

MINUTES
Citizens' General Obligation Bond Oversight Committee
July 30, 2008
Committee Room 263 - City Hall
San Francisco, CA 94102

1) Call to Order, Roll Call

Ms. Maura Lane, Committee Assistant, called the meeting to order at 9:03 a.m. Ms. Shawn Leonard absent, all others present. Quorum present.

On behalf of the Committee, Mr. Stern thanked former Committee Assistant Donna Hood for her past work with the Committee. She was presented with a Certificate of Appreciation.

2) Approval, with possible modification, the Minutes of the special meeting of March 13, 2008.

Ms. Chu moved to approve the minutes of March 13, 2008. Mr. Morton seconded the motion and it was unanimously approved.

3) Presentation from the City Administrator's Office on the FY 2009-2018 Capital Plan.

Adam Van de Water, Assistant Director of the Capital Planning Program in the City Administrator's Department introduced Fran Breeding, Administrative Analyst.

Ms. Breeding provided an overview of the FY 2009-2018 Capital Plan with a specific emphasis on the debt issuance of G.O. Bonds. The consolidated city and county government of San Francisco is responsible for providing a much broader spectrum of services than many other municipalities. The efficient and effective delivery of these services depends upon appropriate levels of investment in the City's infrastructure. At the City level, there are more than 15 million square feet of facilities, including cultural centers, police and fire stations and libraries. There are numerous parks throughout the City, 850 miles of streets, and a massive transportation infrastructure.

At the County level, there are hospitals, health clinics and homeless shelters, and jails. San Francisco's infrastructure not only supports City and County services but also regional services. San Francisco participates in regional transit networks and a regional water system that spans from the south bay to the Sierras.

There are many benefits of capital planning although, in the past, some of the decision-making processes in regard to capital improvements have been more ad-hoc. There is now a long-term financial strategy set forth in the Capital Plan. The City is now better able to prioritize its' capital projects against city-wide needs. The long-term financial planning provides assurance to financial credit agencies and the public. There is now more confidence in the major capital projects. The plan proposes significant investments in pre-ballot planning for our proposed geo bonds which means the voters are provided with a more developed project when it is taken to the ballot. All of this translates into increased voter confidence that the City can deliver what it

promises. Through the development of the Capital Plan, the City has been able to better document the City's need and to report on that need. This has led to increased funding levels because it highlighted the deteriorating state of the City's infrastructure. In the past, when the City has had budget deficits, the capital budget has been in the neighborhood of \$13 million dollars. Now, it is around \$60 million dollars.

The FY 2009 – 2018 Capital Plan is the second annual update to the plan. It is the third plan to be adopted by the Board of Supervisors. Legislation approved in October 2005 requires that the City Administrator update the plan annually. It also requires that the plan be approved before the Capital Planning Committee reviews the Capital Budget. This insures that the budget is in line with recommendations set forth in the Capital Plan.

Ms. Breeding reviewed the summary of proposed investments for 2009, which represent approximately \$20 billion dollars worth of investments in the City's infrastructure. About 75% of the total is proposed for Enterprise Departments (the Airport, Port, MTA Transportation and Public Utilities). The focus of the presentation today is the General Fund Program, which is around \$4.8 billion dollars. Nearly 67% of the proposed investments will be made during the first five years of the Capital Plan. The use of the \$4.8 billion dollars has been broken into several categories that include earthquake safety, disability access, parks and open spaces, state of good repair and renewal plus other improvements (such as the Branch Library Improvement Program). The major proposed sources of funding are from G.O. bonds (2.15B), lease-revenue bonds (0.35B), the General Fund (0.96B) and miscellaneous other sources (1.40 B).

The G.O. bond schedule over the next 10 years was reviewed. Proposed bond programs include the Clean and Safe Neighborhoods Parks Bond (Feb 2008), San Francisco General Hospital Earthquake Safety (November 2008), Fire Protection System Earthquake Safety (November 2009), Park System Renovation and Improvement (November 2013) and Public Safety Facility Modernization (November 2015).

