

Lompoc Healthcare District
BOND OVERSIGHT COMMITTEE MEETING
Tuesday, January 23, 2007

Call to Order

Chairperson Fox called the meeting to order at 1:34 p.m. in the Hospital Board Room.

Roll Call

Members in attendance: Anthony Fox, Howard Grantz, George Kennedy, Roger McConnell, Justin Rughe and Gary Williams.

Members absent: None.

Others present: Bob Baden, Todd Hagood (ProWest), Irene Melton and Jim White.

Review of Prior Meeting Minutes

The minutes from the October 24, 2006 committee meeting were accepted as presented.

Revisions to Agenda:

NEW BUSINESS:

Review of Project Funds Flow to Pay Invoices on New Hospital Project:

- Investments – GIC, Money Market Account, Checking Account.
- Invoice receipt and review process for payment.
- Tax Process and receipt of tax payments.
- Payment of Interest and Principle on 2006 Bonds.
- Audit of FY'07 District Operations and New Building Project timing and process.

Mr. Baden commented that he had reviewed the bond funding process after the sale of the 2006 Series A issue at the previous Bond Oversight Committee meeting. He next reviewed the process that occurs at the District when an invoice is received related to the New Hospital Project before it is paid from the Bond Fund monies. He next reviewed the process of how the next year tax rate is developed to obtain funds to cover the payment of the interest and principle on the bonds as they are retired. He finished this discussion by explaining the timing and the annual audit review from an independent auditor of the financial operations of the district and during FY'07 the processes used to track bond funds and how they are used by the District to pay for the work as it progresses on the new hospital. He noted that this is a tool that the bond oversight committee can look to in approximately October of 2007 to verify that the funds have been appropriately spent on the project and not for other uses. There was some discussion about how the committee would be able to access the audit report when it was finished. Mr. Baden indicated that copies would be made available and that the Board Meeting when this is discussed is a public meeting so members of this committee certainly would be welcome to attend that presentation.

A question was raised during the discussion about the first tax rate assessed to property owners was approximately \$62 per \$1000 of assessed valuation on property when the campaign indicated it would be just under \$60 when only \$42,000,000 of the total of \$74,500,000 had been sold in 2006. The concern expressed that when the other \$32,500,000 was sold the tax rate would likely be greater than \$100. Mr. Baden responded that the figure that was used during the campaign reflected the average rate over the thirty year life of the bonds which is typically how this information is presented. He also noted that the assessed valuations used to estimate the rate was predicated on a conservative increase in assessed values over the life of the bonds. The real tax rate over the years will vary depending on the actual assessed values

during the period and could quite possibly end up being lower than the \$58.00 amount used in the campaign.

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 noting that pouring the slab for the "B" building was just starting and that all should complete in about thirty days including cure time of the concrete which is normally about 28 days. He also noted much plumbing and electrical work was being done at the site currently. He also noted that local subcontractors and supplies were being used as much as possible on the construction site and process, however there are certain contractors that specialize in hospital construction knowing the requirement and codes that need to met that are also on the project. Mr. White invited members of the committee to come and visit the site whenever they would like to, although he did request that contact be made with Mr. Hagood who was in charge of the construction site and process, so that it would work for the visitor and the construction process.

Base on questions from the committee members about the timing of the project a discussion ensued regarding delays and the current timing of the project. The final assessment was that the project was about 3 ½ months behind schedule due to a variety of factors: delays in obtaining permits was the primary delay; getting some subcontractors up from out of town locations added some time; but no significant weather delays had occurred. It was noted that expected completion of the "B" building would occur in about December 2007.

Regarding the "I" building timing a lot depends on the ability to obtain OSHPD approval in a timely manner. It was noted that our goal was to get OSHPD approval after three reviews rather than the average four reviews. It was noted that OSHPD is extremely busy with all the new hospitals as well as the typical hospital work and changes that normally go on. It is currently expected that the OSHPD approval will be in December 2007 and building construction on the "I" building would begin immediately following with an 18 month completion timetable.

Overview of the Budget and Expenditures to date.

- Review of the total project budget and current projections based upon current commitments. Mr. Fox shared a number of articles and press releases triggered by the Rand Study on the challenges being faced by the hospital industry in California due to the requirements to retrofit or build new facilities predicated on SB 1953 that requires compliance with new seismic codes in the state by certain dates. He noted that the articles indicated that many hospitals are in the construction market at the same time competing for a limited number of architects, engineers and contractors who specialize in hospital construction. The result of which is, costs are escalating tremendously in a short period of time for all hospital construction projects.

Mr. Baden reviewed a new report with the committee members that provides information to the District which allows comparison of the original budget, committed funds to date (bids awarded and project to date actual expenditures), dollar impact of any pending and approved change orders, the estimated balance required to finish the project, the total cost of the projected as currently projected and over/(under) budget by category. The report is broken down into three major categories with several functional cost sub-categories. The major categories are expenditures related to the general project which include architectural/engineering/consultant, finance, fixed equipment, permits/fees, taxes and insurance and finally contingency. The other two categories look at the detail of different construction sub-categories of cost for the "B" building and then the "I" building. As of

December 31, 2006 (the date of the report) the projected cost to complete the project was \$86,631,000 compared to the budget of \$74,500,000. Mr. Baden noted that these numbers reflected commitments for 96% of the "B" building. The "I" building overage reflects an estimate of bids for bids that will be made in the future. These estimates could be high if the bidding climate is more favorable or low if the market is less favorable when the bids are sought in the future.

▪ Current actual expenditures to date through December 31, 2006.

Mr. Baden presented a worksheet labeled Cash Out Report that tracks actual cash expenditures cumulative to the previous reporting period, the actual payments made in the current month and the total to date on the project. It also forecast expenditures expected by month for the ensuing six month period and a cumulative total for future months beyond the next six months. Finally it accumulates the total projected expenditures and a total cost to completion of the project. This report is segregated by the same categories and sub-categories as noted in the Budget Control Detail report above. This is the report that tracks the monies used from the bond funds each period and cumulatively on the project.

Based upon questions from the committee members related to how the District would handle the current projected overage on costs was addressed by Mr. Baden. He noted that since the District will not have a true picture of its overage until the bids come in on the "I" building late this year the suggested methodologies to cover the overage are simply an exercise at this point. Some potential remedies were noted as further value engineering of the project, municipal leases for some of the fixed equipment in the new facility that would be paid over a 5-7 year period and seeking a revenue bond for the overage amount.

Consideration of the Need for an Ethics Statement for the Committee

- Mr. Fox reviewed an Ethics Statement that he had from the Palomar Pomerado Hospital District in the San Diego area. He suggested that he would get together with Mr. Baden to put together a draft of an Ethics Statement for the committee and then the decision could be made by the committee to adopt it or not. It was agreed that we should proceed with the draft.

Report to the Lompoc Healthcare District Board of Directors

- Establish sub-committee to develop format and content of the report to the District Board of Directors.
 - Mr. Fox suggested that a sub-committee be set up to write the annual and final reports to the Board of Directors of the District to fulfill the charter of the committee. After discussion it was agreed that Mr. McConnell, Mr. Kennedy and Mr. Fox would get together and form recommendations on the format of the report.

OLD BUSINESS:

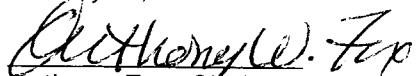
- None.

Other

- None.

Adjourn

The meeting adjourned at 2:30 p.m.


Anthony Fox, Chair

Recorded by Bob Baden, CFO/Associate Administrator