

16. Managing the Capital Program

- Over the past 15 years, there has been considerable scrutiny of, and investment in, the Department's capital assets and capital assets operated by other entities which are located in the City's parks (for example, the de Young Museum, the California Academy of Sciences, and the Music Concourse Parking Garage which have collectively received an investment of approximately \$649.5 million).
- The Capital Program Phase I currently comprises 221 projects with a revised total estimated cost of \$588,667,528, or \$36,125,057 more than the current appropriations of \$552,542,471. Capital Program Phase II and Phase III specify an additional 229 projects to be performed at 154 sites at an estimated additional cost of \$553,000,000. The Department currently has no funding plan or scheduling plan for Phase II and Phase III which would increase the total Capital Program cost to \$1,141,667,528 for 450 projects. The current projected funding shortfall to pay for all Phase I - III projects is \$589,125,057.
- Nevertheless, 70 projects have been completed, closed out, or cancelled for less cost than originally estimated and appropriated. A remaining \$6,698,215 surplus appropriation for those 70 projects¹ has not yet been reallocated to other projects, despite the Capital Program Phase I's projected funding deficit of \$36,125,057. Under-expenditures for one set of projects inevitably have an opportunity cost in terms of other projects which cannot use those funds until they are released for reallocation. Therefore, it is essential for the Department to be able to close out completed projects as quickly as possible in order to reallocate surplus funds to under-funded capital improvement projects.
- In May of 2004, 19 capital improvement projects being put on hold due to a projected shortfall at that time of \$56.1 million. Consequently, no new capital improvement projects were started in 2004 or 2005. Eight capital improvement projects remain on hold given the ongoing funding shortfall for the Capital Program as a whole.

¹ Based on information provided by the Department on December 19, 2005, this figure of \$6,698,215 has been revised downwards to \$2,323,309 as of October 31, 2005.

- **In its *Capital Plan - 2004 Annual Update*,² the Department stated that, "In the past, projects were initiated with little direction as to the scope, budget or schedule at any specific site. This led to unmanageable expectations of communities that were given free rein to develop project scopes without care to cost or supported need." The Department needs to formalize its capital improvement project evaluation and selection criteria to best determine, as funding becomes available, which capital improvement projects should move forward.**
- **The Department needs to address the seismic deficiencies of facilities which house the Department's administrative staff. Housing City administrative staff in seismically unsafe buildings represents a significant liability to the City, particularly given how long the Department has known about the seismic deficiencies of certain buildings.**

Current Capital Assets

The Recreation and Park Department is responsible for recreational and park facilities covering approximately 5,400 acres of land spread over 230 sites including the 1,017 acre Golden Gate Park, over 80 neighborhood parks, Camp Mather in the High Sierras, Sharp Park in Pacifica, and the Furhman Bequest Property in Kern County.³ The Department is responsible for physical facilities comprising 150 tennis courts, 145 children's play areas, 118 sports fields, 75 basketball courts, 50 neighborhood club houses, 45 bathroom facilities, 42 maintenance facilities, 27 recreation centers, ten field houses, nine swimming pools, six golf courses with five clubhouses, four stadiums, two carousels, two windmills, two marinas, an arts and crafts studio, a children's museum, a zoo, and a summer camp compound. The Recreation and Park Department also manages 40 community gardens on City-owned property. Among all of these property holdings are ten historic landmarks. The Department is also responsible for a number of undeveloped land parcels. Nevertheless, according to the *Assessment Study: 1998-1999* (described in more detail below):

In terms of total park acreage San Francisco has roughly half (five acres) of the national standard of 10 acres per 1,000 residents. In addition, much of San Francisco's park acreage is on hillside areas which, while certainly serving an open space function, do not translate into either active facilities or distributed community parks.

There are also a number of significant institutions located on Recreation and Park Department land which are operated by other agencies. The most notable examples of

² Recreation and Park Department, Capital Improvement Division, *Capital Plan - 2004 Annual Update* (March, 2005), page 118.

³ The Furhman Bequest Property is ranch land bequested to the Recreation and Park Department and the Library for recreational purposes. It is currently leased for paintball games and ranching.

these are the de Young Museum (operated by the Fine Arts Museum, a separate City department⁴), the California Academy of Sciences (operated by a City department⁵), the Music Concourse Parking Garage (operated under the auspices of the Golden Gate Park Concourse Authority⁶), and the Zoo (operated by the San Francisco Zoological Society⁷).

Chronology of Capital Improvements Since 1990

Over the past 15 years there has been intense scrutiny of the Department's capital assets, and numerous publicly and privately funded capital improvements to those capital assets and to capital assets operated by other entities which are located in the City's parks. The single most significant location of investment is in the area of Golden Gate Park's Music Concourse, which has received an investment of approximately \$649.5 million. This is the cumulative total of \$202 million in private funding for the new de Young Museum building, \$55 million in private funding for the new Music Concourse Parking Garage, and \$392.5 million in public and private funding for the new California Academy of Sciences building. A detailed chronology since 1990 of recreation and park capital improvement projects, and related facility assessments and funding initiatives, is contained in the Appendix to this management audit report. Specific key events are listed below.

Key Events

During the 15-year period of 1990 - 2005, there were a number of key events related to the Department's Capital Program:

- Assessment Study: 1998-1999: In September of 1999, the Department issued this report which was the product of a year long, \$300,000 "Great Parks for a Great City" community consultation process jointly funded by the City and private donors. The study focused on the City's changing demographic profile, its recreation program

⁴ The de Young Museum owns its site and building. Through the Fine Arts Museums budget, the de Young Museum receives hotel tax and General Fund support from the City (\$8,834,405 in the FY 2005-2006 budget for the de Young Museum and the Legion of Honor Museum). However, the museum largely funds itself through the revenues it generates and fundraising. All art is purchased privately or solicited by donation, and then given to the City.

⁵ The Steinhart Aquarium, the Morrison Planetarium, the Natural History Museum, and related research and educational facilities located in the Golden Gate Park are operated by the California Academy of Sciences, a private nonprofit organization. The City owns the land and buildings and is responsible for providing operating funds for the Steinhart Aquarium (\$1,702,378 in hotel tax and General Fund support in the FY 2005-2006 budget). The Recreation and Park Department will assume ownership of the new California Academy of Sciences buildings on completion, with the privately funded portions being contributed to the City. However, the facilities will be managed and controlled exclusively by the California Academy of Sciences.

