



City and County of San Francisco  
**Citizens' General Obligation Bond Oversight Committee**  
Hunter Stern, Chair  
Dick Morten, Vice Chair

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January 20, 2009

Honorable Gavin Newsom, Mayor  
City and County of San Francisco  
City Hall, Room 200  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

Honorable Board of Supervisors  
City and County of San Francisco  
City Hall, Room 244  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

Dear Mayor Newsom and Members of the Board of Supervisors:

On behalf of my fellow members, I am pleased to present you with the 2008 Annual Report of the Citizens' General Obligation Bond Oversight Committee.

The Citizens' General Obligation Bond Oversight Committee was established in 2002 pursuant to Proposition F, which was approved by the San Francisco voters at the March 2002 election. This fifth report of the Committee describes our review of nine active bond issues and the audits, reports and projects of the City Services Auditor during 2008.

The Committee began 2008 with two of its nine seats vacant, resulting in the postponement of two of the Committee's regularly scheduled meetings. The Committee needs its full complement of nine members to function as the voters intended. Therefore, the Committee respectfully urges the Mayor and the Board of Supervisors to promptly appoint new members.

Further, to honor our commitment to the Civil Grand Jury's report entitled "Accountability in San Francisco Government," the Committee requests that it be permitted to present a summary of its 2008 Annual Report to the appropriate body of the Board of Supervisors.

The Committee is happy to provide additional information as requested.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Hunter Stern", written over a horizontal line.

Hunter Stern  
Chair, Citizens' General Obligation Bond Oversight Committee

cc: Angela Calvillo, Clerk of the Board  
Ben Rosenfield, Controller  
Nadia Sesay, Director, Mayor's Office of Public Finance  
Civil Grand Jury

Attachment: Committee Response Letter to Civil Grand Jury on "Accountability in San Francisco Government" dated August 20, 2008.



## **2008 ANNUAL REPORT CITIZENS' GENERAL OBLIGATION BOND OVERSIGHT COMMITTEE**

### **Executive Summary**

The Citizens' General Obligation Bond Oversight Committee (the "Committee") was formed subsequent to the passage of Proposition F (March 2002) to inform the public, through review and report, on the expenditure of general obligation bond proceeds in accordance with voter authorization. The Committee met five times during calendar year 2008, heard multiple presentations on five major active bonds and received updates on two additional active bonds, whose funds are nearly expended. While the Committee's review of bond funded projects does not constitute a formal audit, nothing has come to the Committee's attention in the course of its review that has caused it to believe that bond proceeds were spent on purposes not authorized by the respective ballot measures.

The Committee continued to maintain close communications with all bond departments, but particularly with the San Francisco Public Library, Recreation and Park Department and the Laguna Honda Hospital Replacement Program to monitor bond program spending.

This sixth annual report reviews the 2008 activities of the Committee and is organized into the following topics:

- Background
- Committee Membership
- Committee Approach
- Major Bonds and Related Matters
- City Services Auditor
- Findings and Recommendations
- Future Activities
- 2009 Meeting Schedule

### **Background**

Proposition F, enacted by the electorate in March 2002, established the Citizens' General Obligation Bond Oversight Committee, comprised of nine members charged to inform the public about the expenditure of general obligation bond proceeds through active review and the publishing of regular reports. San Francisco Administrative Code 5.30-5.35 states :...*(a) The purpose of the committee shall be to inform the public concerning the expenditure of general obligation bond proceeds. The committee shall actively review and report on the expenditure of taxpayers' money in accordance with the voter authorization. The committee shall convene to provide oversight for: ensuring that bond revenues are expended only in accordance with the ballot measure, and (2)*



