



City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
Brenda Kwee McNulty, Chair
Kristin Chu, Vice Chair

September 2018

Honorable London N. Breed, 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 Breed and Members of the Board of Supervisors:

On behalf of my fellow members, I am pleased to present you with the fiscal year 2017-18 (FY 2017-18) Annual Report of the Citizens' General Obligation Bond Oversight Committee (CJOB). I, Brenda Kwee McNulty, and Kristin Chu were elected chair and vice-chair at CJOB's July 2017 meeting.

CJOB was established in 2002 when the voters of San Francisco passed Proposition F to review and oversee the delivery of general obligation bond programs. A year later, the passage of Proposition C (Charter Appendix F) authorized and required CJOB to review and provide input on the work of the City Services Auditor Division (CSA) of the Office of the Controller, including the Whistleblower Program.

In the period since CJOB's establishment, the voters of San Francisco have approved over \$2 billion of General Obligation (GO) bond projects, including the 2016 Public Health and Safety Bond. CJOB members will continue to be committed, focused, and organized to meet the committee's critical mandate.

CSA has enlisted the services of Cumming Construction Management (Cumming) to conduct a performance audit of the City's GO bond programs to determine whether GO bond funds were spent in accordance with the stated purposes and permissible uses of such bonds, as approved by the voters. As of August 2018, Cumming had completed expenditures audits for the following GO programs:

- 2010 Earthquake Safety and Emergency Response (ESER) Bond (issued 7/12/16)
- 2011 Road Repaving and Street Safety (RR&SS) Bond (issued 7/25/16)
- 2008 San Francisco General Hospital (SFGH) Improvement Bond (issued 3/16/17)
- 2012 Clean and Safe Neighborhood Parks Bond (issued 4/2/18)
- 2008 Clean and Safe Neighborhood Parks Bond (issued 6/4/18)



City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
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Based on the results of these completed audits, the expenditures reviewed were spent in accordance with the ballot measures with sufficient documentation. The remaining active bond programs are scheduled to be audited this fiscal year or next fiscal year.

The Committee's meetings have been televised on SFGOV TV since fiscal year 2017-18. The committee voted to contract for this service to make its meetings more accessible to the residents of San Francisco, especially those who cannot attend in person. As a group, our committee members believe we are doing a good job of monitoring bond performance, especially because we are volunteers and meet only bimonthly. If there are constructive comments, positive or negative, and there are ways we can improve our performance within the constraints of our available time and resources, we can make reasonable changes.

To assist CGOBOC in identifying potential improvements to our oversight role, functions, and activities, the committee enlisted the services of CSA to conduct a benchmarking analysis of bond oversight best practices. CSA compared the role, functions, and activities of five other committees with those of CGOBOC. Based on the analysis, which was presented to the committee at its April 2018 meeting, CGOBOC follows, or already has efforts underway related to, many of the leading practices pertaining to meeting frequency and coverage, as well as generating annual reports. The benchmarking analysis also found that CGOBOC is one of two committees that televises its meetings, and CGOBOC is the only committee that oversees bonds using a liaison model, where each member of the committee is asked to oversee a bond program, receive updates, and report back to the entire committee.

We have included individual liaison comments to this report and invite you to contact any one of us to follow up on our work. Thank you for your continued support of our work.

Sincerely,

Brenda Kwee McNulty
Chair, Citizens' General Obligation Bond Oversight Committee

Cc: Angela Calvillo, Clerk of the Board
Ben Rosenfield, Controller
Anna Van Degna, Director, Office of Public Finance
Civil Grand Jury



CGOBOC Annual Report 2017-2018
Liaison Comments

Emergency Safety and Emergency Response Bond Program 2010 & 2014 – Robert Carlson

