

# MONTEREY PENINSULA COMMUNITY COLLEGE DISTRICT

## CITIZEN'S BOND OVERSIGHT COMMITTEE

Monday, November 17, 2008  
3:00 PM – Regular Meeting, Sam Karas Room, Library and Technology Center  
Monterey Peninsula College  
980 Fremont Street, Monterey, CA

### Meeting Minutes

MEMBERS PRESENT: Mr. Peter Baird  
Mr. Scott Coté  
Mr. Steve Emerson  
Ms. Daphne Hodgson  
Ms. Mary Ann Kane  
Ms. Elinor Laiolo  
Ms. Eleanor Morrice  
Mr. Ron Pasquinelli  
Mr. Gary Ray  
Ms. Sondra Rees

ABSENT: None

STAFF PRESENT: Ms. Suzanne Ammons, Administrative Assistant to the Vice  
President for Administrative Services  
Ms. Rosemary Barrios, Controller  
Mr. Joe Bissell, Vice President for Administrative Services  
Dr. Douglas Garrison, Superintendent/President  
Mr. Steve Morgan, Director, Facilities, Planning and Management  
Ms. Vicki Nakamura, Assistant to the President

OTHERS PRESENT: Mr. Joe Demko, Kitchell

#### 1. Call to Order

The regular meeting of the Citizen's Bond Oversight Committee of Monterey Peninsula College was called to order at 3:04 PM by Chair Baird.

#### 2. Public Comment

There were none.

#### 3. Committee Membership Review

Dr. Garrison reviewed the terms of the current committee members. He indicated Peter Baird, Steve Emerson, Elinor Laiolo, and Sondra Rees will be reappointed by the Governing Board in November to a second two-year term. Dr. Garrison thanked the committee members for their service.

**4. Officers**

Dr. Garrison informed the committee that Peter Baird had agreed to continue as chair. For vice-chair, motion to nominate Steve Emerson was made by Mr. Ray, seconded by Mr. Pasquinelli. The vote was unanimous in support of Mr. Emerson's election.

**5. Status of Investment of Series B and C Bonds**

Lou Solton, Monterey County Treasurer-Tax Collector, was present to discuss the impacts of the recent Chapter 11 bankruptcy filings by Lehman Brothers and Washington Mutual Bank on the County's investment portfolio.

He began his presentation by noting that in his previous discussion with the committee in August regarding the County's investment portfolio, it was apparent the County was not actively engaging in risky investments. However, since then, Lehman Brothers and Washington Mutual have filed bankruptcy, putting \$30 million of the County's investments at risk. Mr. Solton noted the bankruptcy action is at the beginning stages and it will be some time before settlement is reached and the impacts known.

Mr. Solton distributed copies of the Treasurer's Report presented to the County Board of Supervisors on November 4, 2008. He reviewed the first item of the report, a recommendation to reconstitute the Treasury Oversight Committee that was first organized ten years ago at the time of the Orange County bankruptcy filing. The Board of Supervisors authorized the appointment of a 5-person committee, consisting of Mr. Solton, the Superintendent of Schools (Nancy Kotowski), the finance manager for the Pebble Beach Community Services District, the County Administrative Officer (Lew Bauman), and a school member, to be determined. This committee will get underway after the first of the year.

Mr. Solton then reviewed the second portion, a report of the County's investment portfolio, as of September 30, 2008. The par value of the entire portfolio at the end of September was \$903 million.

He recapped the investment approach used for the college's \$105 million of bond proceeds from last January. Mr. Solton stated \$49 million was placed in custom investments that were insulated from the current financial situation, with most of the funds (\$40 million) invested in LAIF (Local Agency Investment Fund). These funds will stay in LAIF until the college advises otherwise. The remaining \$54-55 million were placed in the overall investment portfolio to meet cash flow needs. When these dollars are fully expended, Mr. Solton will discuss with the college how to shift the LAIF funds, if needed.

He then discussed the possible effects of the \$30 million potential loss from the Lehman Brothers and Washington Mutual bankruptcies on the college's investment funds. Washington Mutual represents \$20 million and Lehman Brothers \$10 million of the total. If sold today, the County could get \$7-8 million for both. If the County could recover fifty cents on the dollar, the resulting \$15 million loss would be spread out among the participants.

Mr. Solton assured the committee that Monterey County was not the only entity experiencing this loss. He commented the recovery would be ongoing and piecemeal, with amounts being recovered from bankruptcy proceedings, legislative relief, litigation, etc. He reviewed special efforts that had been undertaken, including joining with San Mateo County in the hiring of a specialized bankruptcy firm in New York, Nixon Peabody, to assist with

getting language inserted in the next federal bail out bill to protect cities and counties with troubled assets.