*ensuring that no funds are used for any administrative salaries or other general governmental operating expenses unless specifically authorized in the ballot measure for such bonds. The committee has no power to review bond proposals prior to voter approval. Further, the committee shall not participate or interfere in the selection process of any vendor hired to execute bond funded projects. (b) In furtherance of its purpose, the committee may engage in any of the following activities: (1) Inquiring into the disbursement and expenditure of the proceeds of bonds approved by voters by receiving any reports, financial statements, correspondence or other documents and materials related to the expenditure of bond funds from agencies that receive proceeds from these bonds; (2) Holding public hearings to review the disbursement and expenditure of the proceeds of bonds approved by voters; (3) Inspecting facilities financed with the proceeds of bonds approved by voters; (4) Receiving and reviewing copies of any capital improvement project proposals or plans developed by the City; (5) Reviewing efforts by the City to maximize bond proceeds by implementing cost-savings measures, including, but not limited to, all of the following: (i) mechanisms designed to reduce the cost of professional fees and site preparation and design; and (ii) recommendations regarding the joint use of core facilities and use of cost-effective and efficient reusable facility plans; (6) Commissioning independent review of the disbursement and expenditure of the proceeds of bonds approved by voters by accessing any funds set aside for this purpose under subsection (c) of this section to retain outside auditors, inspectors and necessary experts to conduct such independent review; (c) To the extent permitted by law, each ballot measure shall provide that one-tenth of one percent of the gross proceeds from the proposed bonds be deposited in a fund established by the Controller's Office and appropriated by the Board at the direction of the committee to cover the costs of said committee".*

In addition, the voters of the City and County of San Francisco approved Proposition C in November 2003, which authorized the Committee to serve as the Citizens' Audit Review Board. Proposition C took effect on July 1, 2004 (San Francisco Charter Appendix F). In this role, the Committee provides advisory input to the Controller on matters set forth in the Charter, including requiring that the Committee: (1) review the Controller's service standards and benchmarks to ensure their accuracy and usefulness; (2) review all audits to assure they meet requirements set forth in Appendix F of the San Francisco Charter; (3) review complaints received through the Controller's Whistleblower hotline and their disposition; and (4) when appropriate, hold public hearings regarding the results of benchmark studies and audits.

### **Committee Membership**

The Ordinance requires that the nine committee members meet certain minimum qualifications and be appointed as follows: three by the Mayor, three by the Board of Supervisors, two by the Controller and one by the Civil Grand Jury. Each member serves for a term of two years. The Committee notes that there remain two open seats on the Committee and we urge the Mayor and the Board of Supervisors to fill the



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vacancies soon. In 2008, the members constituting the Committee were appointed as follows:

### **Committee Membership**

<b>MEMBER NAME</b>	<b>APPOINTED BY</b>	<b>APPOINTMENT DESCRIPTION</b>
<b>Hunter Stern, Chair</b>	Mayor	Active in a labor organization
<b>Dick Morten, Vice Chair</b>	Mayor	Active in a community organization
<b>Open seat</b>	Mayor	Active in a business organization representing the business community located within the City
<b>Shawn Leonard</b>	Board of Supervisors	Active in a labor organization
<b>Kristin Chu</b>	Board of Supervisors	Active in a community organization
<b>Open seat</b>	Board of Supervisors	Active in a business organization representing the business community located within the City
<b>Miriam Rike</b>	Controller	Expertise in auditing governmental financial statements or with expertise in public finance law
<b>Sanford Garfinkel</b>	Controller	Expertise in construction management
<b>Julia Hansen</b>	Civil Grand Jury	Designee of the Civil Grand Jury

### **Committee Approach**

The Committee has been formed to provide oversight to: (1) ensure that bond revenues are expended only in accordance with the ballot measure, and (2) ensure that no funds are used for any administrative salaries or other general governmental operating expenses unless specifically authorized in the ballot measure for the bonds. To that end, the following questions are asked of the bond-issuing departments.

- Are individual projects proceeding on schedule? If not, why? What action is being taken to ensure that projects stay on schedule?
- Are individual projects currently within budget? If not, why? What action is being taken to ensure that projects stay within budget?
- Is the bond program forecast to be completed on time and within the authorized bond amount?



- To what extent is the capital program predicated on the receipt of funds other than general obligation bond proceeds, and what contingency plans exist to deal with non-receipt of those funds?
- Are competitive bid requirements followed for all projects?
- Does the department maintain internal controls adequate to assure that charges to bond funds are appropriate?
- Are departmental employees' salaries, if any, charged to bond funds appropriate?
- What are the opportunities in the program for the joint use of core facilities and use of cost-effective and efficient reusable facility plans?
- What other mechanisms have been designed to reduce the costs of professional fees, site preparation and design?