As a liaison for the 2010 and 2014 ESER bonds, I have met with the appropriate city staff to review status and issues of all 2010 and 2014 ESER bond-funded projects covering scope, schedule, and budget. I have also attended CGOBOC meetings to hear ESER bond program presentations and ask questions of city staff; and reviewed the

detailed ESER bond quarterly reports. For the 2010 ESER bonds, the two remaining seismic upgrade projects, Fire Station 16 and Station 5, continue in construction and are 82.5 % and 56.7% complete respectively. For the 2014 ESER bonds, the Office of the Chief Medical Examiner project opened November 2018; the police Fire Arms Simulator Training facility is substantially complete and fully operational; and the Traffic Company and Forensic Services Division project, during the design phase, identified a potential \$9.0 million budget shortfall. The City's Capital Planning Committee has committed to fund the project shortfall to avoid project reductions and loss of functional integrity. Also, this past year I reviewed in detail, with Bond project staff, the \$18.0 million Pumping Station 2 construction contract bid; and toured the facility prior to the start of construction. In the past, as the liaison, I have come to rely on the detailed project budget/expenditure quarterly reports to confirm bond funds are being spent consistent with the voter authorization. However, this past year; complete, current, and accurate project level expenditure reports were not available in the new City accounting system. While this has been a major concern of mine, at the August 2018 CGOBOC meeting, we did receive the high-level bond appropriation/expenditure report; and assurances that detailed bond project level reports would be available at our September meeting.

Recreation and Park Bond – Alex Tonisson

As liaison to the 2000 Neighborhood Park Improvement Bond, 2008, & 2012 Clean and Safe Neighborhood Park bonds I met with Rec & Park representatives on August 29th, 2017 and May 16, 2018 to discuss the progress of the bond projects. I am currently scheduling another meeting with City representatives on the Rec & Park bonds to take place before the September 24th CGOBOC meeting. During our meetings staff have been very knowledgeable and informative about the status of the bonds and have been able to provide the needed details. Considering the complicated nature of the projects the work that has been done to improve the public pools in San Francisco has been impressive and I also want to commend staff on their work to overcome the challenges during the transition to the new Citywide FSP.

After my meetings it is my understanding that the Rec & Park Quarterly Status Reports on all three bonds presented at the May 2018 CGOBOC meeting are accurate. Both **the**



City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
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2000 and 2008 Bonds are winding down and very close to being completed and this next year I look forward to learning more from the department about the planning that is being done for the next Rec & Park Bond and the projects that will be covered.

2011 Road Repaving and Road Improvement Bond – Kevin Hughes

As a liaison for the RR&SS Bond, I have met with the appropriate City and County of San Francisco Staff to review the status and issues of all the 2011 RR&SS Bond-funded projects. I have also attended the Citizens' General Obligation Bond Oversight Committee (CGOBOC) meetings and heard RR&SS Bond program presentations and have had the opportunity to meet with the Division Manager, review reports and ask questions of Staff assigned to the RR&SS Bond. The Bond was approved by the voters in 2011 in an amount of \$248 million dollars. Street rehabilitation is an important element of modernization of any major City.

All the Bond fund expenditures have been inside the original discloser to the voters.

Street Repaving and Reconstruction is substantially completed exceeding original goals. Some of the contributing factors related to this can be attributed to the program receiving a larger than anticipated share of SFHope funding.

Streetscape, Pedestrian and Bicycle Safety Improvements are approximately 80% complete with the remaining projects expected and scheduled to be completed in the latter part of 2018.

Curb Ramp and Sidewalk Accessibility projects are 100% complete, with completed projects exceeding the original goals. Projects completed were on time, on budget, and within the scope of the Bond.

Roadway Structure Program projects are 98% complete. Richland Ave. Bridge will run past the original projected completion date of June 2019. The approximately \$100,000 in design and environmental work will be returned and re-allocated to the Alta Street Retaining Wall project. Both projects are inside the scope of the Bond measure originally approved.

Traffic Signal projects are completed, also exceeding original goals. Challenges experienced were mostly related to inter-departmental coordination with other Departments to maximize the work produced.

2014 Transportation and Road Improvement Bond – Brian Larkin and Brenda Kwee McNulty

The \$500 million Transportation and Road Improvement Bond was passed by voters in 2014 as proposition A. The first bond issuance occurred in July 2015.



City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
Brenda Kwee McNulty, Chair
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As liaisons to this Transportation Bond, we have already met with MTA staff twice this year (January 18th and March 28th) and will meet again on September 20th to discuss the progress of the bond; we were also present at MTA staff's presentations to regular CGOBOC meetings.

