall)	1,385	1,750	3,135	223	68
Jacobs Education Center	2,566	650	3,216	596	162
Winship Middle School	5,132	1,820	6,952	1,385	660
Zane Middle School	4,806	2,140	6,946	2,141	623
Total Measure S	\$ 32,515	\$ 14,010	\$ 46,525	\$ 7,342	\$ 2,669
Measure T					
District Wide/Corp Yard	\$ -	\$ -	\$ -	\$ -	\$ -
Alice Birney Elementary	1,075	1,330	2,405	330	148
Grant Elementary	1,495	970	2,465	307	162
Jefferson Elementary	1,125	840	1,965	253	120
Lafayette Elementary	2,863	870	3,733	978	800
Lincoln Elementary	1,394	1,020	2,414	329	224
Washington Elementary	1,883	1,090	2,973	493	309
Winzler Children's Center	320	-	320	19	2
Worthington Elementary	430	-	430	48	5
Total Measure T	\$ 10,585	\$ 6,120	\$ 16,705	\$ 2,757	\$ 1,770
Interest Income Project					
Central Kitchen	\$ 2,100	\$ -	\$ 2,100	\$ 1,629	\$ 182
Grand Total	\$ 45,200	\$ 20,130	\$ 65,330	\$ 11,728	\$ 4,621