⁶ The Golden Gate Park Concourse Authority is a public agency of the City and County of San Francisco. The Golden Gate Park Concourse Authority's Executive Director and Executive Assistant are both City employees and are physically housed at the Recreation and Park Department's McLaren Lodge location.

⁷ While the Zoo is operated by the non-profit San Francisco Zoological Society, the City owns the Zoo lands and buildings, is the guardian for the Zoo's animals, and has issued general obligation bonds on behalf of the Zoo.

needs, a physical assessment of its facilities, and an assessment of its future facility needs. With regard to the Department's capital assets, the study stated that:

San Francisco's park facilities have suffered greatly from decades of deferred maintenance and lack of capital improvements. Even good maintenance cannot deter the effect of years of insufficient capital funds to upgrade and update facilities. The wear and breakdown in infrastructure, building apparatus and landscapes is often well beyond the repair or maintenance capabilities of the Department's maintenance division. (Section III, page 18)

The study also stated that "A long history of attempting to provide parks, activities, programs and other services based on an ever-expanding social and recreational agenda has layered parks with decades of decaying facilities" (Section VI, page 3). The study estimated deferred capital repair and renovation costs of \$320 million resulting from deferred maintenance, excluding any capital improvement projects in Golden Gate Park. The study noted that, in many cases, the estimated repair or renovation costs exceeded the estimated cost of complete replacement given "the truly poor condition of most buildings."

Between August and November of 1999, Department staff developed a draft capital plan, using information contained in the *Assessment Study: 1998-1999* as its basis, by prioritizing capital improvement projects in terms of the Health and Safety Code, other code issues, hazardous materials, urgent need, likely funding sources, usage, visibility of improvement, Americans with Disabilities Act requirements, and the sites' historic significance. Between December of 1999 and February of 2000, the Department conducted a public consultation process which culminated in the Recreation and Park Commission approving, in March of 2000, a final ten year Capital Plan consisting of 440 projects at 230 sites.⁸ Initially, the Capital Plan was not linked to the Department's Property and Facility Database which was still under construction at that time. That deficiency was rectified in 2003.

- Neighborhood Park Improvement Bonds: On March 7, 2000, voters approved \$110 million in general obligation bonds for neighborhood parks (Proposition A). All of those \$110 million in general obligation bonds have subsequently been allocated to capital improvement projects.
- Proposition C Extension of the Open Space Fund: On March 7, 2000, voters also approved an extension of the Park, Recreation and Open Space Fund through FY 2030-2031 which provides a dedicated revenue stream from property tax in the amount of \$0.025 for each \$100 in assessed valuation to help pay for park acquisition, renovation, and maintenance, and recreation and park programs (Proposition C).⁹ Proposition C also (a) mandated a five year strategic plan¹⁰ and a ten year plan for

⁸ Subsequent revisions to the Capital Program Phases I - III have increased the total number of projects to 450.

⁹ The Open Space Fund is considered more fully in Section 5 of this management audit report.

¹⁰ The Department's first Strategic Plan was approved by the Recreation and Park Commission in January of 2003.

facility improvements, (b) expanded the role of the previous Open Space Advisory Committee, now renamed the Park, Recreation and Open Space Advisory Committee (PROSAC), to review and comment on the development and implementation of the capital, operations, and strategic plans, and the Department's budget, and (c) gave the Department the authority to manage its own capital projects, rather than relying exclusively on the Department of Public Works.

- *Ten-Year Capital Program:* The ten year Capital Program began in FY 2000-2001 with an original estimated cost of \$400 million (1998 dollars) which had not been escalated to cover future year labor and material costs. The current Capital Program Phase I estimate is \$588,667,528. Capital Program Phase II and Phase III are estimated to jointly cost an additional \$553,000,000. Therefore, the total Capital Program Phases I - III cost estimate is \$1,141,667,528.
- *California Academy of Sciences Bonds:* On March 7, 2000, voters also approved \$87.4 million in General Obligation Bonds for rebuilding the California Academy of Sciences. Bonds in the amount of \$8 million were sold on October of 2004 to fund demolition and abatement, design-build services, public art, permits and fees, and pre-construction costs. The balance of the bonds, in the amount of \$79.4 million, were sold in May of 2005. Combined with the \$29.3 million bonds approved by voters in November of 1995 for the Steinhart Aquarium, voters approved General Obligation Bonds in the total amount of \$116.7 million for the California Academy of Sciences rebuild project which in FY 1999-2000 was estimated to cost approximately \$230 million. Therefore, voters were approving City bond funds for approximately 50.7 percent of the total estimated project cost. However, the estimated total project cost has subsequently increased to \$392.5 million.¹¹ City bond funds now only represent approximately 29.7 percent of that revised total cost estimate. The total \$392.5 million cost will fund the demolition of 11 existing buildings, the substantial renovation of one building (the Africa Hall), and the construction of a new building with a smaller footprint but greater floor space (increasing by 50,000 square feet, from 378,443 square feet to 428,443 square feet). The balance of the project costs, \$275.8 million, is to be funded by Federal and State grants, 501(c)(3) conduit bonds issued by the California Infrastructure and Economic Development Bank,¹² and private donations.

¹¹ The amount of \$392.5 million includes (a) \$308 million for hard and soft costs related to construction of the buildings and exhibits, (b) \$39.5 million for the Academy's temporary leased facility at 875 Howard Street and transitional expenses since the December of 2003 closure of the Academy's Golden Gate Park location, (c) \$33 million for direct project costs (such as furniture, equipment, fundraising, internal project management, external accountants, a media campaign, and legal costs), and (d) \$12 million for a planned increase in the Academy's endowment to provide a source of operating support for increased research, educational programs, and facilities.

¹² Conduit bonds are low interest tax exempt bonds for construction and acquisition which are issued through State or local government agencies for nonprofit organizations which are exempt from Federal taxes under Section 501(c)(3). These conduit bonds were issued in 2003 (\$61.8 million) and 2005 (\$110.1 million) and will be repaid through fundraising, admission revenues, and endowment funds. These bonds are solely the obligation of the California Academy of Sciences, and not of the City.

