

MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

CITIZEN'S BOND OVERSIGHT COMMITTEE

August 4, 2008

3:00 PM – Regular Meeting, Sam Karas Room, Library and Technology Center
Monterey Peninsula College, Monterey, CA

Meeting Minutes

MEMBERS PRESENT: Mr. Peter Baird
Mr. Scott Coté
Mr. Steve Emerson
Ms. Daphne Hodgson
Ms. Elinor Laiolo (arrived at 3:55 PM)
Ms. Eleanor Morrice
Mr. Ron Pasquinelli
Mr. Gary Ray
Ms. Sondra Rees

ABSENT: Ms. Mary Ann Kane

STAFF PRESENT: Mr. Joe Bissell, Vice President for Administrative Services
Dr. Douglas Garrison, Superintendent/President
Ms. Vicki Nakamura, Assistant to the President

OTHERS PRESENT: Mr. Joe Demko, Kitchell
Ms. Marilynn Gustafson, MPC Foundation

1. Call to Order

The regular meeting of the Citizen's Bond Oversight Committee of Monterey Peninsula College was called to order at 3:01 PM by Chair Baird.

2. Public Comment

There were none.

3. Investment of Series B and C Bonds

Mr. Lou Solton, Monterey County Treasurer-Tax Collector, was present to provide additional information on the investment of bond proceeds.

Mr. Solton reviewed the official statements for the two bond issuances. Series B was the smaller of the two; \$9 million of taxable bonds were issued. Series C was larger at \$95 million and also tax exempt. A total of \$107 million was deposited in the County treasury in January.

He reported he met with Mr. Bissell to discuss the investment strategy and drawdown of the funds based on the projects. Three approaches were used to meet the liquidity and investment needs of the District. Forty million was invested in LAIF (Local Agency Investment Fund managed by County treasurers), with \$40 million being the statutory limit for agency investment. Nine million was invested in medium term notes (3 year notes) and

the remaining \$58 million in the County general portfolio. Mr. Solton stated LAIF is the sole investment vehicle for small and medium size public agencies in California and a stark decline in yields has occurred recently. He said the medium term notes were split between JP Morgan Chase (\$4 million) and General Electric (\$5 million).

Mr. Solton distributed a copy of the County's investment policy that must be adopted annually by the Board of Supervisors. He said the portfolio size is \$1 billion, of which \$150 million are custom investments (such as the MPC bonds) that are not subject to distribution. He noted the assets earned \$900,000 in the 6 months ending June 30th.

Mr. Pasquinelli commented the six month earnings on the MPC investments seemed light. Mr. Solton replied the medium term notes were not purchased until April and May. Mr. Pasquinelli asked if there was any exposure to mortgage debt. Mr. Solton's response was there was none.

Noting the decline in LAIF earnings from 4.6% to 2.9%, Mr. Coté asked about the decision-making process and why funds weren't shifted from LAIF to other custom investments. Mr. Solton explained that the college needs liquidity to pay for project costs. As none of the assets are insured, he did not want the funds tied up in investments. Chair Baird asked if Mr. Solton would change his approach if he was working under the direction of the MPC trustees. Mr. Solton responded he would do so only if he had more specificity regarding how the funds aligned with the drawdown schedules. He explained if a one year approach was used and assets were tied up in an investment, the college may need the funds in month 10. If this timing coincided with a low period, the college would not want to sell the investment at a loss. Mr. Solton concluded there was not a huge advantage between "overnight money" and a one year investment approach.

Mr. Coté asked if the college should stay liquid to be able to "buy low and sell high." Mr. Solton agreed with the goal, but observed that if the college bought investments now to take advantage of the down market, the assets would be tied up. He said staying liquid allows flexibility.

It was stated that the college and Mr. Solton need to keep in touch regarding market conditions. Chair Baird inquired whether regular meetings occurred between Mr. Bissell and Mr. Solton. Mr. Bissell replied he receives regular reports and reviews.