Mr. Solton stated the investment portfolio continues to earn interest. He reported the County Auditor-Controller has set up a reserve for unrealized losses. Interest earnings will be allocated to the reserve and used to offset the final losses when determined. Once the loss is measured and certain, the amount will be booked and spread out among the entities.

Mr. Solton added his office sought an independent review of the portfolio by an outside firm. The assessment concluded the portfolio was well diversified and the investments provide the liquidity needed. Mr. Solton ended his report by taking full responsibility for the investment situation, stating his office was making every effort to recover these assets.

Several questions were posed by committee members. Ms. Rees inquired if legal action was being considered against the Treasury Department for excluding Lehman Brothers from receiving federal assistance. Mr. Solton responded no and stated he would refer the idea to counsel.

Vice Chair Emerson asked what would be the college's percentage of the \$30 million loss. Mr. Bissell responded the college had \$50 million in the general pool of \$750 million or 1/25 of the total. He equated the potential loss to the college as \$800,000. Mr. Solton added the loss would eventually be offset by interest earnings; however, in the meantime, the college would need to budget the loss. Mr. Bissell stated the college had budgeted 3% income in the general fund and a 3% loss is expected, thus he projected the college would likely break even this year.

Vice Chair Emerson asked about the process used to identify bonds that may fail. He referred to discussions at the committee's prior meeting that Lehman Brothers and Washington Mutual were at risk. Mr. Solton replied he does pricing of bonds on a daily basis and follows the national credit rating agencies. He noted the TARP (Troubled Asset Relief Program) legislation guaranteed the assets of Merrill Lynch (now Bank of America). Mr. Solton stated the securities in the pool are as stable as U.S treasury bonds, adding that Freddie Mac securities have been guaranteed explicitly by the federal government. He said cascading maturities will soon eliminate the problem, with most maturing in 2009. The exceptions are two custom investments made for the college, with General Electric and J.P. Morgan Chase.

Mr. Pasquinelli stated his concern with Sallie Mae and Citigroup. Mr. Solton responded Citigroup is guaranteed and the bonds in the investment pool are guaranteed. He did not see any problem with Sallie Mae securities which have both implicit and explicit guarantees.

Chair Baird referred to the efforts underway to recover funds and the costs involved. He asked if the costs would be attributed to the pool members that would benefit. Mr. Solton said his office was sharing the cost of bankruptcy proceedings with San Mateo and the other public agencies involved. Costs related to litigation against the banks' directors or for specialized legislative lobbying services will probably be taken out of recovery amounts.

Mr. Coté asked for further explanation regarding the loss to the college. Mr. Bissell reviewed the amounts the college had invested in different funds within the County pool and reiterated a 3% loss was projected. However, this loss would be offset by interest earnings from the college's bond funds invested in LAIF as well as by any recovery monies.

Ms. Hodgson asked about the safety of the fixed bonds with J.P. Morgan and General Electric. Mr. Solton responded J.P. Morgan had received TARP funds and General Electric was highly rated, noting GE's bonds were currently trading at 99.6 cents on the dollar. He considered these bonds as the safest investments.

Ms. Hodgson followed with a question regarding whether the recovery efforts would take 5-10 years to complete. Mr. Solton said no and estimated the time would be two years. He thought the political situation would encourage a more timely resolution.

Mr. Bissell acknowledged Mr. Solton for his presentation. Mr. Solton offered to return in the future to update the committee.

#### **6. Approval of August 4, 2008 Minutes**

Ms. Hodgson noted the minutes referred to LAIF as a California Management Asset Program. She clarified that LAIF was an acronym for Local Agency Investment Fund.

Mr. Bissell provided a follow-up to Mr. Coté's question in the minutes regarding two entries in the Bills and Warrants for the purchase of a UHF microphone. Mr. Bissell verified that two microphones were purchased.

Chair Baird indicated follow-up to another item regarding compensable rain delays will be addressed by Joe Demko during his report.

Motion to approve the minutes of the August 4, 2008 meeting was made by Mr. Emerson and seconded by Ms. Rees. Motion carried unanimously.

#### **7. Accept Bills and Warrants Report**

Mr. Bissell stated extra effort was made to reconcile the items in the report with the audited statements and these adjustments are noted. He asked for questions or comments regarding the report.

Chair Baird inquired about a \$735 expenditure on page 4 to recoat a sink at the Child Development Center. He asked why the sink needed recoating since it was a new fixture. Mr. Demko explained the design did not work and another contractor was brought in to correct. He said a payback will be negotiated with the contractor. Chair Baird asked if a corresponding credit will show. Mr. Demko replied the credit will show as part of an itemized change order. Mr. Bissell added many small changes may be made during a project and are collected under 4 or 5 large change orders. He offered to bring a sample change order to illustrate this approach. Chair Baird responded it would be more helpful to see or be informed the offset was made.