- *Martin Luther King, Jr. Pool:* In October of 2001, the Department completed its \$9.4 million rebuild of the Martin Luther King, Jr. Pool in Bayview-Hunter's Point. The pool had been closed since 1996 when pieces of the roof fell into the pool. The rebuild was funded by the Open Space Fund (circumventing the priorities set by the Citizens' Open Space Advisory Committee) and a State grant. The final cost was \$3.2 million or approximately 51.6 percent more than the \$6.2 million estimated at the project's commencement,¹³ the pool was opened two years later than the original 1999 re-opening schedule, and there was considerable adverse community and media comment on the Department of Public Works' choice of contractors and subcontractors, and inadequate enforcement of contractor accountability. The construction contract has still not been closed out despite project completion over four years ago in October of 2001. The Department advises that, since the project's completion, negotiations have taken place between the City and the project contractor to finalize a change order which would resolve all remaining financial disputes and impose Office of Labor Standards penalties for labor infractions. The Department anticipates that the project will be officially closed out "in the next few months."
- *Capital Improvement Projects Placed on Hold:* In April of 2004, the Recreation and Park Commission agreed to scale back three capital improvement projects and suspend 19 capital improvement projects due to a \$56 million funding shortfall. The Department attributed this funding shortfall to (a) lower than projected Open Space Fund contributions, and greater utilization of Open Space Funds for operating costs rather than capital improvement projects, (b) higher than estimated construction costs, and (c) costlier designs suggested by the community and staff for some of the initial projects. As a result, no new capital improvement projects were initiated in 2004. The Recreation and Park Commission also requested that the Capital Division attempt to make a 10 percent budget cut across all capital improvement projects and develop an objective system for prioritizing the on hold projects for future funding. (Based on the *RPD Capital Improvement Monthly Expenditure Report as of August 31, 2005*, by August 31, 2005 two of the original 19 on-hold projects had become active projects, eight remained on hold given the funding shortfall for the Capital Program as a whole, five are being rescheduled to start later than originally planned, and four are moving into their planning phases.)
- *Project Evaluation and Selection Criteria:* In the Summer of 2004, the Recreation and Park Commission adopted draft capital improvement project evaluation and selection criteria for use during the budget process, based on (a) input from the community, including a task force assembled by the Park, Recreation and Open Space Advisory Committee, (b) the American Planning Association's guidelines, *Capital Programs: Linking Budgeting and Planning*, and (c) the San Francisco Unified School District's bond program criteria. The intent of this process was to ensure an objective system for determining the priority order in which the 19 on hold capital

¹³ The *Assessment Study: 1998-1999* had estimated an even lower capital improvement cost for the Martin Luther King, Jr. Swimming Pool at \$5,175,000.

improvement projects should move forward as funding is secured.¹⁴ The draft criteria are subject to further development so that they can be used to evaluate and rank the next phase of capital improvement projects. These criteria are part of the Capital Division's attempts "to better plan and budget for upcoming projects. In the past, projects were initiated with little direction as to the scope, budget or schedule at any specific site. This led to unmanageable expectations of communities that were given free rein to develop project scopes without care to cost or supported need" (*Capital Plan - 2004 Annual Update*). The Department advises that it will be working with the Park, Recreation and Open Space Advisory Committee and the general community to review and potentially refine the evaluation and selection criteria. In the professional judgement of the Budget Analyst, formalizing the Department's capital improvement project evaluation and selection criteria to best determine, as funding becomes available, which capital improvement projects should move forward would allow the Department to maximize the value of that funding in terms of achieving pre-determined priorities.

- Recreation Assessment Report: In August of 2004, the Department published a *Recreation Assessment Report* which advised that "Best practice agencies develop a Capital Program based on at least a 3% annual investment of the total asset value of the park system. Approximately 60% of capital improvement funds are dedicated to maintaining and extending the functional life of existing facilities. The remaining 40% is used to build new facilities and amenities." The Budget Analyst notes that , assuming a total Capital Program Phases I - III cost of \$1,141,667,528 (the current estimate for all three Capital Program phases if all 450 proposed capital improvement projects proceed), a 3 percent annual investment of the total asset value of the park system would be \$34,250,026 per year, comprising \$20,550,016 (60 percent) for maintenance and \$13,700,010 (40 percent) for new facilities and amenities. These amounts are, of course, significant underestimates because they do not recognize the pre-renovation value of the Department's assets.
- Capital Plan - 2004 Annual Update: In March of 2005, the Department's Capital Division issued its report, *Capital Plan - 2004 Annual Update*. During development of the 2004 Capital Plan, the Department had identified the need to:
 1. Develop a comprehensive plan for citywide renovation projects (for example, field rehabilitation and court resurfacing). No such plan has been developed to date. In the professional judgement of the Budget Analyst, a comprehensive plan

¹⁴ The project prioritization evaluation criteria included (a) preventing risk to public safety or health, (b) protecting and conserving natural and built resources, (c) improving operating efficiency and/or generating new revenue sources, (d) ensuring coordination with other capital improvement projects, complying with the law, meeting the Department's goals and objectives, or actively engaging the community, (e) ensuring equitable provision of services and facilities, and (f) providing a new or substantially expanded facility which can provide an essential service, or level of service, not currently available. The funding evaluation criteria included (a) the entire project can be completed with the available funds, (b) the project can be efficiently divided into a series of smaller projects so that a portion can be completed using the available funds, and (c) the project furthers the goal of distributing capital improvements across all San Francisco neighborhoods.

for citywide renovation projects would reduce deferred maintenance if adequately funded. In the future, such an approach would reduce the need for capital programs, such as the current one, which are driven primarily by the cumulative deferred maintenance needs of the recreation and park system as a whole rather than by, for example, a desire to address proactively the City's changing needs.

