

**Lompoc Valley Medical Center**  
**BOND OVERSIGHT COMMITTEE MEETING**  
Tuesday, October 28, 2008

**Call to Order**

Vice-Chairperson Kennedy called the meeting to order at 1:30 p.m. in the LVMC Board Room.

**Roll Call**

Members in attendance: George Kennedy, Howard Grantz, Justin Rughe and Gary Williams.

Members absent: Tony Fox, Roger McConnell.

Others present: Bob Baden, Jim White, Irene Melton and Joe Linden (ProWest).

**Review of Prior Meeting Minutes**

The minutes from the July 22, 2008 committee meeting were m/s/c to accept as presented.

**Revisions to Agenda**

None.

**NEW BUSINESS:**

**Committee Operations -- Chairperson:**

- Tony Fox has indicated he has taken on a new role and will be unable to finish his term as Chairperson of the Committee. The committee will need to act to fill the Chairperson role for the future. Mr. Baden explained to the committee members that Tony Fox would get heavily involved with the census process and would not be able to attend meetings on a regular basis in the future, but wanted to continue as a member of the committee if that was permissible. This meant the committee would have to elect a new chairperson and vice chairperson moving forward. After discussion Mr. Williams nominated and Mr. Grantz seconded that Mr. Kennedy become the new Chair and that Mr. Rughe become the new Vice Chair. Nominations were closed and it was m/s/c that these gentlemen would fulfill the roles through the completion of the need for the committee, assuming the need would end when the building project was finished.

**Tax Rate Increase on Current Year Property Tax Bills:**

- Mr. Baden will review with the committee why the tax rate on current property tax bills for the bond measure are showing an increase this year. Mr. Baden noted that the tax rate for this current fiscal year was showing a significant increase over the prior two years. In exploring this with the County Tax Assessor's office he found that the County had made an error in the prior year tax rate, which left the available funds to pay the interest on the bonds short for the year. The county advanced the funds to pay the interest on the bonds but was now forced to increase the tax rate to a higher level to recoup the shortfall from the prior year. In reviewing this dilemma with the county a resolution to the issue was developed by taking the tax rate to the highest level allowed in the Measure E for this year and the next few years. The County would advance the funding shortages until the taxes generated would be adequate to pay the interest and principle on the bonds in future years. Mr. Baden further explained that if the District had opted to sell all the bonds in the first year, the current rate would have been equal to the rate that is being paid in this year, however, since the building project was in two phases the District opted to sell a portion of the bonds in 2006 and the second portion in 2007. The tax rate under these circumstances should have increased in last year's tax rate, but did not due the county error. He noted he will be receiving telephone calls from the taxpayers when the new bills come out as his phone number will appear on

the tax bills. Now that he understands what has happened he will find a way to explain it without blaming the county. It was requested that he keep Mr. Kennedy and Mr. Rughe informed if he runs into any problems with the taxpayers.

**Status of the New Hospital Project:**

- An update on the status of the New Building Project will be provided at the meeting. Mr. White began by reporting that the "B" was essentially done. The service yard, which provides to both buildings, has now been cleared by the State. He noted that the community open house on the B building was held on Sunday, October 12<sup>th</sup> and there was a good turnout. He said the comments he heard were quite favorable which the committee members who attended agreed with.

He further reported that construction on the "I" building is moving along on schedule and that if all things continue on schedule it will be substantially complete in December 2009 and the hospital could be occupied by March 2010. He noted that the "I" steel was now up, concrete on ceiling and roof was being poured and the exterior walls would follow. He raised concerns about the weather and trying to get the "I" building covered before the rains started coming and rain would delay progress until the roofing was on and the exterior walls were up. Aside from that current concern all was moving along well.

Mr. White reported that a break-in occurred sometime between Friday night and Monday morning of the previous weekend. He noted it was suspicious how the burglar(s) gained entrance and it had been reported to the local police. He noted the tools that had been stolen were already returned by the police but that the computers were gone.

There were several questions from committee members regarding the construction, timing and review process that were responded to by Mr. White.

**Overview of the Budget and Expenditures to date.**

- Review of the total project budget and current projections based upon current commitments through September 30, 2008. Mr. Baden reviewed the September 30, 2008 Budget Control Summary Report with the Committee members. He also had a copy of the detailed report available for individual review by the member. Highlights of the report were:
  - General costs to the project again reflected a positive variance from budget of approximately \$2,467,000, which showed an increase in savings from the June 30, 2008 report.
  - "B" Building costs were projected to run \$3,910,000 over budget, which was an approximate \$200,000 above the June 30 report,
  - "I" building costs were now projected at \$4,979,000 over budget, which resulted in a total cost overrun of \$6,422,000 which was lower than the June 30, 2008 projection, and
  - Due to earnings on the bond proceeds during construction now being forecast at \$5,000,000, the total overage is currently projected at \$1,422,000 down from the June 30, 2008 overage of \$2,868,000 or only about 2% over budget.
  - Mr. Baden noted that other hospital projects he is aware of were now anywhere from 30 to 60% over their budgets, and complimented the LVMC Board of Directors for their foresight in getting the planning done early and keeping the project moving as quickly as possible.

Mr. Baden further commented that there are always things that occur that could drive up the total cost, although a majority of the construction bids were awarded and this solidifies the projections more than they have been since the beginning.

▪ Current actual expenditures to date through September 30, 2008.

Mr. Baden reviewed latest and current expenditures to date on the project from the worksheet labeled Cash Out Report Summary through September 30, 2008. He noted that expenditures during the month of September totaled \$2,242,000 primarily for architectural/engineering costs and construction costs on the "I" building; while costs on the "B" building began tapering off at \$227,000. Interest earnings on the bond proceeds invested until their use were \$147,000 for the month of September which resulted in net costs for the month of \$2,095,000. Total net cash expenditures to date were now at \$34,483,000 of the total \$74,500,000 received from the two GO Bond Sales. Questions from committee members regarding select line items were answered and no further action was necessary.

**Audit Hospital Construction Project September 2008:**

• An update regarding the Hospital District's external audit of the new building construction and transactions and accounting.

Ms. Melton, LVMC Controller, reported to the committee that the District's annual audit was now complete for the fiscal period ended June 30, 2008. She was proud to report that the auditors presented an unqualified opinion on the audit report and that no adjustments were proposed by the auditor on the District's financial records. She related that during the audit the auditor visited the work site to verify that the money was being used to build a new hospital facility. He also sampled purchase orders, payments, invoices from sub-contractors and professional firms on the job to verify that they were being paid based on correct data and were being paid on a timely and accurate basis. He reviewed the internal control process on how documents were approved before Accounts Payable were paid to vendors, sub-contractors and others. He reviewed the financial records to verify that what was paid was being reported accurately and timely in the District's financial records and found no reason to recommend change or adjustments. Ms. Melton responded to questions from committee members about the audit and process. It was noted the committee was happy to hear the news about the audit as one of their reliance points that the tax proceeds were being handled and spent correctly.

**OLD BUSINESS:**

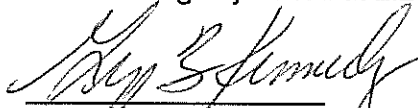
- Report to the Lompoc Valley Medical Center Board of Directors: Mr. Baden stated that this item was left on the agenda as a reminder that the annual report to the LVMC Board of Directors that Mr. Fox made on behalf of the committee went well and that the board was most appreciative of the service the committee members were doing on behalf of LVMC.

**Other**

- None.

**Adjourn**

The meeting adjourned at 2:20 p.m.

  
George B. Kennedy, Chairperson