

MINUTES
Citizens' General Obligation Bond Oversight Committee
April 28, 2005
Room 416, City Hall
San Francisco, CA 94102

1) Call to Order and Roll Call.

Chair Jue called the meeting to order at 9:34 a.m. Roll call was taken and there was a quorum.

2) Oath of Office to the Newly Reappointed Members of the Committee.

Ms. Madeleine Licavoli, Deputy Clerk, Board of Supervisors, administered the Oath of Office to Arlene Singer (appointed by the Civil Grand Jury), Dick Morten, Hunter Stern and Sam Yockey (all appointed by the Mayor).

3) Discussion and Possible Action to Approve Minutes.

The minutes of the January 27, 2005 Committee meeting were approved.

4) Presentation from the Controller's Office on the City Services Audits, and Possible Action by the Committee in Response to Such Presentation.

Peg Stevenson, Controller's Office, City Services Auditor (CSA), gave a presentation on several reports that have been issued and developments that have occurred with the Board of Supervisors Government Audits and Oversight Committee (GAO). She reported that:

1. The Controller's Office has done a staffing analysis of the Juvenile Probation department at the request of the Mayor and the department itself. She reviewed the recommendations.
2. The tenth Citizen's Survey was issued, which is a random survey of voters on their opinions of city services. The sample size was double this year and the Department of Children, Youth and Families funded it. The Mayor was briefed and is taking the findings very seriously. Most City services trended slightly down with the exception of city safety that trended up.
3. The CSA Office in conjunction with the Budget Office put together a report on the public education fund for the Board of Supervisors on initial analysis of Proposition H. This is the funding that would go directly from the City to the School District starting next fiscal year. She reported on the School District and First Fives proposal.
4. CSA is going to issue their audit on the granting functions of the Aging and Adult Services Department. That will be heard before the Aging Commission next week and then at the GAO on Monday, May 9.

5. The GAO decided that Harvey Rose's office will be doing a performance and management audit of Recreation and Parks next, followed by the Department of Public Works. The next three for the Controller's Office will be the Assessor's Office, Department of Telecommunications and Information Services and the Department of the Environment. CSA is funded in such a way that every year they would have substantial work programs going with the Public Utilities Commission, Department of Public Health, Department of Human Services, and the Municipal Transportation Agency.

Mr. Morten asked if any lessons were learned when reviewing the issues of the Juvenile facility that would be passed on to the new facility in terms of staffing and operating budgets. Ms. Stevenson replied that the new facility offers some efficiencies and drawbacks. They can have one person supervising the housing units most of the time. A housing unit would have 20 instead of 25. If they reach over 20 they have to open a new unit, which could cause costs to rise. They did a chart for them that showed every required post that would let them meet the state minimum standards for the new hall. As a result, they now have more options for decisions on what they can do with staffing and population.

Ms. Singer asked what performance audits cover and whether they look to see if the department is following internal processes, policies and procedures as well as the administrative code. Ms. Stevenson replied that the performance audits cover those things and whether or not the department achieves its mission effectively and efficiently. The performance audit needs to be meaningful to the department and the issues they are trying to manage and to the citizen service they are trying to provide. Any performance audit completes a survey process, looks across functions, interviews staff, looks at initial documents and in most cases chooses some issues to focus on and certain kinds of records to test and comparisons to make. Most of our city departments are large enough that focus is only on a few functions to make the report actionable for the department and possible to execute in a reasonable amount of time. They are differently scaled depending on the outcome of that process.

Ms. Singer asked about accountability. Ms. Stevenson stated that the City Projects Unit of the Controller's Office that she headed before CSA started up constantly gave technical assistance to implement audit recommendations particularly if it was felt there was a high need in the department. There was discussion about following up with a department to make certain they have followed through with the audit recommendations.

Mr. Hentz questioned what type of reporting they will receive regarding Whistleblower, and all aspects of an audit, given that the Committee is responsible for oversight of the performance of the CSA. Ms. Stevenson listed what information can be provided. There will be a discussion on each audit at the GAO. The materials they prepare will be provided to the Committee. CSA will present an audit if the Committee wants a more detailed discussion.

Mr. Morten asked if there is any rule in the legislation that the Committee provides advise on how they approach an audit. Mr. Harrington replied that there is no requirement or prohibition so it is up to the Committee if they want to become involved. He added that it would be easy for them to add their thoughts during the scoping process and that can be arranged. Ms. Jue thought

maybe a link to the audit on the Controller's website could be e-mailed. Mr. Harrington added that they can be added to the list of people notified that the audits are out. She asked if they could circulate a memo to the Committee with their preliminary thoughts so they can review them and make any comments. Ms. Stevenson said when they do their preliminary survey there is an audit plan that lays out the things they are going to look at and that can be shared with the committee. Mr. Harrington said in some cases they would want the audit plan kept confidential.