MTA staff have been prepared for liaison meetings, providing detailed updates on the projects funded through the first bond issuance and their plans for the funds raised through the second bond issuance for \$177 million in April of this year.

Based on these interactions, we feel comfortable that the projects funded by the first bond proceeds of \$66 million were managed in accordance with bond initiatives in FY 2015-2016. MTA staff strives to minimize excess debt service by not issuing bonds until the projects are ready to spend the revenue thus obtained. This has been challenging to staff. Several reasons are listed here:

A saturated construction market coupled with unrealistic local business participation (LBE) requirements has caused the need to rebid some projects, in at least one case more than once.

The need to coordinate with the Department of Public Works (DPW) on some street projects has resulted in delays to MTC contract work due to the longer lead time and permitting requirements for DPW.

San Francisco's new finance reporting system has not been working correctly has caused difficulties for MTA staff in assessing amount of money spent and thus amount available for subsequent projects.

Despite these problems, we are satisfied that the subject bond money is being spent effectively and that the projects that it is funding provide the value that the citizens of San Francisco expected when they passed measure A in 2014.

2015 Affordable Housing Bond – Larry Bush

The \$310 million 2015 Affordable Housing Bond required 66 2/3 votes and passed with 74-½% of the vote. A larger number of San Franciscans cast ballots for it than for all but one other measure in that election, including outpolling ballots for the election of the mayor.

Voters endorsed a strategic target list of populations intended to benefit from increased housing production or revitalization and promised to do so through a partnership with the private for-profit and nonprofit industry, a departure from the standard bond spending through direct city department implementation.

CGOBOC was identified in the bond measure as responsible for monitoring progress regarding spending as on time, on budget and on scope.

The primary targets are:

Construct, develop and rehabilitate affordable rental housing.



City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
Brenda Kwee McNulty, Chair
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Acquire existing rental housing as affordable housing.
Repair and reconstruct dilapidated public housing
Create a middle income rental housing program
Create a middle-income home ownership program
Renew the teacher next door program
Acquire, preserve, develop affordable housing in the mission area plan

The bond's purpose is to create a framework and structure to address the challenge of affordable rental and homeowner housing in a city that is stressed in fulfilling those challenges. That challenge is more acute when development and production is driven by market forces with little regard for the needs of those unable to economically compete. It accomplishes its purpose with steps taken on the range of needs that lay the ground for further resources.

The strong public support for the bond and its implementation in a publicly-financed, privately developed approach made transparency and accountability an essential component. It also prompts action to keep the bond on time in a market where the Mayor's Office of Housing estimates construction costs increase at ten percent annually, adding pressure on budgets.

Transparency is served through the Mayor's Office of Housing and Community Development that issues detailed reports to the public, most recently on March 16, 2018 (Housing Bond Accountability Report March 2018.pdf)

The reports with progress updates are available at: <https://sfmohcd.org/2015-affordable-housing-general-obligation-bond>.

As the liaison on the bond, I met regularly and corresponded with staff in the Mayor's Office of Housing and Community Development (MOHCD) to review scoping of the bond-funded projects. I made site visits to review progress underway as well as site visits to locations under discussion but ultimately not included in the bond program. I have submitted questions to program staff and for the public record. Regular reports also were made to CGOBOC, where I attended.

Through May 2018 a total of \$218,588,356 of the \$310 million bond has been issued. Public Housing efforts include Potrero, which will receive \$20 million in bond funding, with \$18 million disbursed and Sunnydale for \$21 million earmarked. The goal is to accelerate replacement housing by five years.

Other target funding areas include the Down Payment Assistance Loans, which are fully subscribed for the first issuance, the Teacher Next Door forgivable loans which are now available, and three sites for Low-Income Housing that include acquisition funding for 4840 Mission and construction funding for 1296, Shotwell, 88 Broadway, 500 Turk and 1990 Folsom. New middle-income homes will be funded at 88 Broadway and 43rd & Irving (an educator housing site). The Small Sites Program has funded all but one project with sites renovations underway.



City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
Brenda Kwee McNulty, Chair
Kristin Chu, Vice Chair

Special attention to the protocol should be noted that services as well as housing units are to be accommodated through bond funding. This includes on-site programs such as childcare where needed and appropriate.