Dr. Garrison commented that if the college was only looking at investments, Mr. Coté's approach could be utilized. However, the District must balance liquidity with the sequencing of projects. He explained that since the state bond election will not occur this November, the college will need to reexamine projects and their sequencing as well as the liquidity of funds.

Ms. Morrice expressed concern about lower ratings on the medium term notes. Mr. Solton responded that state statute specifies that securities being purchased must be rated "A" or higher. He discussed the recent situation where bond insurers were rated inappropriately and commented that rating agencies are not as reliable as before. Mr. Solton assured the committee he evaluates the fundamentals before investing, rather than relying on ratings.

Mr. Ray asked if there was any restriction on the earnings of bond investments in terms of use. Mr. Bissell answered yes -- the same restrictions for the principal also apply to earnings.

4. Approval of Minutes

Motion to approve the minutes of the June 8, 2008 meeting was made by Ms. Hodgson and seconded by Ms. Rees. Motion carried unanimously.

5. Accept Bills and Warrants Report

Mr. Bissell reported the report reflects \$3.7 million more in bond expenditures than the prior report. He noted that Pete Buechel, the District's purchasing specialist, was present to answer any questions regarding specific expenditures.

Mr. Coté asked about a DVD repair in the Lecture Forum that seemed expensive at \$3,700. Mr. Bissell explained a new podium touch panel was installed and a special company was used to handle the audiovisual renovations for the Lecture Forum. Mr. Buechel added that the total cost to redo the AV equipment for this building was \$250,000, a decrease from the original estimate of \$1 million.

Mr. Coté noted 2 entries on page 5 for the purchase of a UHF microphone and asked if one was a duplicate. Mr. Bissell said he would check and report back at the next meeting. Mr. Coté followed with a question regarding the difference between a payment application and retention payment, as listed on page 8 of the report. Mr. Demko explained a contract typically has 10% of the total amount removed for retention. He clarified that a payment application is the payment itself, thus, a \$100,000 payment would specify \$90,000 for payment and \$10,000 for retention.

Mr. Pasquinelli noted there were several entries for San Jose Blueprint. Mr. Demko stated when a job is bid, contractors are charged for the drawings they use. San Jose Blueprint issues invoices to help the District track these payments.

(Ms. Laiolo arrived at this time.)

Ms. Hodgson referred to the Visiplex expenditure on page 7 under "Furniture/Equipment" and said it was difficult to determine which project was involved. Mr. Bissell replied the purchase was for a mass emergency notification system with 33 speakers being located across the campus -- \$39,000 for equipment and \$13,000 for installation. Ms. Hodgson added that it was also hard to track items in the Infrastructure category and suggested subcategories should be used in both categories.

Mr. Bissell explained furniture was purchased for several buildings across the campus. Bond projects do not have individual furniture and equipment allocations. Dr. Garrison suggested that furniture be better identified, such as "institutional furniture" to address Ms. Hodgson's concern. Mr. Bissell stated that future furniture expenditures will be purchased for specific projects, and will be so designated.

Chair Baird had several questions about the Child Development Center (CDC). He observed the project is characterized as essentially complete, and yet on-going expenses continue. He inquired about a \$53,000 expenditure for demolition since the CDC was located on a different site. Mr. Baird noted the Infrastructure/Parking category also showed CDC expenses. He asked why expenses were incurred post-2008, since the state was no longer funding the project.

Mr. Bissell responded it was not clear cut when the construction phase of the CDC project ended and the maintenance phase began. He agreed the project should be closed and bond expenditures should be ended. Mr. Bissell said funding was retained from the contractor and the college has continued to find items. He added state funding does not cover every expenditure, such as building demolition.

Chair Baird asked about the expenditure on page 12 for M3 Environmental Consulting for investigation of transite pipe debris. Mr. Bissell explained soil from the football field was excavated and moved to the college's site at Fort Ord when the stadium and field were renovated. This soil was found to contain transite pipe debris and treated. Subsequently, in the area adjacent to the football field by the tennis court, small particles were found that were identified by M3 as both shale and asbestos. This contamination was also cleaned up.