### **Major Bonds and Related Matters**

The Committee met five times during 2008 to review the progress made by departments with five major general obligation bond funded projects and to receive updates on four other active bond issues. In addition, the Committee received a very thorough report from the City Administrator's Office on the status of San Francisco's FY 2009-2018 Capital Plan. The Committee also received a presentation from the Department of Public Works (DPW) on their continuing efforts to reform the City's contracting process, through the establishment of a Construction Contracting Task Force. DPW reported that these reforms are improving the City's ability to effectively and efficiently contract its work, which in turn helps reduce costs of bond funded projects. Further, the Committee heard testimony from the Controller's Office and the Mayor's Office of Public Finance concerning the potential impact of the national financial crisis on the bond market in general and San Francisco's general obligation bond programs in particular.

Finally, several Committee members have toured the Laguna Honda Hospital Replacement Program construction site and the Academy of Sciences construction project site and viewed first hand how these bond proceeds were being spent.

**1999 Laguna Honda Hospital Replacement Program:** The Committee learned early in the year that ongoing disputes between the City and the General Contractor (Turner Construction) concerning the project's significant cost increases and delays appeared headed for litigation. It was reported that the parties were unable to resolve differences regarding the \$100+ million cost overruns caused by the parties and the anticipated one-year delay in completion of the project. Plus, DPW could not finalize the final cost of the project until this dispute was resolved. By mid year DPW project management reported that while litigation was still probable, the parties had begun to working through their differences and had agreed to actual figures for cost overruns related to project delays, etc. Those costs were then estimated to be \$110 million above the initial estimated cost



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of \$485 million with an acknowledged delay of approximately one year. The parties had established that \$57 million of the cost overrun was the direct result of the one-year delay and they (The City and General Contractor) were working to determine responsibility. By the end of the year, the parties had settled their dispute through mediation, restructuring the responsibilities of the General Contractor and the larger subcontractors, updating the timeframe with liquidated damages based on the new deliverable schedule and establishing a new commitment from DPW and Turner to work through their differences rather than settle them in court and delay the project further. The project is moving forward on time (based on the updated schedule) with all rough work substantially completed. The project should be finished by June of 2009.

**2000 Branch Libraries Improvement Program (BLIP):** The Committee reviewed the CSA audit of the BLIP and found that through 2007, project delays averaged 20 months and budget increases amounted to \$51.4 million or nearly 40% over estimated costs. While a portion of the budget increases were due to unforeseeably high construction cost escalation, much was the result of project management process failures. The Library and DPW jointly have developed and implemented a new Memorandum of Understanding (MOU) covering the BLIP. The new MOU specifies the responsibilities and duties of each department (as well as contractors) and increases cost controls over individual projects. DPW has reported improvements in cost containment since, particularly in the identification and approval of authorized change orders. The effect has been to limit inappropriate delays and costly increases in the scope of each project.

**2000 Neighborhood Recreation and Park Bond Program:** The Committee was updated on the progress of this \$110 million bond program and learned that 52 projects have been completed with several more in close out while 22 projects remain active. All projects are utilizing the IMPACT program management system. Also, four projects originally planned for completion have been cancelled and their proceeds are being distributed to other planned projects. The remaining unencumbered bond funds, as of October 31, 2008, is \$6,112,433.

**2008 Clean and Safe Neighborhood Parks Bond Program:** The Committee received information on this bond after approval by San Francisco voters in February and again in December. This is the first general obligation bond passed since the creation of the Committee and therefore will be the first to have a Program audit directed by the Committee. The Committee reviewed the extensive study that occurred before the bond was placed on the ballot. This work was done under the direction of the Capital Planning Committee and created a very detailed and feasible list of projects. In August, the first series of bond were sold and raised \$42,520,000 to start the Program. A unique component to this Program is that two Departments (Recreation and Park and the Port) are recipients of these funds and are separately managing individual projects.