Mr. Stern asked for clarification about the G.O. bond schedule, specifically regarding the Criminal Justice Facility Earthquake Safety bond of \$600M. Mr. Van de Water discussed public opinion research, the understanding from the City's side of what the needs are in regard to the specifics and the components as well as what the public's appetite is for specific elements.

Ms. Hansen inquired about the reasons for the escalation of the Park Bond that had already passed and cost escalation estimate for General Hospital, and whether any of the subsequent bonds would have the same kind of escalation, the flexibility of the Capital Plan (given the current financial situation in the country), and any impact on San Francisco property taxes going forward. Ms. Breeding responded that during the bond planning process, Parks and Open Space were added for the Port of San Francisco, along with the \$150M for the Parks Improvement Bond. The increase shown for San Francisco General Hospital Bond was included after the schematic design process and completion of the space program because there was a better picture of what the cost estimate would be.

Mr. Ben Rosenfield, Controller, commented on property tax figures contained in the plan, saying that the current plan and the chart make an assumption that we have an assessed valuation growth of about 4.5% per year over the life of the plan. It will vary from year to year over time. The 4.5% is less than we've experienced on average over the past 20 years when it was closer

to 5%. There has been a reduction in appeals over the past year while other jurisdictions are seeing increases in appeals of property taxes. The budget for the coming year assumes 5% growth in property tax values in the city and property tax generated from them. The final role for the current fiscal year, which has just been established, actually has something more that, which is 5%. While the rest of the state is starting to see dips in property tax values that are impacting cities. San Francisco is not seeing the dips. This is consistent with the 20 year trend. There are other areas in the budget that contain revenue volatility which were also experienced in early 2000 with hotel and sales. Even with that downturn, the City continued to see a property tax growth rate that in each of those years actually exceeds what is being conservatively presented in the Plan.

There was a question in regard to the assumptions made about interest rates that would be paid on the bonds and whether these financing costs would go up in the current climate. Ms. Sesay, of the Office of Public Finance, responded that 6% has been presumed for the 10-year Capital Plan being presented today. We have ranged from 3.4% to 4.5%. The City has always used 6% and always out-performed the market. The rate used in the models presented today is conservative.

There was a second question about the historic average bond interest rate that is paid over 15-20 years. Ms. Sesay responded she had been in the Public Finance Office for 10 years and had never seen a G.O. Bond over 5% in 5-6 years. There isn't an expectation of regulatory reforms that might impact the issuance of municipal bonds. The revenue side tends to do more traditional fixed rate transactions. There is more talk in the markets about global ratings. The expectation is that the rate for the Park and Recreation Bond that will be issued later this year will be in the range of 4 ½ %, but this is an estimate.

Mr. Morton asked if the decision-makers, BOS, the Mayor and the public regarding whether having the Capital Plan is helping in terms of gaining accessibility and continued funding, particularly the general fund, in moving bond measures forward. Ms. Breeding said the Capital Plan is definitely helping: over the last three years the annual capital budget has been \$50M in 2006 -2007, 2007-2008 is around \$55M and this year's was about \$60.5M. This compares with some past years of budget deficits when the City was investing about \$12M - \$13M a year. Most of that was to keep facilities running. The Capital Plan is helping with General Obligation Bonds. We're more certain of the cost estimates before taking them to the voters. The programs are often more completed as with the San Francisco General Hospital rebuild Bond proposal in terms of the space program and schematic design. The investments that the City has put forth in pre-ballot planning over the past 4 years, totaling almost \$29M, has allowed us to put together a more completed building program before ever going to the ballot this November. It also gives the City much more confidence in its ability to deliver that project to the voters as promised.

Mr. Morton followed with a question regarding the advance of the \$29M as to whether the General Hospital Bond is going to repay the advance, where the money originally came from for the pre-planning and whether it ever gets repaid. Ms. Breeding responded that the City has invested, with General Fund dollars, to do the pre-ballot planning for the re-build and the AWSS Bond. The Hall of Justice has received some pre-ballot planning investments over the years. The Capital Plan assumes that once the bonds are approved, that money would then be reimbursed and put into a revolving fund, which is called the Capital Planning Fund. If the San Francisco General Hospital Re-Build Bond were to pass, then the money would have gone into the Capital Planning Fund.