2. Develop a Master Plan to better integrate the Urban Forestry and Natural Areas Programs with the Capital Program:
 - With regard to urban forestry, the Department advises that it does not have a comprehensive plan for its Urban Forestry Program, that the preparation of such a plan would be very costly,¹⁵ that tree assessments only remain certified for a year, and that should an urban forestry plan be produced, it is not clear whether the resulting projects would qualify as capital projects under certain funding sources. An urban forestry plan is likely to conclude that some urban forestry projects could most appropriately be handled by operations staff, while other projects could more appropriately be incorporated into adjacent capital projects (as is the current practice). The Budget Analyst considers that a comprehensive overview of the Department's urban forestry holdings and their interface with the Department's capital projects would be a useful planning tool because it would avoid the more ad hoc approach currently in place. Nevertheless, the Budget Analyst acknowledges the funding constraints affecting the Department's ability to undertake comprehensive urban forestry planning.
 - With regard to natural areas, the Department plans to present a draft Natural Areas Plan to the Recreation and Park Commission by March 31, 2006 so that projects specified in that plan which meet capital project criteria¹⁶ can be incorporated into the *Capital Plan - 2005 Annual Update* which will be issued in March of 2006.

In the professional judgement of the Budget Analyst, both the Urban Forestry and the Natural Areas Programs should be incorporated into the Capital Plan given their political significance and the significant resources associated with each program.

3. Expand department-wide research and analysis to ensure that programming drives the capital improvements. The Department advises that the 2004 creation of its first fully funded, staffed, and autonomous Planning Division will allow the Department to focus on long-range, integrated planning. Planning Division deliverables in 2005 include the roll-out of two new surveys to collect user data on recreational programming and parks. This information is intended to be available for capital planning purposes beginning in 2006. In addition, the

¹⁵ Based on a reforestation assessment performed at the Presidio, the Department estimates that an assessment of the 30,000 trees in Golden Gate Park alone would cost approximately \$600,000.

¹⁶ The criteria for capital projects include (a) project budgets which exceed \$50,000, (b) project life cycles of at least three years, and (c) projects that have or increase asset value.

Department has commissioned a nexus study which will assess the appropriateness of assessing development fees for the purpose of acquiring and developing open space.

In the *Capital Plan - 2004 Annual Update*, capital improvement project start year information was replaced with a new system of phases because:

As the program progressed, it became apparent that the resources available, in both funding and staff, could not keep up with the aggressive schedule presented in the Capital Plan Project List. Each year projects were rescheduled to accurately reflect the progress of the program. In 2003, 219 changes were made from the 2002 plan. This included 153 schedule changes, 10 projects added, 2 projects deleted, and 54 technical changes. Due to the slow down of new funds into the program, another 73 or more schedule changes were predicted for [the 2004] plan year."¹⁷

- *Harding and Fleming Golf Courses:* In August of 2005, the complete renovations of Harding and Fleming Golf Courses, their maintenance facility, and their clubhouse were completed at a cost of \$23.6 million. By the time the Harding and Fleming Golf Course renovations were complete, the total cost had increased from a 2002 estimate of \$16 million to the \$23.6 million. This represents a total increase of approximately \$7.6 million or 47.5 percent. According to a March 4, 2004 memorandum from the Department to the Budget Analyst, the additional expenditures were required due to "unforeseen project costs" related to (a) mandatory destruction of old wells discovered on the site, (b) demolition of buildings previously intended for re-use, (c) golf course drainage and erosion problems, (d) additional maintenance building and clubhouse facilities, and (e) new utilities.

Capital Program Phase I Progress

By August 31, 2005, the Department had completed 49 projects, closed out 19 projects, and cancelled two projects in its Capital Program Phase I, for a total of 70 projects, at a total cost of \$98,090,570. The Capital Program Phase I includes capital improvement projects commenced prior to the 2000 Neighborhood Parks Improvement Bonds. A further 49 projects, with a total appropriation of \$146,968,968, were actively in their planning, design, bid, or construction phases. The Department's Capital Division, in conjunction with the Department of Public Works, had also completed or closed out eight other projects, seven of which are located in Golden Gate Park and one of which is located in Sharp Park.

Table 16.1 below summarizes the status of the Capital Program Phase I as of August 31, 2005. The Capital Program Phase I currently comprises 221 projects. Of the Capital Program Phase I's total \$552,542,471 appropriation for these 221 projects, the Department has reserved, expended, or encumbered \$289,413,298 or approximately 52.4

¹⁷ San Francisco Recreation and Parks Capital Division, *Capital Plan 2004 Annual Update* (March of 2005).

percent. This leaves an available balance of \$263,129,173 or approximately 47.6 percent. The total current appropriations of \$552,542,471 are \$36,125,057 or approximately 6.1 percent less than the Department's total revised estimated cost of \$588,667,528 for the 221 projects.

Table 16.1
Current Status of the Capital Program Phase I
as of August 31, 2005

Project Category	Total Appropriation	Actual \$ Reserved, Expended, or Encumbered	Available Balance	Revised Estimated Cost	Current Appropriation Surplus / (Deficit)
Completed, Closed Out, or Cancelled (70 projects)	\$105,097,785	\$98,399,570	\$6,698,215	\$101,906,006	\$3,191,779
Active (49 projects)	146,968,968	59,133,597	87,835,371	169,401,431	(22,432,463)
On hold, Rescheduled, or Planning Phase (17 projects)	1,968,952	266,633	1,702,319	1,603,001	365,951
Citywide, Master Accounts, Unallocated Funds (12 projects)	15,439,330	15,210,330	229,000	12,772,149	2,667,181
Other (4 projects)	4,174,609	2,886,232	1,288,377	26,992,000	(22,817,391)
Golden Gate Park (35 projects)	188,348,586	46,623,738	141,724,848	192,717,401	(4,368,815)
Zoo (1 project)	53,093,705	43,089,615	10,004,090	51,840,462	1,253,243
<u>Majority Open Space Funded Projects</u>					
Property Acquisitions (12 projects)	9,509,949	9,402,852	107,097	9,536,263	(26,314)
Contingency (2 projects)	6,083,592	29,852	6,053,740	5,093,592	990,000
Various Citywide Projects (19 projects)	<u>21,856,995</u>	<u>14,370,879</u>	<u>7,486,116</u>	<u>16,805,223</u>	<u>5,051,772</u>
TOTAL (221 projects):	\$552,542,471	\$289,413,298	\$263,129,173	\$588,667,528	(\$36,125,057)

Source: Recreation and Park Department Capital Division, *RPD Capital Improvement Monthly Expenditure Report as of August 31, 2005*

The (a) completed, closed out, or cancelled projects, (b) active projects, (c) on hold, rescheduled, or planning phase projects, (d) citywide and master account projects, (e) other projects, and (f) Golden Gate Park projects are detailed below.