**2008 General Hospital Rebuild Bond Program:** This bond was approved by the voters in November and reviewed by the Committee during its special meeting in December. Like the 2008 Clean and Safe Parks bond extensive analysis, including environmental and planning reviews, occurred prior to the bond being placed on the ballot. The Committee notes that the project has anticipated construction cost escalation



at 7%, which is the highest rate adopted by a bond program since the formation of the Committee. The Program also plans an integrated project approach that shortens timetables for phase completion and reduces the likelihood of delays. The first bond sale of \$136 million is scheduled for spring of 2009.

### **City Services Auditor**

The Committee, meeting as the Citizens' Audit Review Board, heard several presentations from the Controller's Office City Services Auditor (CSA) regarding pertinent and or large scale audit review projects. The Committee also received status reports on the Whistleblower Complaints Unit. Based on its discussions regarding the role of audits in bond programs, the Committee directed the City Services Auditor to conduct a project audit of an individual Branch Library project in order to better evaluate the effectiveness of new cost controls placed on the overall Branch Library Improvement Program.

In addition to general discussion of concession and financial audits, the Committee heard from the CSA on the following performance audits, reports, and projects:

- 1) Transforming Your Muni System: Transit Effectiveness Project
- 2) Department of Public Health Performance and Efficiency Review
- 3) Department of Public Health: Monitoring of A-113 Single Audit Reports for Agencies Awarded Federal Funds by DPH in Fiscal Year 2006-07
- 4) Organizational Assessment of the San Francisco Police Department
- 5) Office of the Treasurer and Tax Collector: Review of the Statement of Cash and Investments
- 6) Port of San Francisco Purchasing and Inventory Control Practices
- 7) CSA FY08-09 Work Plan
- 8) Whistleblower Complaints Program

### **Findings and Recommendations**

A critical area of work by the Committee was to review and evaluate the impact of the national financial crisis on the City's general obligation bond fund programs and whether existing plans can be met. Of particular concern are plans requiring bond sales during the first half of 2009. To date, no bond programs have been adversely impacted as a result of the financial crisis. The Committee asked the Controller and the Office of Public Finance about contingency plans should the bond market be unfavorable at the time that funds must be raised to efficiently continue ongoing Programs. Several alternative methods for 'bridge loans' were identified during the latter half of 2008. At the December meeting the Committee was advised that the City would issue short-term Bond Anticipation Notes to raise funds should bond interest rates be too high at the time funds are required. This mechanism will provide the needed funding to keep bond programs on schedule without accessing long-term bond debt at highly burdensome rates. The Notes can be carried until more favorable long-term rates can be secured.



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While the Committee's review of bond funded projects does not constitute an audit, nothing has come to the Committee's attention in the course of its review that has caused it to believe that bond proceeds were spent on purposes not authorized by the respective ballot measures. The Committee is pleased to note that each department, as required by the Committee, now includes, as part of their report information, a standard Gant chart, presenting the original budget, the current budget if revised and actual expenditures to date for each major segment of the program.

The Committee has identified some progress, but we remain concerned with the 2000 Branch Library Improvement Program and the 2000 Recreation and Park Bond Program. The progress can be traced to implementation of new project management tools and adherence to new and improved MOUs that focus on roles and responsibilities of the players, cost containment and reduction in project delays. However, the Committee looks forward to the results of an audit on a specific BLIP project to determine the extent of the improved project management as well as any continuing deficiencies. In addition, the Committee will continue to examine the staffing and performance of the Recreation and Park Department Capital Projects group to ensure its ability to manage the large number of projects planned under the two current bond Programs managed by the Department.

The Committee, like other involved parties, remains disappointed with the overall circumstances and outcome of the Laguna Honda Replacement Program. Nevertheless, the negotiated settlement reached late in the year between the City and the General Contractor successfully avoids additional delays and cost overruns. Plus the commitment of each party to meet its contractual obligations gives the Committee confidence that the project will be delivered in mid-2009 as planned.