After some discussion, the Committee decided they would designate a couple of volunteer members to receive the e-mail of 1 or 2 page scoping with links to the audits themselves. That would allow the recipients to decide if they want to put something on the agenda. Ms. Stevenson offered that they can send the GAO agenda as soon as it is prepared so that they can see when something is going to be presented.

Mr. Yockey asked Michael Martin, Deputy City Attorney, if there is a law in the Administrative Code about the Committee's responsibilities towards audits. Mr. Martin read over the responsibilities of the Committee as outlined in the Administrative Code.

Ms. Jue asked if there was a section in their audits regarding benchmarks. Ms. Stevenson explained how benchmarking is dealt with in the audit plan. Ms. Singer suggested Ms. Stevenson return to the next meeting to walk them through the process of an audit. There was a discussion of the Committee's needs and what can be provided to the Committee ahead of time in order to facilitate their understanding of the audit process. It was decided that at the next meeting they will be walked through a completed audit.

There was concern expressed regarding the possible duplication of efforts or possibility of the Committee overriding the recommendations made by the GAO. Chair Jue suggested that two volunteers from the Committee attend the GAO. Mr. Harrington assured the Committee that the Controller's office would have final say on the course of an audit.

Public Comment:

Patrick Monette-Shaw: Stated that the Department of Public Health budget for the current fiscal year had to direct \$2 million to the City Controller's Office. He wanted to know what happened to the \$2 million since they are not actually doing audits in DPH this year.

Mr. Harrington replied that under Proposition C, CSA would receive 2/10th of 1% of each department's budget. Public Health's Budget is roughly \$1 billion so that \$2 million of it will go towards this effort. They will not be using all the money from any department this first year because it is a start-up year. The money that they do not use will be returned to the department or carried forward to reduce their requirement for next year. In public health there are several efforts going on. They are looking at the revenue side of the health clinics and other health services that have been contracted out. Another firm has been contracted to look at the continuum of care; especially how people work through acute care to skilled care facilities and what the need is in San Francisco and how it is being met. There are a number of audits starting of non-profits that receive funds from Public Health. They do not anticipate spending it all this year.

Ms. Jodi Darby, Manager of the City's Whistleblower Program, gave the Third Quarter report summarizing the 70 complaints received January through March of 2005. Prior to issuing the report, Ms. Darby and the two members of the investigative staff met with Ms. Singer and Mr. Yockey.

Ms. Singer reported that they met and asked questions about processes and procedures and reviewed some of the more substantive complaints that were received. A lot of the information they received is summarized in the report.

Mr. Yockey said that the work they are doing is very impressive. He complimented the Controller and Ms. Darby for their diligence. He suggested that the Committee might meet more often than on a quarterly basis since the Committee has taken on more responsibility under Proposition C.

Mr. Morten asked about the advertising and publicity of the Whistleblower program. Ms. Darby explained all the ways they publicize the program and how they plan to publicize in the future.

Public Comment:

Emeric Kalman: Feels the Whistleblower program is an excellent start for the Controller's Office. He stated that when there is a meeting during business hours the public cannot participate. He suggested that at these meetings when the public brings up financial problems, government work and infrastructure problems, and neglect in maintaining property, there be an obligation to report it to the Whistleblower program. He asked why they do not amend the rules for each Commission so that when someone from the public brings up any issue that may fall under the Whistleblower program the Commission will be obligated to report it to the Controller.

Mr. Harrington replied that there are a lot of comments, questions and accusations made at all Commission meetings and if all of them were funneled to the Whistleblower program it would overload the two investigators and the program. There are a variety of ways that people can find answers to their questions and they are not all Whistleblower complaints. As part of the outreach to the public they need to figure out a way that all commissioners and commission secretaries can find out about this program so if there is something that sounds like a Whistleblower complaint it can be reported to the Whistleblower program.

6) Presentation from the San Francisco Unified School District Regarding its General Obligation Bond Funded Projects, and Possible Action by the Committee in Response to Such Presentation.