Completed, Closed Out, or Cancelled Projects

Based on the *RPD Capital Improvement Monthly Expenditure Report as of August 31, 2005*, prepared by the Department, 70 capital improvement projects were completed (49 projects), closed out (19 projects), or cancelled (two projects) by August 31, 2005. (These figures exclude completed and closed out Golden Gate Park capital improvement projects which are discussed below.) Of the 70 completed capital improvement projects, 28 had begun prior to voter approval of the 2000 Neighborhood Park Improvement Bonds.

Completed, Closed Out, or Cancelled Projects Identified in the Assessment Study: 1998-1999

Forty-six of the 70 completed or closed out projects had been identified in the *Assessment Study: 1998-1999* with an estimated total cost of \$100,092,811. The total actual cost of these 46 projects was \$73,753,863, which was \$26,338,948 or approximately 26.3 percent less than the 1998-99 estimate. The total funds appropriated for these 46 projects was \$77,723,778, which was \$3,969,915 or approximately 5.4 percent more than the \$73,753,863 expended and encumbered. The Department advises that any surplus will be reallocated to other projects as determined and authorized.

The Balboa Park Master Plan project was cancelled after the expenditure of \$3,693 of its \$10,000 appropriation because the master plan was deemed unfeasible. Two of the projects (Julius Kahn Playground and Head/Brotherhood Mini Park) were funded from gifts-in-place.

Completed, Closed Out, or Cancelled Projects Not Identified in the Assessment Study: 1998-1999

The remaining 24 completed, closed out, or cancelled projects had not been identified in the *Assessment Study: 1998-1999*. Instead, they were identified through a community consultation and scoping process. Their cumulative cost was \$24,645,707. The total funds appropriated for these 24 projects was \$27,374,007, which was \$2,728,300 or approximately 11.1 percent more than the \$24,645,707 reserved, expended, and encumbered. The Department advises that any surplus will be reallocated to other projects as determined and authorized.

The Visitacion Valley Greenway Community Garden project was cancelled with no expenditures because the location was already usable as a community garden. Three of the projects (Koshland Park Perimeter Fending, St. Mary's Playground Dog Park, and Visitacion Valley Greenway - Hans Schiller Plaza) were funded from gifts-in-place.

All 70 Completed, Closed Out, or Cancelled Projects

Based on the above information, the cumulative cost of all 70 projects was \$98,399,570, which was \$6,698,215 less than the total appropriation of \$105,097,785. The surplus

appropriation of \$6,698,215¹⁸ has not yet been reallocated to other projects, despite the Capital Program Phase I's funding deficit. While the Department advises that the budgeting of \$6,698,215 more than finally required to these 70 projects has not delayed subsequent projects from starting earlier, the Budget Analyst notes that under-expenditures for one set of projects inevitably have an opportunity cost in terms of other projects which cannot use those funds until they are released for reallocation. Therefore, it is essential for the Department to be able to close out completed projects as quickly as possible in order to reallocate surplus funding to under-funded capital improvement projects.

In response to the Budget Analyst's questions about when the surplus funds would be reallocated to other, under-funded projects, the Department advised that:

The closing of completed projects is not totally under the Department's control. Funds are transferred to other departments, such as the Department of Public Works or the Art Commission. Until the controlling department completes its closeout process, the [Recreation and Park] Department cannot move surplus funds. When funds are returned, the [Recreation and Park] Department can finalize the review of surplus and close out any restricted grant funds. When remaining balances are identified for redistribution, the distribution of surplus funds will be analyzed against projects in need of funding.

The timing of when redistribution happens depends on the type of funding source. Based on how funds were appropriated may require [Board of Supervisors] approval. Some funds are under a general master [account] and can be redistributed sooner.

The Budget Analyst considers this response to be overly bureaucratic given that the Recreation and Park Department and the Department of Public Works share project management responsibilities for the Recreation and Park Department's Capital Program and the responsible staff are physically co-located. Similarly, an entity such as the Art Commission, which is responsible for just one component of a capital improvement project, should not be creating barriers to a smooth project close-out process.

Active Projects

Based on the *RPD Capital Improvement Monthly Expenditure Report as of August 31, 2005*, 49 capital improvement projects are currently in the planning, design, bid, or construction phases. Two of these projects had begun prior to voter approval of the 2000 Neighborhood Park Improvement Bonds.

¹⁸ Based on information provided by the Department on December 19, 2005, this figure of \$6,698,215 has been revised downwards to \$2,323,309 as of October 31, 2005.

Active Projects Identified in the Assessment Study: 1998-1999

Of the 49 active projects, 29 were identified in the *Assessment Study: 1998-1999* with an estimated total cost of \$83,304,126. Unlike the 46 completed or closed out projects which were completed for less than the costs identified in the *Assessment Study: 1998-1999*, the 29 active projects identified in the *Assessment Study: 1998-1999* will cost significantly more. As shown in Table 16.2 below, the total appropriation for these 29 active projects is \$118,774,741, which is \$35,470,615 or 42.6 percent more than the *Assessment Study: 1998-1999* estimate of \$83,304,126. Further, the Department has revised upwards its estimated cost for these 29 active projects to \$137,910,200, which results in an appropriation deficit of \$19,135,459.

Recreation and Park Department and Department of Public Works staff, plus community organization representatives knowledgeable about the Capital Program, posit a variety of reasons for these cost increases:

- The initial lack of a well developed capital plan to provide the necessary overarching framework for the Capital Program.
- Project scopes often grew in response to communities' input, and the Department did not always constrain community expectations as to project costs, scope (quality and quantity), and schedules. The Department did not always encourage communities to identify other funding sources for non-core project enhancements.
- Construction industry cost escalation (11 percent in 2004), the high costs of public sector projects in San Francisco, and the limited pool of contractors prepared to bid on local projects thereby limiting competition.
- Some Recreation and Park Department Capital Division staff, recruited from the private sector, did not have San Francisco public sector project cost estimating experience, while some Department of Public Works project managers accepted unrealistic project scopes and budgets from the Recreation and Park Department which had been insufficiently vetted.