Mr. Coté questioned why the New Admin/Old Library renovation was listed under "Closed Projects" on page 13. Mr. Bissell explained this entry referred to a facility analysis of a proposed mezzanine floor. Mr. Coté suggested changing the description to "feasibility analysis."

Ms. Hodgson noted an entry for the installation of a sign for Marina Police Department satellite office. Dr. Garrison responded this arrangement with the Marina Police Department helped to address the issue of security at the Education Center facility.

Motion to accept the bills and warrants report was made by Ms. Hodgson and seconded by Mr. Pasquinelli. Motion carried unanimously.

#### **8. Bond Expenditure Status Report**

Mr. Bissell informed the committee a new report format had been developed. The former report generated many questions in the past because the figures did not balance with the amounts in the Bills and Warrants Report. The new report includes a "Total Payments" column that should agree with the Bills and Warrants Report that the committee approves. When errors are discovered, the other report can be corrected at the same time.

In addition, the projects have been divided into three categories: In Process, Future, and Completed. A column with purchase order amounts has been added to show what remains to be paid.

Mr. Bissell noted the Total Bond Budget column still needs to be changed so the percent cost completion will show as 100% when the project is completed. Mr. Ray expressed a preference for being able to see the budget variances and whether a project came in under or over budget. He asked whether bids that come in under budget are recorded in the report. Mr. Bissell said this information would appear in Mr. Demko's Cost Control Report.

Vice Chair Emerson agreed it was important to show budget variances so the committee could track whether projects were consistently over or under budget. Mr. Bissell said he could leave the report as is; however, he asked about making adjustments where the project budget changes. As an example, he cited the Lecture Forum project which was originally slated to be a complete remodel for \$4.5 million. The project scope was later modified and the budget was lowered to \$2.5 million. Mr. Ray responded his interest was in seeing the bid amount vs. what was spent, not whether a project changed in scope. Mr. Coté added he was looking for overruns or savings. Mr. Bissell agreed it would be useful to track expenses once the bid is received. Mr. Coté and Mr. Pasquinelli both praised the new format of the report as providing clearer information.

Referring to the gym project, Chair Baird asked when do other funds become integrated into the bond budget. Mr. Bissell answered this was happening now with some of the expenses. He explained the timing depends on the source of funding, whether the funding is on a reimbursement basis. Mr. Bissell said the goal is to charge non-bond funds first. With the gym, the college is spending state money first because the funding was received first.

Mr. Coté asked about a future project, the Music/Theater Building. He wondered if the expense listed was for design. Mr. Bissell said the expenditure was for a repair to the boiler in the building.

#### **9. Update on Facilities Projects, Timelines and Schedules**

Mr. Demko, the college's bond program manager, began his report with a review of the status of current facility projects.

##### PE Fitness Building

The bids for the elevator came in under the budgeted amount.

##### Public Safety Training Center at Seaside

Mr. Demko said work was going well on the renovation.

MPC Education Center at Marina

Another temporary modular building has been installed. Mr. Demko reported the architect will make a second presentation of the design for the permanent buildings to the trustees at the November Board meeting.

Infrastructure

Mr. Demko indicated phases I and II will be closed out and the excess funds will be moved to the phase III budget. Phase III projects include data cabling, the Fitness Building elevator, bridge removal and sidewalk work.

Old Library

Mr. Demko noted some of the time delays in the schedule have been recouped. Painting and tile work are being completed.

New Student Services Building

The Division of the State Architect (DSA) review of the drawings is expected to be complete in two months.

PE Gym

All of the work has been finished with the exception of the bleachers (the plans are still at DSA). The gym is currently being used. Mr. Demko reported all of the bids came in within budget except for the seismic work. The variance was \$400,000 vs. the estimated budget of \$175,000. The seismic work was completed in December.

Auto Technology Building

Mr. Demko said the architect is working on the drawings for a classroom addition. The plans will be submitted to DSA. It is hoped that construction work can begin in the summer.

Baseball Backstop

Structural engineering work was required for this project.

Swing Space

The old Administration Building will be converted to provide six classrooms, subject to DSA approval. Renovation of the building was considered less expensive than to install portable buildings to provide swing space.

Mr. Demko then addressed Mr. Coté's question from the August meeting regarding compensable delays. He reviewed the elevator project as an example. As part of the bid submission, contractors were asked to provide the fiscal impact in the event of delays. Thayer, the successful bidder, indicated 30 days delay would result in a cost of \$6,000. In contrast, the other contractors proposed \$24,000 for delays. Mr. Demko said the bid submission process ensures costs for compensable delays are known.