Chair Baird commented he appreciated the questions being asked by the committee and the information provided in response. Mr. Bissell suggested committee members call him a day in advance of the meeting when there are questions regarding specific entries so he could research and provide information by the time of the meeting.

Motion to accept the bills and warrants report was made by Mr. Emerson and seconded by Mr. Coté. Motion carried unanimously.

6. Bond Expenditure Status Report

Mr. Demko reviewed the proposed title changes for the project listings in the monthly bond expenditure status report. He said if the group agreed, he would make the changes effective with the next report. Ms. Hodgson proposed "Swing Space" be expanded to "Temporary Facilities Campuswide." It was agreed to change the title to "Swing Space/Interim Housing."

Chair Baird asked for clarification of the meaning of "C2G PAAs" on page 2 of the cost control report. Mr. Demko answered C2G is the name of the firm, and PAA stands for project amendment and is a change order.

Ms. Hodgson noted a difference in the amount of expenditures listed on the Bills and Warrants report vs. the Bond Expenditure Status Report through June 30th. Mr. Bissell explained the two reports were not designed to tie in together and the projects listed are different on the two reports. He has asked Mr. Demko to work with the District's Controller, to describe the projects in the same way in both reports.

Mr. Coté asked about the expenditure of \$378,000 for compensable rain delays for the P.E. Fields project listed on page 2 of the Cost Control Report, item #6-D. Mr. Demko explained there were four months of compensable delays and he offered to provide more detail at the next meeting.

7. Update on Facilities Projects, Timelines and Schedules

Mr. Demko, the college's bond program manager, reviewed the status of current facility projects.

PE Fitness Building

The Division of the State Architect (DSA) is expected to approve the elevator soon.

Public Safety Training Center at Seaside

Mr. Demko said the bids received in June were \$1 million under budget. Construction is anticipated to take ten months.

MPC Education Center at Marina

Another temporary modular building has been installed. Mr. Demko reported the architect will present the drawings for the permanent building to the trustees at the August Board meeting.

Infrastructure

Mr. Demko indicated the infrastructure project will be complete in another month, 3-4 months ahead of schedule. Phase I was over budget due to change orders. The overage was deducted from the Phase II budget.

New Lecture Forum Bridge

The bridge is complete and in use.

Old Library

Mr. Demko noted this state funded project has had many problems due to structural conditions, termite damage, and drainage issues. The contract bid was under budget; however, the change orders have been large. Project completion is now estimated for late March; but it is hoped the schedule can be accelerated.

New Student Services Building

DSA is currently reviewing the drawings.

Parking Lots A, D, E, and F

Asphalt is being put in. Work was started on upper lot A and work should complete by the start of Fall semester.

PE Gym

The floor is being installed.

8. 2008-09 Initial Project Proposal and Final Project Proposal Submissions

Ms. Nakamura reported on the District's efforts to leverage local bond funds with funding from the state. She reviewed the state capital outlay funding process and explained two steps were involved for each project. The first step is to submit an initial project proposal or IPP to the state Chancellor's Office, describing the project concept and establishing a preliminary scope and budget. If the Chancellor's Office is supportive, the second step is to submit a final project proposal or FPP in the next year in July. Ms. Nakamura explained the FPP is more detailed and provides an analysis of alternatives as well as establishes the final scope and project costs. Architectural drawings are also included in the final project proposal.

In July, the District submitted an IPP for the Public Safety Training Facility at Parker Flats and two FPPs for the main campus -- one for the Arts Complex, and a resubmission of the Music Theater project. Ms. Nakamura reviewed components of the three projects as well as the projected timeline and costs for each. Questions were raised regarding the elevator in the Music Theater project. She responded she would bring more information to the next meeting.

9. 2010-14 Five Year Capital Outlay Plan

Mr. Bissell reviewed the Five Year Capital Outlay Plan submitted to the state in July. He explained the Chancellor's Office system for evaluating projects and assigning points to a project. He stated the District is seeking state funding for five projects in the Five Year Construction Plan: Business, Math, Science buildings project; Music/Theater; Ft. Ord Public Safety – Phase II; Humanities, Business-Humanities, and Student Services project; and the Arts Complex.