Mr. Stern noted that there is has been a lot more discipline on the part of the city, over the past 3 years. The initial thought in regard to the Capital Planning Fund, which was a piece of the legislation that was taken forward several years, was this idea that anytime we begin pre-ballot planning, we would pass a reimbursement resolution as a city, that would reimburse ourselves and the money would fall back into this pot. It would be used to plan for the next G.O. Bond. While we've had lots of progress on all kinds of fronts, this is not one where we have had a change in the budget plan at the moment. The budget that was just adopted by the Board of Supervisors yesterday, and the Mayor will likely sign into law today for the coming fiscal year, makes an assumption that the reimbursement for the General Hospital Bond should it pass in November and that \$29M is actually being used as a source in the City's budget. It is not flowing back into the fund. This means that as we now move on the next major G.O. Bonds, the largest is which the Hall of Justice Planning, over the next several years, we'll need cash appropriations in the years in which they're needed out of the City's operating budget to fund it. The budget that has now been approved contains \$5M for the Hall of Justice work that is forthcoming.

Mr. Morton inquired as to whether the revolving fund would actually work in a more reasonable fiscal climate or whether there would just be a grab for the money. Mr. Rosenfield responded that there will always be pressure to grab this money. The fund still exists and the use of the \$29M was adopted as a one-time legislative action on the part of the Mayor and BOS. The mechanism still exists and we can try it again next time. The concept is still a good one and one that people generally like.

Mr. Morton asked if one of the intents of pre-planning is to minimize scope once the bond is passed. He wanted to know, in regard to the pre-planning, how much are the neighborhoods involved in looking at that specific library or park so that scope creep still doesn't occur after the bond has been passed. Mr. Stern noted that in the current version that Ms Hanson brought up there was an estimate for the General Hospital Bond of one amount in last year's plan has been upgraded as more investigation has occurred because of the cost escalation. The question was what caused the escalation. The answer was that better studies and more detailed analysis demonstrated more accurate costs, which was higher. Mr. Morton is asking at what point it is reasonable to float an estimated cost and is it the result of scope creep in the plan or is it the result of escalated construction costs or is it just that engineering and other difficulties with the plan that people had once the site has been examined, etc. Half of the answer is that we don't know; the other half is at what point is it appropriate to tell someone how much something is going to be if it hasn't been studied enough to know how much it is going to be. Ms. Breeding replied it is a combination of all the things mentioned by Mr. Stern, in regard to the San Francisco Hospital General Bond. She explained the vetting process for changes brought before the Capital Plan Committee to deal with all of the different issues that can lead to cost escalation.

The important milestone in the case of the General Hospital bond was reached, according to Mr. Rosenfield, was the completion of the environmental review so there won't be surprises. Costs completions change up until the very last minute the project is completed, but an important milestone has always been getting through the EIR as a key step to complete before going to voters.

Ms. Hanson said she would expect that the public opinion polling regarding the General Hospital has shown that there's some bad odor coming from the Laguna Honda Project that you have to make sure the same bad odor won't cross over to the new hospital bond. Turner has said that a lot of the overage is due to the complex hospital design regulations and so forth. Ms. Hanson said she assumes there is a way to guarantee the public that the Capital Planning Committee is fully aware of this now and there is an appropriate escalation clause to cover all the new things that may come down the pipe. Mr. Van de Water responded that this underscores the value of the Capital Plan Project and cited the things that have been learned from the Laguna Honda Hospital Project. The purpose of the Capital Planning Project is to continue to do the pre-ballot planning in future G.O. Bonds so that we can have that same level of confidence before going to the voters.