Mr. Demko continued his report with a review of the Cost Control Report (Agenda Item # 8-B). He said the report was provided to the trustees to show the fiscal status of individual projects.

Chair Baird noted the Infrastructure Phase III summary stated additional funds would come from phases I and II and costs for the elevator project were being moved. He questioned why the funds and costs were not kept separate.

Mr. Bissell responded the projects in phases I, II, and III were interrelated; thus, the funding was also shifted back and forth. He explained several examples to show how the phases were connected.

Mr. Demko concluded his report with a brief review of the timeline for the projects. He said the schedules are fairly accurate, the major variable is the time required for DSA review.

#### **10. Annual Report for 2007-08**

Dr. Garrison stated the bylaws call for the committee to review and approve an annual report to be shared with the Board of Trustees in public session. He reviewed the various elements included in the draft report. He noted the sections on committee membership and the overview of meetings and activities were completed by Ms. Nakamura.

Mr. Bissell reviewed the financial report section. He reported the expenditure report was the same as in prior years, with total expenditures of \$55,973,718. Ms. Kane noted an error in the total expenditures under the middle column covering the period, 10/1/2007 - 9/30/2008. She said \$15,741,703 should be the correct total rather than \$27,255,886. Mr. Bissell said he would review the figures and make the adjustments in the final copy.

Mr. Bissell continued with a review of the campus renovation/construction projects section. He said the completed projects listing shows the Proposition 39 funds and other funding sources as the committee requested. He clarified "completed" referred to completion of the physical work; payments may still need to be made. The in process projects listing shows what has been budgeted for each project from bond funds. He said the bond program management item was placed at the end of the in process projects listing and reflects the amount paid to date.

Ms. Kane commented the new report was clear and useful for the public. Chair Baird agreed and stated the report was an improvement over last year's. He complimented Mr. Bissell and Ms. Nakamura for their work and recognized the committee for providing their input.

Ms. Hodgson echoed their comments and said the new report addressed her previous concerns. She asked about the bond budget total on page 14 and noted the amount differed by \$6,704 from the total receipts figure in the expenditure report on page 5. Ms. Hodgson thought the report would be clearer if the figures matched. Mr. Bissell explained it would be difficult to balance these figures as the actual bond budget total cannot be projected. The variance could be larger, since interest income was just reported through June 30. Also, the Kitchell payment for bond program management could be larger.

After extensive discussion on this issue and whether to address the variance in figures, Vice Chair Emerson made a motion to approve the report as is, making the correction to the expenditure total for the period 10/1/2007 – 9/30/2008 (as noted by Ms. Kane), and keeping the accounting in the campus renovation/construction projects section as is. The motion was seconded by Ms. Rees. Ms. Morrice noted an additional correction on page 4; her name was omitted from the membership list. Mr. Côté asked that column headings also be

provided on each page of the projects section of the report. With concurrence on these additional changes, the motion carried unanimously.

**11. Bond Program Staff Position**

Mr. Bissell reported the state Attorney General issued an opinion in 2004 that Proposition 39 bond proceeds could be expended on salaries of district employees if performing administrative oversight work on bond construction projects. He said the college and the bond program management consultant have been maintaining separate books on bond expenditures. The bond program manager's expenditure report was designed to provide the current status of expenditures; however, questions resulted from the separate accounting approach. To remedy this situation, the college is considering creating a part-time accounting position and eliminating the extra work involved in maintaining separate books. The part-time position would be assigned to do bond accounting only for the college.

Mr. Bissell indicated the proposal would be implemented on a trial basis. He said the committee may be seeing salary costs charged to the bond program management category. Kitchell's fee will also decrease with this change.

Chair Baird expressed support for the proposal and suggested the proposed job description for the accounting position be shared with the committee when it had been completed.

**12. Meeting Schedule**

The following meeting schedule for 2009 was accepted by the committee.

Monday, March 2, 2009

Monday, June 8, 2009

Monday, August 3, 2009

Monday, November 2, 2009 (Annual Organizational Meeting)

**13. Suggestions for Future Agenda Topics and Announcements**

A suggestion was made to have Mr. Solton return with a status report on bond investments.

Vice Chair Emerson asked if a post-construction survey of faculty and students was planned to get feedback on whether the projects are "doing what they were designed to do." Dr. Garrison said the college is currently engaged in the accreditation process and the Office of Institutional Research would be unable to do such a survey at this time. However, he noted a general campus survey had been conducted and he offered to bring these results to a future meeting.

Chair Baird praised the committee for their excellent work and acknowledged Dr. Garrison, Mr. Bissell, and Ms. Nakamura.

**14. Adjournment**

The meeting was adjourned at 5:53 p.m.