

City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
Pamela S. Jue, Chair
Terry Micheau, Vice Chair

December 17, 2004

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

ANNUAL REPORT FROM THE CITIZENS' GENERAL OBLIGATION BOND OVERSIGHT COMMITTEE – 2004

Executive Summary

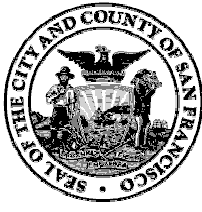
The Citizens' General Obligation Bond Oversight Committee was formed subsequent to the passage of Proposition F (March 2002) to inform the public, through review and report, on the expenditure of general obligation bond proceeds in accordance with voter authorization. The Committee began its work in 2003 and met six times during calendar year 2004.

After receiving basic information presentations on nine major active bond issues, written updates on four additional active bond issues and review of six older, potentially inactive bond accounts, the Committee's review uncovered no instances where bond proceeds were spent on purposes not authorized by the respective ballot measures.

Although there is some evidence of progress, as we reported in 2003, we found that the City has not established standards for consistent tracking or reporting progress at the project level in relation to time and budget among departments, making assessment difficult.

Despite multiple attempts to obtain accurate information from the San Francisco Unified School District, we did not receive a satisfactory response. We then requested that the Office of the Controller perform a review of the financial controls and accounting systems of the District with respect to the 1997 Educational Facilities Bonds. The preliminary findings of that review indicate that the Committee cannot rely on the quarterly bond reports provided by the District.

The Committee reviewed information regarding the Department of Recreation and Park's Neighborhood Parks Program, focusing on the belated discovery of funding shortfalls. The Committee has joined the Neighborhood Parks Council in requesting the Controller to conduct a rudimentary audit of the Program.



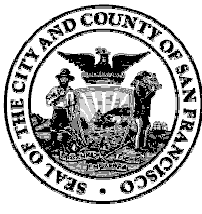
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This second annual report reviews the 2004 activities and findings of the Citizens' General Obligation Bond Oversight Committee and is organized into the following topics:

- Executive Summary
- Background
- Meetings
- Active Bond Programs Reviewed
- Committee Focus Issues
- Additional Information Requested and Received
- Findings and Recommendations
- Future Plans

Background

Proposition F, enacted by the electorate in March 2002, established the Citizens' General Obligation Bond Oversight Committee of nine members for the purpose of informing the public concerning the expenditure of general obligation bond proceeds through active review and the publishing of regular reports. (San Francisco Administrative Code 5.30-5.35)



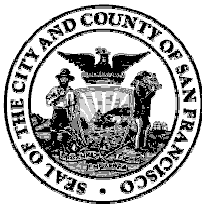
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The Ordinance required that the nine committee members meet certain minimum qualifications and be appointed as follows: three members by the Mayor, three by the Board, two members by the Controller and one member by the Civil Grand Jury. Each member serves for a term of two years. Members were appointed as follows:

<u>MEMBER NAME</u>	<u>APPOINTED BY</u>	<u>APPOINTMENT DESCRIPTION</u>
Pamela S. Jue Chair	Controller	Expertise in auditing governmental financial statements or with expertise in public finance law
Terry Micheau Vice Chair	Controller	Expertise in construction management
Chris Cunnie	Mayor	Active in a labor organization
John F. Hentz	Board of Supervisors	Active in a community organization
Arlene Singer	Civil Grand Jury	Member of the Civil Grand Jury
Deidre Von Rock-Ricci	Board of Supervisors	Active in a business organization representing the business community located within the City
Bill Wong	Board of Supervisors	Active in a labor organization
Jim Wunderman	Mayor	Active in a community organization
Sam Yockey	Mayor	Active in a business organization representing the business community located within the City

During the year, Jim Wunderman and Chris Cunnie resigned from the Committee. The Mayor appointed their replacements, Dick Morten (replaces Jim Wunderman) and Hunter Stern (replaces Chris Cunnie), in October 2004.

