

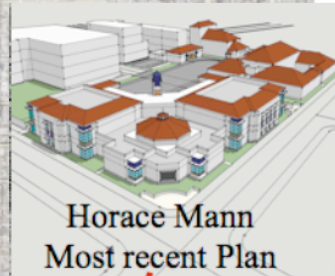
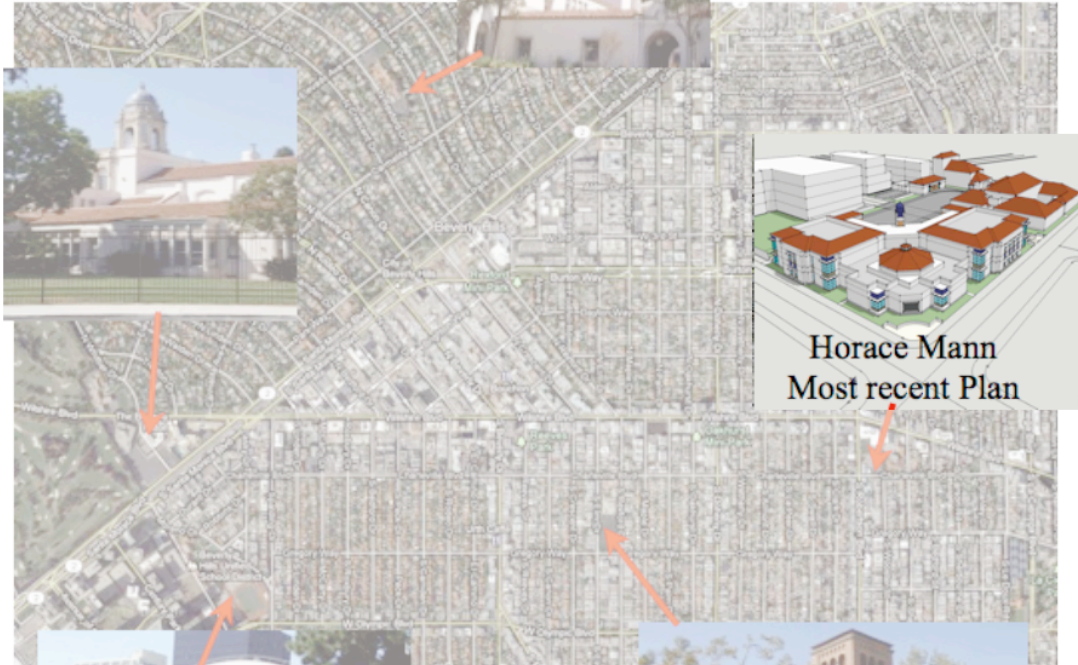
SIX-MONTH REPORT OF THE CITIZENS' OVERSIGHT COMMITTEE



El Rodeo



Hawthorne



Beverly Hills High School



Beverly Vista



Horace Mann Auditorium modernization is underway !

SIX-MONTH REPORT OF THE CITIZENS' OVERSIGHT COMMITTEE

Through June 30, 2012

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I. **EXECUTIVE SUMMARY**

This Six-Month Report of the Citizens' Oversight Committee covers the period from January 1, 2012 through June 30, 2012 and updates the issues addressed in the 2011 Annual Report.

The primary responsibility of the Citizens' Oversight Committee is to monitor the expenditure of funds by the Beverly Hills Unified School District to ensure that they are utilized in the manner prescribed by Measure E to achieve certain goals:

“Provide safe and modernized school facilities, make necessary structural seismic safety repairs, upgrade, repair, and reconstruct aging classrooms, infrastructure, multi-use, gyms, libraries, science, technology and labs; roofing, plumbing, heating, ventilation and electrical systems; renovate Beverly Hills Unified School District schools to better protect student/staff from unauthorized entry, security risks, and natural disasters.”

In performing this over-arching duty, the various sub-committees of the Citizens' Oversight Committee have engaged in conferences with a variety of decision-makers, reviewed information, attended meetings, conducted independent research, made recommendations and shared their findings with the full Citizens' Oversight Committee – which then submitted its recommendations to the Beverly Hills Board of Education.