Ms. Chu asked about the increase from the 2008-2009 Plan of 14% and whether the expectation is that it will increase every year by 14%. Ms. Breeding expressed her opinion that the biggest reason for the 14% increase was the inclusion of the Doyle Drive Replacement Project in the overall summary of the proposed investment. In the future, there may be more coordination with other external agencies. Although Ms. Breeding did not have specifics regarding the Doyle Drive Replacement Project, she said that how things are selected – funded or deferred – is based on City priorities of documented need. Projects are sometimes deferred due to lack of identified funding sources. In response to Ms. Chu's question about who will pay the \$766M for Doyle Drive, Mr. Rosenfield said that Doyle Drive is a state road with state obligations. The local contribution to this project is approximately \$150M is coming through the Prop. K half cent sales tax which was approved by the voters about 5 years ago. The open question on Doyle Drive is whether the balance will come from the state. There has been talk in the papers about how the state will achieve the funding. A toll on the approach has been suggested and/or an increase to the toll on the Golden Gate Bridge. Mr. Rosenfield also explained the contents of the appendix to the Plan, which includes summaries of the planned capital work of some of the governmental entities in the City.

Public Comment

There were comments from Mr. Steve Lawrence and Mr. Patrick Monette-Shaw in regard to project overages, overall project management and recommendations made by the Civil Grand Jury.

4) Presentation from Laguna Honda Hospital regarding their 1999 General Obligation Bond, and possible action by the Committee in response to such presentation.

John Thomas, Project Manager for the Laguna Hospital Replacement Project provided a status report on the project which consisted of a project and budget update and information about certain decisions and upcoming issues. He also provided a brief comparison of the differences between the CM at Risk implementation at Laguna Honda and San Francisco General Hospital.

The Laguna Honda Hospital Replacement Program is a new, 780 bed skilled nursing facility within which the existing campus buildings remain. It consists of approximately 510,000 GSF programmed space in addition to approximately 100,000 GSF of remodel of existing wings A,B,C & H. A goal is to achieve LEED certification with optimum Energy Management and

Building Automation Systems. Mr. Thomas reviewed the architect's rendering of the completed program which shows the additional building. Completed activities include the wall framing at the South Residence Building and link and the enclosure of the South, East and Link Buildings. Current activities include: stucco application at the South and East Residence Buildings; drywall installation at the South Residence Building, tile installation and painting at the South Residence Building, wall framing and window installation at the East Residence Buildings and permanent power. The team will now move forward with the repetitive installations on the rest of the floors.

The components of the cost increases were reviewed. The planning effort for the program utilized a 5% escalation rate which was significantly higher than the 20 -30 year rolling average that was anticipated when the budgeting process started. Mr. Stern said there have always been concerns about whether cost estimates in the past have been accurate and the disputes between the City and SF General about what final cost estimates.

A summary of the budget numbers was presented and considerable discussion ensued. The sources of funds are Tobacco Settlement Receipts, G.O. Bonds, Certificates of Participation and intergovernmental money. The budgeted, appropriated, encumbrances and expenditures balances were reviewed. The original approved budget was about \$483.8M in 2005. The figure is now \$593M. The largest component to that is comprised of a \$47M request by the general contractor for escalation and additional staffing due to delays that the program has experienced. The first building was originally scheduled to be completed in May 2008; the second building in October and the third in November. The expected completion date is now 2009. The one year delay has significant costs associated with it. The delay process schedule is currently under review. The contractor views the one year delay as the responsibility of the City. Mr. Thomas said the City's project team does not concur and has countered with its own analysis, while acknowledging the 4-6 months of the delay is the City's responsibility. There will not be bonuses related to the completion of the project early.

In response to questions from Committee members, Mr. Thomas said there are liquidated damages associated with the failure to complete the project in a timely manner. Damages are always mitigated in the event that the delays are beyond the control of the contractor or delayed by the City or one of its agents. Mr. Thomas provided examples of reasons for delays and the process of getting the work approved. Costs associated with delays were reviewed. Another component of the 1 year delay is the City has taken action by bringing on additional staffing (architects) because one of the significant points raised by RCN is that it was taking far too long to get requests for information and advice on the job answered. The additional staffing of architects and staffing on the City's side for the one year has added an additional \$10M to the project. As a result \$57M out of the \$110M can be directly attributed to the one year delay. In response to Mr. Garfinkel's question, Mr. Thomas responded that the 180 trade people originally on the project at that time have been contended to be insufficient to complete a project of this magnitude in the amount of time anticipated. The average number of trade people on the project averages 280.