In November 2003, the voters of the City and County of San Francisco approved Proposition C, which authorized the Committee to serve as the Citizens' Audit Review Board. Proposition C took effect on July 1, 2004.



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Meetings

The Committee held three quarterly meetings and three special meetings during the calendar year. The special meeting in July was a rescheduling of the regular July quarterly meeting. Building on its early work in 2003, the Committee devoted most of its meetings to departmental presentations on the status of general obligation bond funded programs. The Committee has now had presentations on all the major active general obligation bond programs of the City and County of San Francisco. The Committee also revised its bylaws to accommodate its duties as the Citizens' Audit Review Board and adopted a Statement of Incompatible Activities.

Active Bond Programs Reviewed

The Committee received presentations and information from issuing departments regarding the following active bond programs:

1989 Public Safety Improvement Projects
\$59,700,000
Department of Public Works

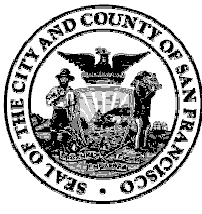
1990 Public Safety Improvement Projects
\$209,940,000
Department of Public Works

1992 Fire Department Facilities Project
\$40,800,000
Fire Department

1992 Seismic Safety Loan Program
\$350,000,000
Mayor's Office of Housing

1995 Steinhart Aquarium Improvement Bonds
\$29,245,000
Recreation and Park Department

1997 Educational Facilities Bonds
\$140,000,000
San Francisco Unified School District & San Francisco Community College District
(presentation from San Francisco Unified School District only to supplement 2003 presentation and information received from San Francisco Community College District)



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1999 Laguna Honda Hospital Bonds
\$299,000,000
Laguna Honda Hospital

2000 California Academy of Sciences
\$87,445,000
Recreation and Park Department

2000 Neighborhood Recreation and Park Facilities Improvement Bonds
\$110,000,000
Recreation and Park Department

The Committee received information from issuing departments regarding the following active bond programs:

1992 Golden Gate Park Improvement Bonds
\$76,300,000
Recreation and Park Department

1996 Affordable Housing Bonds
\$100,000,000
Mayor's Office of Housing

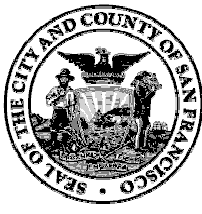
1997 Zoo Facilities Bonds
\$48,000,000
Recreation and Park Department

2000 Branch Library Facilities Improvement Bonds
\$105,865,000
Public Library

Committee Focus Issues

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. To that end the following questions were asked either in writing or during meetings with bond-issuing departments.

- Are individual projects proceeding on schedule? If not, why not, and what action is being taken?
- Are individual projects currently within budget? If not, why not, and what action is being taken?



- 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 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?

At the time of the presentations to the Committee regarding the Laguna Honda Hospital, the Steinhart Aquarium and the Academy of Sciences, no general obligation bonds had yet been issued for these projects so that the responses the Committee received to some of these questions were prospective.

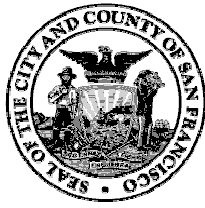
Additional Information Requested and Received

The Committee reviewed bond programs either over ten years old and apparently inactive, but with open project accounts or issued less than ten years ago with small unencumbered balances. The Committee sent letters to the responsible departments asking:

- Are the projects funded by the bonds complete?
- If projects are not complete, what work remains?
- When will work be completed?
- When can the project accounts be closed?

After review, departments reported five bond programs still contain active projects, and the project account of the sixth will be closed by the end of the 2004 calendar year.