An overview of the sub-committees' findings is set forth below:

The initial Measure E Bond sale yielded \$72,044,664 for the BHUSD. Through June 30, 2012, the funds have earned interest and other local revenue aggregating \$2,886,852. In addition, Measure E realized \$2,500,000 from the allocation of a portion of a vendor settlement that was paid to resolve BHUSD litigation involving prior construction projects. Through June 30, 2012, the BHUSD has spent \$23,483,715 of Measure E funds and as of that date, there is a remaining balance of \$53,947,801.

Due to the significantly heightened complexity and expanded scope of the Measure E construction program, the Audit Sub-Committee provided recommendations to the BHUSD – which were approved at its August 14, 2012 meeting – respecting what should be included in the Request for Proposal to be bid by prospective performance auditors.

The Ethics Sub-Committee reiterated that the members of the Citizens' Oversight Committee can speak to the community as individuals but must identify themselves in that capacity unless they are participating in a formal presentation on behalf of the Citizens' Oversight Committee.

The Public Relations Sub-Committee explored available vehicles to increase public awareness of Measure E's progress and made action recommendations to the Board of Education.

In its 2011 Annual Report, the Citizens' Oversight Committee noted the outstanding concerns pertaining to latent defects that existed at the various school sites where construction had been performed under prior Bond measures. After investigating the facts and circumstances surrounding this issue, it was determined by the Construction Sub-Committee that the applicable statutes of limitation had expired and there are other impediments to initiating litigation that make pursuit of the claims uneconomic.

Of greater significance is the conclusion by the Citizens' Oversight Committee that the \$334,000,000 in Measure E funds are insufficient to achieve the desired objectives at all five school sites – which means that the original goals must be scaled back or supplemental revenues must be obtained through the sale of additional Bonds which, in turn, may increase property tax rates. Or an entirely new Bond Measure must be voted on by the community. The Citizens' Oversight Committee recommended to the Board of Education that due to the currently available low interest rates, the necessary funds should be borrowed through the accelerated sale of the remaining authorized Bonds. Additionally, the work should be expedited to complete the school projects so as to take advantage of the lull in the construction industry.

At the time the COC's 2011 Annual Report was submitted to the BHUSD and the community, the "Draft" Master Plan that had been prepared in 2008 had yet to be finalized. In the interim, the BHUSD contracted for a new Master Plan to be created by DeJong-Richter that was adopted in August 2012. The new Master Plan is markedly different from the Draft but is nevertheless designed to achieve the objectives of Measure E. The highlights of the new Master Plan are summarized in Section II below.

II. **MASTER PLAN**

The highlights of the recently adopted Master Plan as they relate to Measure E are:

- Funds received from the sale of the Bonds shall be used for the specific purposes set forth in Measure E including modernizing school facilities, making structural seismic repairs, upgrading, repairing and reconstructing classrooms, infrastructure, multi-use, gyms, libraries, science and technology labs, roofing, plumbing, heating, ventilation and electrical systems;
- All Measure E projects must be related to student security, health and building safety;

- BHUSD shall be allowed to complete three of the five schools in the District based upon current funding, leaving El Rodeo and Beverly Vista as the two remaining schools that require plans for safety, security and maintenance;
- Hawthorne and Beverly Hills High School, upon the discretion of the BHUSD, and available funding, have identified priority maintenance projects that may need to be addressed before construction occurs at each of these sites. The maintenance costs for Horace Mann have not been included;
- Funds must be budgeted to correct the deficient systems at the various school sites so they do not adversely affect the improvements;
- The DeJong-Richter recommendation should be considered to the effect that all school facilities adopt a program to track the life expectancy of the systems involved.

The Master Plan illustrates that while Measure E envisioned that the funds would be sufficient to satisfy the objectives for each of the five schools, this has not proved to be true – which means that the scope of the work must be recalibrated and the items in question prioritized.