Joe Grazioli, Chief Financial Officer for the School District, gave an update on the process of responding to the recommendations given by the Controller's office in their audit of the School District. He referred to an April 22, 2005, *San Francisco Unified School District Status of Response to the City Controller's Audit Recommendations* report. He stated that they are in the middle of taking care of the recommendations proposed by the Controller's Office and have met

with the Controller's Office. The School District will meet next week with the Controller's office to discuss item 2; the interest issue. He gave an update on the \$23 million and \$19 million. The \$23 million has been allocated to projects. Of the \$19 million, \$8.6 million has been identified to individual projects, and \$9.5 million to multi-site projects. Of that \$9.5 million, \$3.4 million represents salaries and benefits. They are currently working to identify the remaining \$1.9 million. Right now they are spending predominantly on the Dianne Feinstein School. They hope to have complete answers on all of this and a complete report for the Committee in June for the July meeting.

There was discussion about the accounting of the multi-site projects. Mr. Grazioli explained that this is part of the \$19 million that they are currently in the middle of reconciling. These are all items that were expended over the past six years. He added that they are being sorted into three categories: 1) where they can allocate to a project, 2) those that were part of multi-site projects, and 3) those they cannot identify. Their main purpose is to put them into the categories, and first priority is to take care of the unidentified projects. Mr. Harrington said they have suggested they use a cost benefit approach.

David Goldin, Chief Facilities Operator, explained the multi-site projects. Most of the work was done several years ago including Lowell High School. The only active project where real construction is currently going on other than punch list is the Dianne Feinstein School. The only other projects coming up that have not hit the drawing board are the \$5 or \$6 million technology projects. Mr. Grazioli has made the commitment that until the Committee is satisfied and the accounting in order they will not work on other projects.

Chair Jue expressed that she is pleased that the School District is responding to the Controller's audit, but does not want to lose sight of the fact that the bottom-line question is if you are on time and on budget. They will expect an answer to that in July. Mr. Wong also asked for reporting in that manner.

Mr. Hentz referred to the 1997 bond issue and the Parkside/ Dianne Feinstein School, asking if the construction of a new school at that site was part of the actual bond issue. Mr. Goldin replied that the 1997 bond was a city bond that specified money in certain areas of which \$90 million went to the School District. It was generally a modernization of school facilities; there was not a description of the kinds or types of projects. Mr. Harrington added that legally it was a very broad explanation of how the money was to be spent and that is how they typically write up general obligation bonds. There clearly have been differences of opinion in the community about what was promised and what was intended in terms of Parkside and Dianne Feinstein and there was a lot of discussion at the School District Board. Mr. Harrington replied that the language was broad enough to include the Dianne Feinstein School. Mr. Martin added that he felt it was purposely broadly written.

Mr. Morten felt a chronic problem of the bond programs is that they make promises on the campaign trail and yet the bond language is written so generally without any specificity and possibly without adequate analysis of the costs. He asked if there should be more specificity as part of future general obligation bonds. Chair Jue replied that she has served as bond counsel for general obligation bonds and as bond counsel had to interpret propositions approved by the

voters. They are drafted in this way because the bonds are approved by the voters so far in advance of the actual construction of the program projects. If the propositions were more specific, and there were program changes the City might have to go back to the voters again and that would be impractical. The actual language of the general bond issue is in the ballot pamphlet, where voters can see what is actually being approved compared to what might be in political ads. It makes sense to keep the ballot language general, but to have Committees such as this one to oversee the projects.

Mr. Yockey asked if there was ever a schedule or budget that was monitored at Feinstein School. Mr. Goldin affirmed it exists and said he will show it in July.

There was no public comment

5) Presentation from the Laguna Honda Hospital Replacement Program Regarding its General Obligation Bond Funded Projects Plan, and Possible Action by the Committee in Response to Such Presentation.

Michael Lane, Department of Public Works and Manager of Laguna Honda Hospital Replacement Program reported on the program to replace the Laguna Honda Hospital. His focus for this meeting was on the bids that have been received and the overrun. He reported that the bonds were approved in 1999 for \$299 million. He reviewed the existing buildings and plans for them and the new buildings that will be built. There was discussion on how many beds are to be built. Mr. Harrington said that the 1200 beds are not a requirement of the bond or of Proposition A. The City has been sued over the amount of beds and two weeks ago the courts said that there is nothing in the Proposition that requires that a 1200-bed facility has to be built. Ms. Singer asked what specifically was approved. Mr. Martin said the court quoted the language from the proposition that said what is to be built is a replacement facility or facilities for Laguna Honda Hospital and there was no broader explanation of what that would entail.

Mr. Lane reported that the Mayor's Office of Public Finance is working on the first bond sale of \$230 million for early May. They have received approximately \$74 million in Tobacco Settlement Funds and that is not counting a payment received this month. There has been a deliberate attempt to move the project as far as they can with the Tobacco Settlement Funds before selling the GO bonds.