1. 1986 Fire Protection Systems Improvement Bonds – ACTIVE
2. 1987 Recreation and Park Facilities Bonds – ACTIVE
3. 1987 Public (Mental) Health Facilities Improvement – ACTIVE
4. 1988 Library Facilities Project – ACTIVE
5. 1994 Asian Art Museum Project – TO BE CLOSED



6. 1994 City Hall Improvement - ACTIVE

The Committee will continue to monitor these accounts.

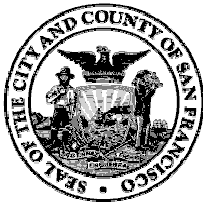
Findings and Recommendations

The primary work of the Committee in this year's meetings was to grasp the basics of each additional bond program presented to it and to increase its familiarity with the general obligation bond programs of the City and County of San Francisco. Significant findings by the Committee related to active bond program expenditures follow.

The Committee continues to find that there is tremendous variation in how departments track and report on bond funded projects. This variation often results in an inability to determine whether projects have proceeded on schedule and what actions were taken and the overall impact on expenditures. **The Committee continues to recommend that all departments having capital programs funded by general obligation bonds use a standard Gantt chart format as the basis for reporting requirements.**

Past inadequacies in budgeting, forecasting, contingency planning, reporting and tracking for bond funded projects of the Department of Recreation and Park contributed significantly to the belated discovery of funding shortfalls for the Department's Neighborhood Parks Program. Current management is aware of these problems and seems to have taken actions to address these problems and to improve the accountability and transparency of the administration of the Program. The Committee has joined the Neighborhood Parks Council in requesting the Controller to conduct a rudimentary audit of the Program.

After the San Francisco Unified School District did not provide a complete plan, including a budget and schedule for each bond project, in three appearances before the Committee, the Committee requested the Controller to perform an audit of the District's general obligation bond financial controls and accounting systems to provide assurance to the Committee that bond proceeds are being expended and accounted for appropriately. The Controller's preliminary findings indicate that the Committee cannot rely on the quarterly bond reports provided by the District and state that if the City had authority over the District's use of bond funds, the Controller would make the recommendation that the District stop issuing bonds and undertaking new projects until it is able to accurately to account for and report its bond activity. The Committee has discussed the preliminary findings with the Superintendent, who has represented to the Committee that she will place additional work on projects funded by the 1997 Educational Facilities Bonds on hold until appropriate staff members and procedures are in place. The Committee has also transmitted the preliminary findings to the School Board and to the District's School Facilities Oversight Committee with a letter expressing the Committee's concerns. The Committee does not have sufficient information to make any determination as to whether the projects of the District funded by the 1997 Educational Facilities Bonds are on schedule and within budget.



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Future Plans

The Committee intends to continue to monitor the general obligation bond programs of the City and County of San Francisco with particular emphasis on those programs that have recently issued bonds or that have had difficulties in the past. The Committee specifically intends to monitor the District's progress in developing accurate accounting and reporting of its general obligation bond funded projects. The Committee expects to receive the findings of the Controller's office regarding its review of the Neighborhood Parks Program next year and intends to follow through with whatever actions are appropriate as a result of those findings.

The Committee also intends to implement its responsibilities as the Citizens' Audit Review Board during the next year. Such implementation will include assigning one or more members of the Committee to monitor the Whistleblower Complaints Program on an ongoing basis.

The members of the Committee would like to thank Controller Ed Harrington with special thanks to Controller's staff members Jodi Darby, Tripta Gupta, and Rosanne Torre, Deputy City Attorney Michael Martin, and the Mayor's Office of Public Finance for providing excellent support services.



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The Committee is pleased to provide this second annual report and would be happy to provide additional information if requested.

Sincerely yours,

A handwritten signature in cursive script that reads "Pamela S. Jue".

Pamela S. Jue, Chair
Citizens' General Obligation Bond Oversight Committee

cc: Members, Board of Supervisors
Honorable Gavin Newsom, Mayor
Gloria L. Young, Clerk of the Board
Ed Harrington, Controller
Nadia Sesay, Director, Mayor's Office of Public Finance