III. **SUB-COMMITTEE REPORTS**

A. **Audit**

Included in the Appendix to this report are charts presenting unaudited financial information that was provided to the Citizens' Oversight Committee by BHUSD staff.

As noted in the Executive Summary, the sum of \$53,947,801 remains available from the first bond issuance to implement the Measure E objectives. Chart No. 1 reflects the bond proceeds, delineates the interest income, factors in the settlement proceeds, details the inception-to-date expenditures and presents the balance as of June 30, 2012. Chart No. 2 lists the Measure E vendors who were paid more than \$50,000 during the six months ended June 30, 2012.

For fiscal years 2009-2010 and 2010-2011, Measure E financial and performance audits were performed by Christy White Accountancy. Following completion of the 2010-11 audits, the BHUSD exercised its contractual right to proffer to the public a Request for Proposal to do the performance audit work for the fiscal year 2011-2012. After considering best practices for such an audit, the Audit Sub-Committee made a number

of recommendations respecting the services to be performed by the successful bidder including:

- **Evaluate the Master Plan and facility programming;**
- **Review and assess procurement controls and contract administration practices;**
- **Evaluate the costs, scheduling and budget management;**
- **Evaluate the performance of the Measure E program and available options to improve it.**

At its meeting on August 14, 2012, the Board of Education approved these recommendations and the resulting language to be included in the Request for Proposal. At this juncture, the BHUSD is in the process of soliciting bids and conducting its selection process. The Audit Sub-Committee as well as the Citizens' Oversight Committee will act in an advisory role during this process.

The audits for each fiscal year will now be due by February 15 which should permit adequate time for the BHUSD and the Citizens' Oversight Committee to review the reports and make whatever revisions are necessary to finalize the audits.

B. Ethics

The Ethics Sub-Committee both advised and reminded the members of the Citizens' Oversight Committee that they are free to voice their opinion to anyone in the community so long as they specify that they are speaking on an individual basis and not as a representative of the Citizens' Oversight Committee. On a related subject, members of the Citizens' Oversight Committee have been advised not to identify themselves as members thereof in connection with elections, supportive campaigns, positions on local Measures or any other matter pertaining to the schools.

In addition, the Ethics Sub-Committee advised the members of the Citizens' Oversight Committee of their term limits and the appointment/reappointment process.

Finally, the Ethics Sub-Committee recommended to the Board of Education that additional qualified members be asked to join the Citizens' Oversight Committee.

C. Public Relations

In August of 2012, the Citizens' Oversight Committee approved a Motion for submission to the Board of Education proposing to increase public communication and attendant awareness of Measure E's performance by producing a periodic 30-minute fact-based presentation on KBEV-6 outlining the manner in which the funds are being spent, the anticipated results and any pending issues. Subsequently, the Board of Education decided to provide pertinent information to the community respecting Measure E including the need to increase the property tax assessment to pay for the Bond financing, available alternatives, the status of the construction projects and any other outstanding matters of consequence. Because the general funding for KBEV-6 may be reduced, the Board of Education is considering a series of community forums to discuss these issues. In the interim, the Public Relations Sub-Committee is exploring alternative avenues for community outreach.

D. Construction

The Citizens' Oversight Committee has voiced concerns to the BHUSD and the Board of Education regarding the latent defects that were brought to its attention at the existing school sites where construction had been performed prior to Measure E. After requesting and reviewing the available information, it became evident that a prior Board of Education became aware of the construction defects, but rather than precipitate litigation, the predecessor Board entered into settlement agreements with certain vendors – based on their assessment that other responsible vendors could not be located and the availability of insurance coverage was questionable. Therefore, many of the claims are now barred by the applicable statutes of limitation. For these reasons, the Citizens' Oversight Committee recommended that the matter be dropped.