While the bond is significantly meeting the goals of being on target, on scope and on time, other factors have come into play to an extent

In other funding for housing, site selection is often a condition before an award is made. In a city with a shortage of housing sites, competition from market-rate developers, and an intention to provide housing dispersed across the city, this can be a high bar. In addition, even after a site appears to be suitable further examination may conclude that site conditions make it unfavorable. In the current year, a project at 250 Laguna Honda will not go forward for related reasons.

The housing production environment also is impacted by a shortage of construction workers, which both can increase costs and slow progress. We also learned that the coordination with Pacific Gas and Electric to ensure that utilities are in place may account for as much as a six to eight-month delay in some housing coming online. We are urging appropriate city officials to make clear the urgency of coordinating and completing work as the city faces a housing crisis. Those are two of several factors that impact the ability to deliver on the bond's promises.

The 2015 Affordable Housing Bond is meeting its goal of addressing needs through a strategic plan, including developing new targets, replenishing resources for some existing goals, and reaching further to underserved targeted communities and neighborhoods.

2016 Public Health and Safety Bonds – Kristin R. M. Chu

The voters approved the \$350 million bond in June 2016. As of September 2018, two bond issuances, totaling \$223M, are complete.

The bond projects are grouped under six programs servicing three departments – Department of Public Health, SF Fire Department, Department of Homelessness and Supportive Housing, Each program has multiple projects whose status is often shifting due to changing departmental priorities, community feedback, construction challenges, increasing costs, demands of occupants, seismic status and/or a difficult bidding environment.

The DPH team, led by Joe Chin, is doing everything possible to minimize the impacts of this difficult environment. They are relentlessly oriented around success for the departments, often partnering to find solutions that ensure department's business goals are met.



City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
Brenda Kwee McNulty, Chair
Kristin Chu, Vice Chair

To the best of my knowledge, the SF Public Works and their client departments are on track to meet the commitments made to voters who approved this bond.

City Services Auditor – Larry Bush

The Controller functions as the City Services Auditor (CSA), as authorized by Charter Appendix F, which includes various responsibilities and powers. The Controller's CSA Division consists of the Audits Unit and City Performance Unit.

CSA is funded through a commitment of two-tenths of one percent of the City's annual budget. In fiscal year 2018-19 approximately \$19 million is budgeted for CSA's functions under this Charter requirement, plus an additional \$2.0 million from bond sales linked to multiyear capital programs. CSA has approximately 68 full-time equivalent staff, including auditors, performance analysts, project managers, and operations staff.

Since CGOBOC was assigned as the City Services Auditor in the 2003 charter provision, the work has expanded and deepened. CSA now provides an accounting of the performance of city programs across a wide array of concerns, a benchmark analysis (<https://sfgov.org/scorecards/benchmarking>) comparing San Francisco to peer cities is accessible to the public as well as to policy makers, and the Performance Scorecards (<https://sfgov.org/scorecards/>) The City Services Auditor work is recognized as outstanding by peer agencies.

Together the benchmarks and performance scorecards offer a data-rich resource for the public and policymakers to test developments against the needs and status of city programs and initiatives. Its effect is to increase the opportunity to look deeper at the ways in which city efforts meet challenges and those places where resources have yet to meet needs.

This past year CSA has further improved its reporting making it easier for all those affected by city operations to understand the status of efforts and to identify where greater efforts are needed. It is current with measuring and reporting on concerns that occupy the public's attention, including such data as the doubling of costs of a home purchase from 2012 to 2018, a higher than average number of unsheltered homeless, double the average of homeless youth transitioned from foster care, and that San Francisco has a higher income inequality level than other peer cities. These examples demonstrate the currency of the data and its potential for policy makers and public oversight.

The importance of easily accessible information on such topics of great and current public interest is one of the signal contributions of the staff's work.

This work is not limited to looking in the rear-view mirror but includes preparing for uncertain needs and challenges. In the past year, this included preauditing mutual aid reimbursement requests as part of the North Bay Fires response, assisting the San Francisco Housing Authority in identifying improvements to its financial management



City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
Brenda Kwee McNulty, Chair
Kristin Chu, Vice Chair

controls following a critical HUD analysis of its financial management, and completing a benchmarking assessment on bond oversight best practices.