Mr. Bissell reported state funding was approved for the Business, Math, Science project and the Humanities, Business-Humanities, and Student Services project. However, funding is dependent on the state bond election which is scheduled for November, but appears likely to be deferred. He speculated the Humanities project will probably be funded even though

the Business, Math, Science project is a higher priority for the District. The funding of the Humanities project will end up shifting the District's priorities and affect project timing and cash flow. Dr. Garrison concurred the District's project priorities will change due to what happens with state funding.

Mr. Coté asked how these projects fit in with the master schedule. Dr. Garrison said the five year plan presents a snapshot of the sequencing and funding of the projects. If the Humanities project is funded, the schedule will change and cause a reevaluation of the projects.

Vice Chair Emerson commented the Parker Flats project has tremendous use and asked about the ability to find secondary non-state funding, such as Homeland Security or fire training funding. Other funding sources may enable the timeframe of the project to be accelerated. Dr. Garrison responded other funding was possible; however, current partnerships are with public agencies with limited budgets. He noted Homeland Security funding was allocated to states and then to regions, with dollars being used for training and equipment rather than capital projects. Ms. Laiolo asked if funds were received from another source, would the college be penalized by the state. Dr. Garrison's response was no.

10. Review of Format for 2007-08 Annual Report

Mr. Bissell distributed a handout of the proposed format for the financial section of the Annual Report. He reviewed the format which provides three separate spreadsheets for projects completed, in process, and planned for the future. The completed projects are listed in chronological order and provide a description and actual expenses. The in process projects section is more complicated and will provide four columns of figures showing budgeted amounts for the bond and state, the total cost, and Prop 39 expenses to date. The future projects list returns to a three column format.

Dr. Garrison explained the District tried to provide a document that would address the committee's input and still be understandable to the public. He referred to the different purposes of the report, to meet the fiduciary responsibility and statutory requirements vs. informing the public. He acknowledged the importance of the public being able to understand and appreciate the enhancements made to the institution as well as the dollar figures; however, the financial section must be understandable and tie back to the total expenditures for the year.

Ms. Hodgson commented the format was a good solution to address the committee's input. She was pleased with the reports and advised keeping the three reports separate to help clarify the differences between the reports.

Mr. Coté observed the overall total of the bond was originally \$145 million, but the current amount was \$153 million due to refinancing. He suggested a footnote was needed to explain the change in the bond amount.

Mr. Pasquinelli asked if the additional \$8.5 million should go back to the taxpayers, since the approved amount was \$145 million. Mr. Bissell said it was legally permissible to spend the refinancing amount on projects. Ms. Hodgson added that the college will only collect \$145 million from the taxpayers and the extra \$8.5 million was due to investment earnings. She emphasized the college was not spending more nor taking \$153 million from the taxpayers.

Dr. Garrison said the trustees approved the expenditure of the earnings.

Mr. Emerson noted the college is a living, breathing campus with ongoing needs that can be met with these additional funds.

Mr. Ray stated the timeframe for building projects extends far into the future. He advised it would not be wise to retire the debt until closer to the end as bad years of returns can occur.

Ms. Morrice commented the new financial section provides the right amount of information. She concurred the three separate sections should be included.

Mr. Pasquinelli agreed with Mr. Coté that the \$153 million needed to be identified, showing the amount of interest earned and attributed to projects.

Chair Baird recapped the committee's comments and stated everyone appears to be comfortable with the proposed format. Mr. Coté demurred until he could read through the report.

11. Meeting Schedule

The remaining meeting date for 2008 is November 10 (annual organizational meeting). Mr. Emerson indicated a conflict with the November meeting date. Ms. Nakamura will contact members to determine an alternative date.

12. Suggestions for Future Agenda Topics and Announcements

There were none.

13. Adjournment

The meeting was adjourned at 6:20 p.m.

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