He gave a history of the bid process stating that the Environmental Impact Report and the permits have been approved. They have started a few construction projects. They did independent cost estimates all the way through the process. In 2002 the bid work came in on budget. In April 2003 when they did the last full estimate on the scope, they were on budget. They have certain assumptions built into their budget with regards to escalation. Since 2003, there have been escalations in the structural steel market, which has been highly volatile, and other costs such as labor have increased. In April 2003, the estimate to build a fully functioning facility was \$326 million. Currently due to escalation, the cost is estimated at \$445 million.

There was discussion on the size and type of facility being built and whether or not services could be provided with other options. Mr. Harrington stated that much of this was discussed as

part of the campaign. Other options such as assisted living and in-home were looked at, but the funding for the \$299 million bond is for work at the Laguna Honda campus. While there are a variety of options for caring for people who need long-term care, this funding stream does not allow itself to be used in that broad a way.

There was discussion regarding the possibility that the facility may be built and there may not be money to operate the facility. Mr. Micheau asked if they are building a sort of a "white elephant" where they cannot complete it as envisioned by the voters, and it cannot be operated economically under the City's current budget constraints. Mr. Harrington said they are working with the Department of Public Health as one of the contracts they have with an outside consulting firm to look at the continuum of care and look at the different stages of need that people would have. At some level some people need skilled nursing and some do not and they are looking at whether or not the City is really able to provide that. In most other places the entire burden of providing skilled nursing care is not taken on by the city, rather the burden is spread in some fashion. In San Francisco, they do take on the entire burden so they are trying to look on that larger issue of what levels of care are needed in San Francisco and compare that need to what is being provided.

Mr. Lane stated that they have funding for the South building and Link building and partial funding for the East building. If they do not construct the East building, they will put the money to finishing the rest of the program. There will be a fully functioning facility with 360 beds. Until he is given direction to the contrary, he is proceeding with the entire program and putting in place the elements that allow them to proceed with the entire program. He felt it would be extremely detrimental to have \$280 million waiting for a decision at the rate of present escalation.

Chair Jue asked if they will have enough money to have a fully functional facility if they go ahead with the South and the Link building and all the dependent work that needs to be done to make them fully functional, and if all bonds are issued under current assumptions including future cost escalation. Mr. Lane answered they will. Mr. Harrington added that to build those buildings you would have an extraordinarily rich infrastructure with 360 beds and it would be fully functional.

Public Comment:

Patrick Monette-Shaw: Thanked the Committee for scheduling the agenda item. He gave his views on what the Committee focus should be. He raised the point about the issuance of only \$230 million when totals Mr. Lane had given were over \$230 million.

Nadia Sesay, Mayor's Office of Public Finance, responded that the Board approved \$230 million in February 2004 and that was what was needed then. So, they are planning at some point to go back to the Board for the remaining \$69 million.

7. Discussion and Possible Action Regarding Staff Reports and Correspondence to and from Administering Departments Relating to the Status of Remaining Bonds Proceeds.

1. Presentation from CSA on the audits process.

8. Discussion and Possible Action Regarding Agenda Items for Future Meetings.

For the next meeting it was discussed that the agenda will contain:

1. San Francisco Unified School District
2. Laguna Honda Hospital update
3. Branch Libraries
4. Performance Audits educational presentation

9. General Public Comment.

There was no public comment

10. Adjournment.

Meeting adjourned at 12:42 pm

Documents Distributed Prior to Meeting:

City and County of San Francisco, General Obligation Bonds Projects Summary – ACTIVE PROJECTS as of March 31, 2005.

Laguna Honda Hospital Replacement Program, Citizens' General Obligation Bond Oversight Committee Update, April 28, 2005.

City and County of San Francisco Laguna Honda Hospital Replacement Program, Program Status Report, October thru December 2004.

Controller's Whistleblower Program, 3rd Quarter 2004-2005 Summary Report.

San Francisco Unified School District Status of Response to City Controller's Audit Recommendations As of April 22, 2005.

San Francisco Unified School District 1997 Bond Expenditures – Active Projects, Project Life-to-Date through March 31, 2005.

San Francisco Unified School District Reconciliation of 1997 Bond Fund Proceeds As of March 31, 2005.

Report on the Seismic Safety Loan Program, April 15, 2005.

1997 Zoo Facilities Bond General Obligation Bond Accountability Report, January 24, 2005.

California Academy of Sciences; Bond Accountability Report, March 1, 2005.

Branch Library Improvement Program, Branch Library Facilities Improvement Bonds, 2000, General Obligation, Bond Accountability Report for the 3rd bond sale, March 2005.

Respectfully Submitted:

Rosanne Torre
Executive Secretary