The Committee has also found that the establishment of a revolving fund by the Board of Supervisors and the Office of Public Finance for use by the Capital Planning Committee in the early planning and development stages of a large-scale bond has greatly improved the ability for establishing a true bond fund amount and the feasibility and credibility of the Program itself. Review of the two newly approved bond programs, (2008 Safe and Clean Neighborhood and 2008 General Hospital Rebuild) demonstrate that this 'pre-sale' investment is well worth it. Required environmental, engineering and planning reports were completed and approved *before* the bond was put before the voters, thereby identifying the scope of the project. Then these 'seed' funds are returned to the Capital Planning Committee after the first bond sale is completed. In addition, lessons from the Laguna Honda Replacement Program have been applied to this process for the General Hospital Rebuild.

Despite the relatively sophisticated level of planning, the Committee sees areas of concern for each of these new bonds. With regard to the Safe and Clean Neighborhood, the fact that the Program consists of a large number of relatively small projects that will be managed by two different Departments (Recreation and Park and the Port) creates ample opportunity for project 'scope creep' and unnecessary increases in costs. With regard to the General Hospital Rebuild, the fact that hospital construction in California





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has recently (2003-06) experienced hyper-cost escalation rates of 18% generates concern particularly with the size and scope of the project. For the first time in its history, the Committee has full funding necessary to perform program audits of these bonds and looks forward to exercising its responsibility in tracking the spending of these bond funds.

The Committee has requested that the Department of Public Works continue to use the standardized reporting format it developed with assistance from the CSA that the Committee requires for future bond program reports. Use of this reporting format has become a critical component of the Committee's work.

During the past year, the Committee has continued its scrutiny of the departments' calculation of projected construction cost escalation and the adverse impact on project scope. Given past dramatic increases in construction costs, the Committee remains very concerned that inadequate or inaccurate estimates of cost escalation rates may significantly reduce the intended scope of voter-approved projects. These shortcomings have been identified in the 2000 Neighborhood Recreation and Park Bonds Program, the 2000 Branch Library Improvement Program and the 1999 Laguna Honda Hospital Replacement Program. The Committee continues to closely monitor budgeted escalation costs and project contingencies, through new reporting requirements that have recently been implemented by each program and are being utilized by all major bond programs, to determine whether projects are completed according to the original scope, on time and within budget.

The Committee reports the Whistleblower Program has now been integrated into San Francisco's new 3-1-1 Call Center for a year now. Other methods of identifying complaints, such as regular mail or the web remain available to the public to submit complaints. The Whistleblower Program logged 347 complaints during FY 2007-08 and closed 330 complaints during the same period. Several complaints have led to more thorough investigations. The Committee urges continued promotion of the Whistleblower to the public to ensure the Program's full success.

### **Future Activities**

The Committee will continue to monitor the general obligation bond programs of the City and County of San Francisco with particular emphasis on the programs that have recently issued bond funds. The Committee will also continue to receive updates regarding the City's 10-Year Capital Plan and the Construction Contracting Task Force as well as future general obligation bond proposals. It is expected that four older bond programs, the 1995 Steinhardt Aquarium Improvement along with the 2000 California Academy of Sciences, the 1997 City College and Unified School District Bonds, and the 1997 Zoo Facilities Bond, will be closed out during the year 2009 under the Committee's watch.

In keeping with its responsibilities as the Citizens' Audit Review Board, the Committee will continue receiving audits from the City Services Audits division and providing



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general oversight on the implementation of the other aspects of CSA projects during the next year. One member of the Committee will continue to monitor the Whistleblower Complaints Program on an ongoing basis and report back to the Committee.

**2009 Meeting Schedule:**

Regularly scheduled meetings of the CGOBOC will occur on the fourth Thursday of the first month of each quarter on the following dates at 9:30 A.M. in Room 416, City Hall, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102, unless otherwise noticed:

Thursday, January 22, 2009  
Thursday, April 23, 2009  
Thursday, July 23, 2009  
Thursday, October 22, 2009

The Committee is happy to respond to any questions or provide additional information as requested.

**Attachments:**

- City and County of San Francisco General Obligation Bond Project Summary, Dated December 31, 2008.