Expenditures have been incurred against all 29 projects. As of August 31, 2005, the Department has reserved, expended, or encumbered \$44,792,224. This represents approximately 37.7 percent of the total appropriation of \$118,774,741 or approximately 32.5 percent of the revised estimated cost of \$137,910,200.

Active Projects Not Identified in the Assessment Study: 1998-1999

The remaining 20 active projects were not identified in the *Assessment Study: 1998-1999*. Instead, they were identified through a community consultation and scoping process. As shown in Table 16.2 below, the total appropriation for these 20 active projects is \$28,194,227. Unlike the 24 completed, closed out, or cancelled projects which had not been identified in the *Assessment Study: 1998-1999* which were completed for

less than their appropriations, the 20 active projects not identified in the *Assessment Study: 1998-1999* are projected to cost more than their current appropriations. The Department has revised its estimated cost for these 20 active projects to \$31,491,231, which results in an appropriation deficit of \$3,297,004.

Of the 20 active projects, no funds have been appropriated for, or expended against, the Alamo Square Irrigation Renovation Project, the Duboce Park - Scott Street Labyrinth Project, or the India Basin Shoreline Park Restroom Project. No funds have been appropriated for the Lake Merced Habitat Entrance Natural Area Project, despite the expenditure of \$2,483. No funds have been expended against the Potrero Hill Playground Project, although \$100,000 has been appropriated.

All 49 Active Projects

As shown in Table 16.2 below, the revised estimated cost of all 49 active projects is \$169,401,431, which is \$22,432,463 more than the total current appropriation of \$146,968,968.

Table 16.2

Active Capital Improvement Projects as of August 31, 2005

	<i>Assessment Study: 1998-1999 Estimate</i>	Total Current Appropriation	Actual \$ Reserved, Expended, or Encumbered	Available Balance	Revised Estimated Cost	Appropriation Surplus / (Deficit)
Active Capital Improvement Projects Identified in the Assessment Study	\$83,304,126	\$118,774,741	\$44,792,224	\$73,982,517	\$137,910,200	(\$19,135,459)
Active Capital Improvement Projects <u>Not</u> Identified in the Assessment Study	0	28,194,227	14,341,373	13,852,854	31,491,231	(3,297,004)
TOTAL:	\$83,304,126	\$146,968,968	\$59,133,597	\$87,835,371	\$169,401,431	(\$22,432,463)

Source: Recreation and Park Department Capital Division, *RPD Capital Improvement Monthly Expenditure Report as of August 31, 2005*

On Hold, Rescheduled, or Planning Phase Projects

In April of 2004, the Recreation and Park Commission agreed to scale back three capital improvement projects and suspend 19 capital improvement projects due to a \$56.1 million funding shortfall. The Department attributed this funding shortfall to (a) lower than projected Open Space Fund contributions, and greater utilization of Open Space Funds for operating costs rather than capital improvement projects, (b) higher than estimated construction costs, and (c) costlier designs suggested by the community and staff for some of the initial projects. As a result, no new capital improvement projects were initiated in 2004 or 2005. The Recreation and Park Commission also requested that the Capital Division attempt to make a 10 percent budget cut across all capital improvement projects and develop an objective system for prioritizing the on hold projects for future funding.

In the Summer of 2004, the Recreation and Park Commission adopted a draft capital improvement project evaluation and selection criteria for use during the budget process, based on (a) input from the community, including a task force assembled by the Park, Recreation and Open Space Advisory Committee, (b) the American Planning Association's guidelines, *Capital Programs: Linking Budgeting and Planning*, and (c) the San Francisco Unified School District's bond program criteria. The intent of this process was to ensure an objective system for determining the priority order in which on hold capital improvement projects should move forward as funding is secured.¹⁹

Based on the *RPD Capital Improvement Monthly Expenditure Report as of August 31, 2005*, by August 31, 2005 two of the original 19 on-hold projects had become active projects, eight remained on hold given the funding shortfall for the Capital Program as a whole, five are being rescheduled to start later than originally planned, and four are moving into their planning phases.

The longer projects are on hold, the more significant the impact of cost escalation will be on their overall costs. As noted above, construction industry cost escalation in 2004 was approximately 11 percent.

¹⁹ The project prioritization evaluation criteria included (a) preventing risk to public safety or health, (b) protecting and conserving natural and built resources, (c) improving operating efficiency and/or generating new revenue sources, (d) ensuring coordination with other capital improvement projects, complying with the law, meeting the Department's goals and objectives, or actively engaging the community, (e) ensuring equitable provision of services and facilities, and (f) providing a new or substantially expanded facility which can provide an essential service, or level of service, not currently available. The funding evaluation criteria included (a) the entire project can be completed with the available funds, (b) the project can be efficiently divided into a series of smaller projects so that a portion can be completed using the available funds, and (c) the project furthers the goal of distributing capital improvements across all San Francisco neighborhoods.

On Hold, Rescheduled, and Planning Phase Projects Identified in the Assessment Study: 1998-1999

Of the 17 remaining on hold, rescheduled, and planning phase projects as of August 31, 2005, eight had been identified in the *Assessment Study: 1998-1999* with an estimated total cost of \$11,158,110. To date, the total appropriation for these eight on hold, rescheduled, and planning phase projects is \$667,808, which is \$10,490,302 or approximately 94.0 percent less than the 1998-99 estimate. Only expenditures and encumbrances in the amount of \$94,071 have already been incurred against four of these eight on hold, rescheduled, and planning phase projects, leaving \$573,737 in unexpended funds.