Turning to the major issue facing the BHUSD, the question is whether adequate, ongoing consideration has been given to the sufficiency of the Measure E financing to implement the Measure E goals for all five schools. This Citizens' Oversight Committee has concluded that the available funds are inadequate, and the following options must be carefully evaluated:

- Whether the Measure E “budget” is feasible, based upon funds already spent and anticipated for the future and, if not, the amount of the shortfall and the manner in which the supplemental funds will be raised;
- Whether the work to be performed should be restricted to one or two schools so that the available funds can be utilized to attain the desired results albeit on a modified basis;

- Whether the remaining funds should be used for deferred maintenance to expand the useful life of the five schools;
- Whether additional and / or new Bond sales should be authorized, and if so, at what rate of interest and when;
- Whether the presently existing bond property tax rate is adequate to repay the current and future Bond obligations, and if so, when the repayment will be completed;
- Whether there are any alternative sources of funding which should be pursued;
- Whether a priority list should be created together with a realistic budget assessment to enable proper scheduling, planning and work to be commenced and completed;
- Determine what work should be done for the short-term and which tasks should be delayed;
- Decide the best way to provide safe and modernized school facilities, bearing in mind the limited amount of funding that is available.

By way of example, a great deal of time and money has been spent on the planned modernization of Hawthorne School. The main architectural options that have been prepared are colloquially known as “Options # 6 and #7” but under current plans, there are inadequate funds to complete either of them.

In short, architectural plans, administrative costs and the amount required to complete the construction process must be based on available funds since the absence of money will halt construction.

The best utilization of Measure E funds would be to specifically match the timing and amount of future bond sales with a specific schedule of proposed construction plans for each of the five schools. Phasing of the proposed construction projects should be clearly delineated with cost ceilings.

The community must be made aware that future bond property taxes will be determined by a number of factors such as the pre-existing repayment obligations for Measure K and Measure S, the rate of increase in assessed property values, the timing and amount of future Measure E bond issuances and interest rates. (See the KeyGent presentation to the Board of Education dated August 21, 2012).

The Citizens' Oversight Committee notes that the Board of Education will discuss the future structure of the Bond sales – i.e., zero coupon bonds versus interest bonds – as well as the length of time of repayment. The options will be presented to the public for their input. Once this process is completed, the Board of Education will adopt a plan.

IV. **CONCLUSIONS AND RECOMMENDATIONS**

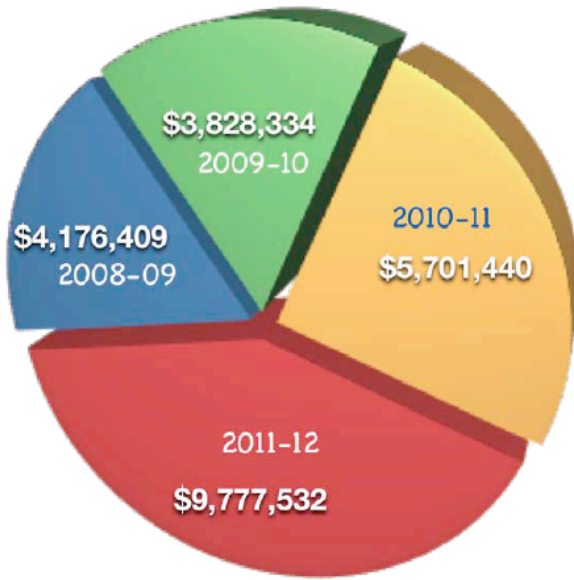
With the remaining amount of Measure E funds, the Board of Education must decide how to proceed. The preliminary conclusion of the Citizens' Oversight Committee is that the Board of Education should consider additional Bond sales as soon as possible due to the historically low interest rates.

The Citizen's Oversight Committee additionally recommends that a quarterly review be undertaken by the Board of Education to make certain that the construction/remediation process is tightly controlled which will enable proper planning, scheduling and timely work performance within budgeted cost.