In response to queries from Ms. Chu, Mr. Rosenfield clarified some of the discrepancies in the figures from the Controller's office and the project team.

There was further discussion regarding lessons learned from the Laguna Honda Project that could be applied to the San Francisco General Hospital Project.

Public Comment

Mr. Monette-Shaw commented about the scope changes and augmentation, change orders, TSR funding, the Assisted Living component and the addition of 5 architects. Mr. Steve Lawrence commented on Certificates of Participation and contracts related to the project.

5) This item is a memo from Mr. Ken Roux, Deputy City Attorney in regard to the 2008 Clean and Safe Neighborhood Parks Bond Report.

At the last meeting, the question arose as to what additional responsibilities this Committee has as a result of the passage of Prop A (the Recreation, Park and Port Bonds) and whether there was a failure by this Committee to discharge any of those responsibilities and whether that failure would negatively impact the bond financing that is scheduled to go forth this fall.

Under the administrative Code, this created the Citizen's General Obligation Bond Oversight Committee that the voters passed as Prop. F in 2002, this Committee is charged with issuing an annual report at the end of each calendar year. It appears on the City web site, is given to the Board of Supervisors and the Mayor. The ordinance that put Prop A on the ballot added an additional obligation to review the bond spending and the management of this particular program (Recreation, Park and Port). A report must be made annually. The administrative code does not require the Committee to review any particular programs. Throughout the Prop A Ordinance, reference is made to the bond report which is documents produced for the approval process to put the measure on the ballot. The only additional requirement is that any audits reports the Committee produces go to Proasct, which is a citizens' advisory committee.

This Committee is also required to report annually on the Recreation, Park and Port program to the Board of Supervisors, the Mayor and the two Commissions. Mr. Roux recommended the production of an annual report which would discharge any obligations in regard to the Recreation, Parks and Port Bond Program and to distribute the report to all of the parties previously mentioned.

Mr. Rosenfield reminded the Committee that Recreation and Parks will be presenting at the next Committee meeting. Recommendations as to how to meet some of these reporting requirements, the bond calendar, and other items relating to the program will be discussed in more depth at the next meeting. In response to questions from Mr. Morton, Mr. Roux and Ms. Sesay clarified the purpose of the bond accountability report. There was further discussion about the process for issuing bonds and the expenditure of bond proceeds.

Recommendations from the Civil Grand Jury were discussed. The response will be handled through the Controller's Office on behalf of the Committee with guidance from the City Attorney's Office. Should it be necessary, Mr. Stern will call a special meeting of the Committee.

Public Comment

Ms. Meredith Thomas commented on the role of the Civil Grand Jury and their recommendations, as they pertain to this particular Committee. Most of the objectives were

designed to strengthen the Committee. Mr. Lawrence commented on the need, as a citizen, to be able to provide input to the Committee

6) Status Report from the City Services Audit Division, and possible action by the Committee in response to such report.

Peg Stevenson provided status reports on the West Portal Branch Library (as an example project) review of the Branch Library Improvement Program, the PUC Construction audit and City Parks & Garages.

7) Opportunity for the Committee to Discuss Other Business

There will be two meetings before the end of the year. One will be the regular meeting; the second will be a special meeting. Various agenda items (Recreation and Parks, Branch Library Facilities Improvement Program) were put forth that need to be covered this year. Mr. Rosenfield commented on Committee recruitment. In response to Mr. Morten's question as to how the duties of the Committee would be expanded, Mr. Roux explained that this expansion comes from the voters.

Public Comment

None.

6) Opportunity for the public to comment on any matters within the Committee's jurisdiction

No Public Comment.

7) Adjournment.

Meeting adjourned at 12:15 pm.