On Hold, Rescheduled, and Planning Phase Projects Not Identified in the Assessment Study: 1998-1999

Nine of the on hold, rescheduled, and planning phase projects as of August 31, 2005 were not identified in the *Assessment Study: 1998-1999*. Instead, they were identified through a community consultation and scoping process. To date, the total appropriation for these nine on hold, rescheduled, and planning phase projects is \$1,301,144. Only expenditures and encumbrances in the amount of \$172,562 have already been incurred against three of these nine on hold, rescheduled, and planning phase projects, leaving \$1,128,582 in unexpended funds.

Citywide and Master Account Projects

Based on the *RPD Capital Improvement Monthly Expenditure Report as of August 31, 2005*, the Department has appropriated \$12,804,493 for citywide projects related to Capital Program management, the City Services Auditor, a Master Neighborhood Account,²⁰ and other program costs (staff time for Capital Program design standards). As of August 31, 2004, the Department has reserved, expended, or encumbered \$12,747,434 of that amount, or almost all of the current appropriation.

The Department has appropriated \$2,634,837 to eight Master Accounts, one each for community pools, mini-parks, parks and squares, playgrounds, recreation centers, regional parks, signage and information, and clubhouses. These Master Accounts capture undistributed allocations in the City's FAMIS accounting system which the Department is currently adjusting so that expenditures can be allocated to specific projects. The Department has revised slightly upwards the estimated costs for these Master Accounts to \$2,929,176 and has expended and encumbered \$2,586,816 to date.

²⁰ The Master Neighborhood Account represents undistributed allocations to specific projects in the City's FAMIS accounting system. Some projects' expenditures were captured in the Master Neighborhood Account because the project structure was not defined at the time the projects were started. The Department is currently working on adjustments to the cost information to correctly identify project expenditures for specific sites.

Other Projects

The Department is in the planning stages of a San Francisco Marina Small Craft Harbor Renovation Program. As of August 31, 2005, \$2,751,148 has been expended or encumbered out of a current total appropriation of \$4,049,284 funded by the Port. However, the total project costs for (a) reconstructing and renovating the San Francisco Marina's West and East Harbors' docks, ramps, berthing areas, and existing buildings, (b) dredging the harbors, and (c) constructing two breakwaters, a new play structure and biking path, and disability access upgrades are estimated to be approximately \$36 million, if these projects move forward in their current form.

The Department is undertaking two Candlestick Park projects. Capital improvements to a light tower have been completed, but capital improvements to a retaining wall have not been completed due to a funding shortage. As of August 31, 2005, \$9,670 has been expended despite the lack of an appropriation for these improvements which have a revised estimated cost of \$810,000.

The Department has completed a Sharp Park Water Tank Project at a total cost of \$125,414. This was funded by the Open Space Fund.

Golden Gate Park Projects

Based on the *RPD Capital Improvement Monthly Expenditure Report as of August 31, 2005*, 35 capital improvement projects are located in Golden Gate Park.

Table 16.3 below summarizes the capital improvement projects located in Golden Gate Park. Out of a total appropriation of \$188,348,586, \$46,623,738 or approximately 24.8 percent has been expended or encumbered on 35 capital improvement projects in Golden Gate Park, as of August 31, 2005. Of these 35 capital improvement projects, seven have been completed or closed out at a total cost of \$26,257,324. This leaves a balance of \$162,091,262 or approximately 86.1 percent available for completion of the 28 projects not yet completed or closed out. The available balance includes \$352,461 from under-expended budgets from the seven projects which have been completed or closed out to date.

However, as shown in Table 16.3 below, based on the Department's revised estimates of \$192,717,401 for the 35 Golden Gate Park capital improvement projects, the Department will have a \$4,368,815 funding deficit. This deficit will only be partially alleviated by the fact that (a) seven projects have not yet entered the planning and design phases, despite the expenditure or encumbrance of \$930,834 for those seven projects, and (b) one further project is on hold, despite the encumbrance of its entire \$755,836 budget, fully funded by the 1992 Golden Gate Park Bonds.

Table 16.3
Golden Gate Park Capital Improvement Projects
As of August 31, 2005

Project Category	Total Current Appropriation	Actual \$ Expended or Encumbered	Available Balance	Revised Estimated Cost	Current Appropriation Surplus / (Deficit)
Completed or Closed Out (7 projects)	\$26,609,785	\$26,257,324	\$352,461	\$26,335,606	274,179
Construction Phase (10 projects)	21,103,320	12,342,497	8,760,823	22,040,268	(936,948)
Bid Phase (1 project)	1,725,000	108,970	1,616,030	1,200,000	525,000
Design Phase (4 projects)	4,773,652	156,694	4,616,958	4,773,652	0
Planning Phase (5 projects)	129,487,453	6,071,583	123,415,870	134,578,124	(5,090,671)
No Phase (7 projects)	3,893,540	930,834	2,962,706	3,033,915	859,625
On Hold (1 project)	<u>755,836</u>	<u>755,836</u>	<u>0</u>	<u>755,836</u>	<u>0</u>
TOTAL (35 projects):	\$188,348,586	\$46,623,738	\$141,724,848	\$192,717,401	(\$4,368,815)

Source: Recreation and Park Department Capital Division, *RPD Capital Improvement Monthly Expenditure Report as of August 31, 2005*

Golden Gate Park Facilities Which House Administrative Staff

Some facilities which house the Department's administrative staff either have seismic issues which need to be addressed, or have had no formal assessment of their seismic safety:

- Camp Mather: While there is an annual structural evaluation of the facilities prior to opening each spring, the evaluations of the main dining hall are described by the Department as " cursory " and no formal evaluation has been conducted.
- Kezar Pavilion: The Kezar Pavilion is in very poor condition. An initial structural evaluation has been completed and approximately \$867,000 in State Proposition 40 funds have been identified for planning purposes. The Department anticipates further evaluation and planning in the Spring of 2006. A seismic assessment was conducted in the 1990s for the Kezar Pavilion tool house which did not identify any seismic deficiencies.
- McLaren Lodge and Annex: The historic McLaren Lodge and its more modern annex house the majority of the Department's administrative staff. In 2003, consultants were hired to review a 1992 study on the buildings' seismic deficiencies

and to develop options for seismically upgrading the buildings. Three options were presented, with estimates ranging between \$7 million and \$13.1 million in 2002 dollars. Although \$7,280,424 has been appropriated for the McLaren Lodge Restoration Project, and \$307,820 has been spent to date, no further decision has been made by the Department on how to proceed with seismically securing this building.