Necessarily much of the data is organized around departmental priorities and programs, which was initially the charge given in the Charter. The Charter amendment also has specific mandates focusing on streets, sidewalks, parks and other hard infrastructure. Currently data is collected and presented on services in addition to infrastructure and in some cases includes a focus on population subgroups. A consequence is growth in crosscutting analysis that takes data out of a silo and more directly into how it is manifested across departments. This allows for a broader as well as a deeper examination based on data as it affects specific population subgroups.

It also opens the potential to approach data from the perspective of the population being served as well as through the lens of the city agencies providing services. Both the public and policy makers are better able to examine the city's performance as it affects specific populations, especially as concerns forcefully emerge on whether city policies and practices have unintended negative consequences, or that the lack of more targeted data comparisons leaves some populations unserved or inadequately served.

As liaison I met with staff, listened to presentations at CGOBOC committee meetings, asked questions and sought additional information. I have sought inclusion of more cross-cutting reporting where data could provide insight into factors such as the sharp decline in the city's African American population, a reported increase in sexual harassment complaints by city workers, stresses on new immigrants not yet documented, and other flashpoints where public policy needs appear to outpace information to help shape the city's response.

The City Services Auditor directors indicate that they will take under consideration next steps that can potentially assist San Francisco in understanding these and other challenges while maintaining a high standard in existing research.

The City Services Auditor function operates at a high level and is serving its purpose of providing insight and analysis on the city's performance as well as comparisons with peer cities.

City Services Auditor – Kristin R. M. Chu

The Controller functions as the City Services Auditor, as authorized by Charter Appendix F, which includes responsibilities for both financial and performance auditing along with management of the Whistleblower program.

Based on my work as CSA liaison, I believe the CSA is fulfilling its Charter mandate and plays a vital leadership role in driving success within the government.

In FY17-18, along with meeting all standard auditing requirements, the CSA division has continued to evolve their services to meet the changing needs of our government.



City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
Brenda Kwee McNulty, Chair
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The City Performance Unit is a trusted partner for the departments that they serve. The unit is asked to work on some of the most important and timely issues affecting our community like Muni customer serve and DPH's transition to Epic EMR. The Lean program and the emerging analytics initiatives are oriented around giving groups and departments the skills and tools to initiate change internally and develop a culture of continuous improvement.

The CSA Audits Unit is providing valuable services and insights into some of the riskiest areas of our government. Over the last few years they have been developing an expertise around cyber security to meet the demands of our increasingly insecure world. Their work with departmental IT services and governance is an important part of making sure divisions are ready to drive and operate a modern, secure technology infrastructure. In my view, the most impactful work of the Audits division is their quarterly review of audit recommendation implementation status, ensuring the valuable work of the CSA has an impact on SFGOV. Over 90% of CSA recommendations are implemented within two years of the audit issuance.

Whistleblower Program – Brenda Kwee McNulty

The operations of the Whistleblower Program (WP) are carried out by a dedicated staff of investigators in the office of the Controller and is overseen by the Citizens G.O.Bonds Oversight Committee (CGOBOC). As the liaison of the WP, I have undertaken my oversight responsibilities by meeting with WP staff and management several times during the past fiscal year to avail myself of updates and to pose questions in the soundness of its operational activities. I have also attended presentations by WP staff to the entire CGOBOC at public meetings. I have been the WP liaison representing CGOBOC for the better part of my 4-year term at CGOBOC.

I am pleased to see an industry outreach effort in the form of webinars which the WP has hosted on a quarterly basis. This has created a forum to gather and share best practices in the municipal investigative industry. WP staff achieved 2 objectives in this process - 1) created a continuing educational process for all WP investigators and 2) taken a leadership position in promoting the latest techniques in the investigative industry.

I am pleased to see these efforts in outreach efforts in the promotion of best practices have been awarded by the 2018 Innovation Award by the California Society of Municipal Finance Offices.

To the best of my knowledge based on my interactions with WP staff and management, I can attest unequivocally that that WP staff and management have carried out their mandated responsibilities according to City charter.

I will miss interacting with WP staff and management but have every confidence that they will continue in their path of excellence in their service to the citizens and tax payers o the City and County of San Francisco.