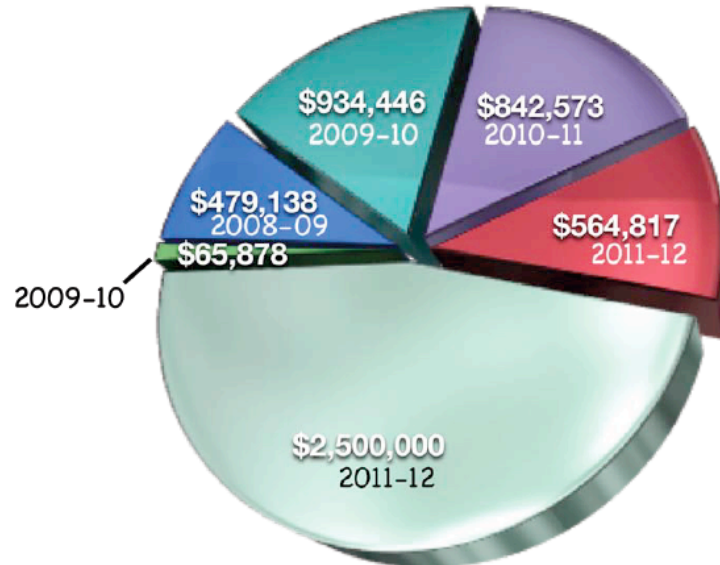
V. APPENDIX OF EXHIBITS

Beverly Hills Unified School District Measure E Cash Balance Summary From Inception through June 30, 2012 (UNAUDITED)				
2009 Bond Proceeds			\$72,044,664	
Plus - Revenues	Annual		Running Total	
Int	2008-09 interest income	\$479,138		
Int	2009-10 interest income	\$934,446		
Int	2010-11 interest income	\$842,573		
Int	2011-12 interest income	\$564,817	\$2,820,974	
JCI	2011-12 JCI settlement (partial)	\$2,500,000	\$2,500,000	
Other	2009-10 other local revenue	\$65,878	\$65,878	
		Total revenue	\$5,386,852	
Less - Expenditures	Annual		Running Total	
	2008-09 expenditures	\$4,176,409	\$4,176,409	
	2009-10 expenditures	\$3,828,334	\$8,004,743	
	2010-11 expenditures	\$5,701,440	\$13,706,183	
	2011-12 expenditures	\$9,777,532	\$23,483,715	
		Total expenditures	\$23,483,715	
	Fund balance as of June 30, 2012 (UNAUDITED)		\$53,947,801	
NOTE - all amounts prior to June 30, 2011 are from audited financial statements, fiscal 2012 amounts are unaudited				
Source - BHUSD Business Office				

Annual Expenditures



Bond Revenue '08-'12



Beverly Hills Unified School District
Measure E vendors with total expenditures over \$50,000 in descending dollar order
For 2012, the six months ended June 30, 2012
(UNAUDITED)

Amount	Vendor Name	Explanation
\$1,535,413.93	HILL, FARRER & BURRILL LLP	Attorney - MTA matter
\$1,038,603.86	WLC ARCHITECTS	Architect - Horace Mann
\$767,519.54	LEIGHTON CONSULTING, INC.	Geotechnical consulting
\$761,213.40	BANERJEE POCOCK & ASSOCIATES	MEPC (see below)
\$750,722.53	DLR GROUP WWCOT	Architect - Hawthorne
\$723,514.90	BERNARDS	Project Manager
\$504,129.90	PAYROLL	Staff Payroll
\$300,414.30	HENRIKSON OWEN & ASSOCIATES, INC.	MEPC (see below)
\$299,291.29	ENVIRONMENTAL AUDIT INC.	Hazardous material analysis
\$288,405.04	HMC ARCHITECTS	Architect - El Rodeo
\$186,468.56	QUINN EMANUEL	Attorney - Strategic Concepts litigation
\$162,669.15	DeJONG RICHTER	Master Plan consultant
\$128,674.33	VENABLE LLP	Attorney - MTA matter
\$83,968.32	LPA ARCHITECTURE	Architect - BHHS & Hawthorne
\$54,006.00	LA TANYA KIRK-CARTER	Consultant, Legal/Forensic accountant
\$239,062.87	38 vendors each paid less than \$50,000	
\$7,824,077.92	Grand Total	

NOTE - all amounts and vendors are unaudited

NOTE - MEPC = Mechanical, Electrical, Plumbing and Civil Engineering Evaluation Consultant

Source - BHUSD Business Office