- Park Aid Station: The historic Park Aid Station building houses the Department's Volunteer and Natural Areas Programs and sits on a large, under-utilized site. The Department of Public Works' Bureau of Architecture has prepared a conceptual design and budget. Although \$1,201,974 has been appropriated for the Park Aid Station Renovation Project (which is approximately 42.6 percent of the revised estimated total cost of \$2,818,680), and \$83,500 has been spent to date, no further decision has been made by the Department on how to proceed with seismically securing this building.
- Urban Forest Center: A conceptual program for this facility has been completed, a conceptual budget in excess of \$3.5 million has been developed, and approximately \$783,000 in State Proposition 40 funds have been identified for this project. Work on this project will need to be phased. Further evaluation and planning is anticipated for the Spring of 2006.

Administrative staff are also located at Candlestick Park, the Park Patrol Office, the Pioneer Log Cabin, the Randall Museum, the Structural Maintenance Division's yard, and the Nursery. The Department advises that it currently does not have the resources necessary to complete a formal facility assessment conducted by a structural engineer for each of these locations. However, the Department assumes, based on the age of the buildings and the fact that building and seismic safety codes are constantly evolving, that these facilities would require some structural improvements to bring them up to current code. In the early 1990s, the Randall Museum and the Nursery were rated a 2 and 3 respectively under the City's 5 point Seismic Rating System, with 1 indicating that a building would fare well in an earthquake of a certain magnitude and 5 representing a complete structural failure. The Department advises that both buildings require an updated seismic safety evaluation.

In the professional judgement of the Budget Analyst, housing City administrative staff in seismically unsafe buildings represents a significant liability to the City, particularly given how long the seismic deficiencies of certain buildings have been known. The Department needs to both (a) address the known seismic deficiencies of the structures which house administrative staff, and (b) comprehensively evaluate the seismic safety of all structures which house administrative staff so that a determination can be made about whether corrective work is required.

Unfunded Projects

As shown in Table 16.1 above, the Capital Program Phase I currently consists of 221 projects with a revised total estimated cost of \$588,667,528, or \$36,125,057 more than the current appropriations of \$552,542,471. The Department's current policy to address this \$36,125,057 shortfall is to pursue grants and philanthropic gifts, while reducing the scope of all active projects.

Capital Program Phase II and Phase III specify 229 projects to be performed at 154 sites at an estimated cost of \$553,000,000. These projects have been prioritized, but no schedule has been set. The Department's current policy is to refrain from initiating any new projects until all current projects are fully funded. The Department currently does not have a plan for funding Phase II and Phase III which would increase the total Capital Program cost to \$1,141,667,528 if all 450 proposed capital improvement projects proceed (the existing estimate of \$588,667,528 for Phase I plus \$553,000,000 for Phase II and Phase III). Future funding options for the Capital Program are discussed in more detail in Section 17 of this management audit report.

Conclusions

Due to its projected \$589,125,057 funding shortfall, successful future management of the Capital Program Phases I - III will require the Department to:

- Ensure timely project close-out so that surplus funding can be reallocated as quickly as possible to under-funded capital improvement projects.
- Formalize the Department's capital improvement project evaluation and selection criteria to best determine, as funding becomes available, which capital improvement projects should move forward.
- Develop a comprehensive plan for citywide renovation projects (such as field rehabilitation and court resurfacing).
- Incorporate the Urban Forestry and Natural Areas Programs into the Department's Capital Plan.

The Department needs to address the seismic deficiencies of facilities which house the Department's administrative staff. Housing City administrative staff in seismically unsafe buildings represents a significant liability to the City, particularly given how long the Department has known about the seismic deficiencies of certain buildings.

Recommendations

The Recreation and Park Commission and the Recreation and Park Department General Manager should:

- 16.1 Ensure timely project close-out so that surplus funding can be reallocated as quickly as possible to under-funded capital improvement projects.
- 16.2 Formalize the Department's capital improvement project evaluation and selection criteria to best determine, as funding becomes available, which capital improvement projects should move forward.
- 16.3 Develop a comprehensive plan for citywide renovation projects.
- 16.4 Incorporate the Urban Forestry and Natural Areas Programs into the Department's Capital Plan.
- 16.5 Address the seismic issues at Kezar Pavilion, McLaren Lodge and Annex, the Park Aid Station, and the Urban Forest Center.
- 16.6 Evaluate the seismic condition of Camp Mather, Candlestick Park, the Park Patrol Office, the Pioneer Log Cabin, the Randall Museum, the Structural Maintenance Division's yard, and the Nursery.

Costs and Benefits

While the Department advises that the budgeting of \$6,698,215 more than finally required to the 70 completed, closed out, or cancelled projects has not delayed subsequent projects from starting earlier, the Budget Analyst notes that under-expenditures for one set of projects inevitably have an opportunity cost in terms of other projects which cannot use those funds until they are released for reallocation. Therefore, it is essential for the Department to be able to close out completed projects as quickly as possible in order to reallocate surplus funding to under-funded capital improvement projects.

Given that the current Capital Program Phases I - III funding shortfall is \$589,125,057, formalizing the Department's capital improvement project evaluation and selection criteria to best determine, as funding becomes available, which capital improvement projects should move forward would allow the Department to maximize the value of that funding in terms of achieving pre-determined priorities for the recreation and park system as a whole.

A comprehensive plan for citywide renovation projects would prevent deferred maintenance and the ultimately more expensive renovation or replacement projects which are caused by deferred maintenance. Ideally, a comprehensive plan for citywide renovation projects would reduce the need for capital programs, such as the current one,

which are driven primarily by the cumulative deferred maintenance needs of the recreation and park system as a whole rather than by, for example, a desire to address proactively the City's changing recreation and park needs.

Both the Urban Forestry and the Natural Areas Programs should be incorporated into the Capital Plan given their political significance and the significant resources associated with each program.

The housing of City administrative staff in seismically unsafe buildings represents a significant liability to the City, particularly given how long the Department has known about the seismic deficiencies of certain buildings.