

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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June 6, 2014

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: Recommendations of the Budget and Legislative Analyst for Amendment of the Mayor's Fiscal Year 2014-2015 to Fiscal Year 2015-2016 Budget.

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Descriptions for Departmental Budget Hearing, June 11, 2014 Meeting, 1:00 p.m.

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BUDGET REVIEW EXECUTIVE SUMMARY

YEAR ONE: FY 2014-15

Budget Changes

The Department’s proposed \$930,501,387 budget for FY 2014-15 is \$56,948,749 or 6.5% more than the original FY 2013-14 budget of \$873,552,638.

Personnel Changes

The number of full-time equivalent positions (FTE) budgeted for FY 2014-15 are 1,844.10 FTEs, which are 17.63 FTEs more than the 1,826.47 FTEs in the original FY 2013-14 budget. This represents a 1.0% increase in FTEs from the original FY 2013-14 budget.

Revenue Changes

The Department's revenues of \$930,501,387 in FY 2014-15, are \$56,948,749 or 6.5% more than FY 2013-14 revenues of \$873,552,638.

YEAR TWO: FY 2015-16

Budget Changes

The Department’s proposed \$995,606,925 budget for FY 2015-16 is \$65,105,538 or 7.0% more than the Mayor’s proposed FY 2014-15 budget of \$ 930,501,387.

Personnel Changes

The number of full-time equivalent positions (FTE) budgeted for FY 2015-16 are 1,851.48 FTEs, which are 7.38 FTEs more than the 1,844.10 FTEs in the Mayor’s proposed FY 2014-15 budget. This represents a 0.4% increase in FTEs from the Mayor’s proposed FY 2014-15 budget.

Revenue Changes

The Department's revenues of \$995,606,925 in FY 2015-16, are \$65,105,538 or 7.0% more than FY 2014-15 estimated revenues of \$930,501,387.

POLICY CONSIDERATION

Under legislation pending before the Board of Supervisors, the PUC proposes de-appropriating \$19.5 million previously appropriated by the Board of Supervisors for CleanPowerSF in order to pay for Hetch Hetchy Enterprise power projects (File 14-0480). The PUC provided the Budget and Legislative Analyst’s Office with alternative scenarios, in which the PUC would fund the proposed Hetch Hetchy power projects with \$19.5 million in operating or bond revenues, rather than de-appropriating the subject \$19.5 million. According to the PUC analysis, each of these scenarios would result in an electricity rate surcharge to the City’s General Fund and enterprise departments and other PUC customers as discussed below.

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
FOR AMENDMENT OF BUDGET ITEMS
FY 2014-15 AND FY 2015-16**

DEPARTMENT: PUC – PUBLIC UTILITIES COMMISSION

In order to retain sufficient funds to implement CleanPowerSF, the Board of Supervisors could:

- Appropriate on-going annual savings of approximately \$800,000 and one-time savings of \$388,263, identified by the Budget and Legislative Analyst in the FY 2014-15 and FY 2015-16 PUC budgets and allocated to Hetch Hetchy Enterprise power projects, to CleanPowerSF; and/or
- Increase the issuance of power bonds by up to approximately \$8.8 million, from the requested amount of \$111,326,842 (File 14-0482) to an estimated amount of \$120,126,842, thus reducing the de-appropriation and re-appropriation of the \$19.5 million on reserve for the CleanPowerSF program by \$8.8 million. Ongoing debt service for the additional \$8.8 million would be funded by the approximate \$800,000 in annual savings identified by the Budget and Legislative Analyst.

The amount of funds required to implement CleanPowerSF could potentially be less than the \$19.5 million if a future contract to implement CleanPowerSF requires a lower amount of reserves than the \$11.5 million in reserves required under the proposed contract with Shell

RECOMMENDATIONS

YEAR ONE: FY 2014-15

The Budget and Legislative Analyst's recommended reductions to the proposed budget total \$3,512,049 in FY 2014-15. Of the \$3,512,049 in recommended reductions, \$3,255,963 are ongoing savings and \$256,086 are one-time savings. These reductions would still allow an increase of \$53,436,700 or 6.1% in the Department's FY 2014-15 budget.

In addition, the Budget and Legislative Analyst recommends closing out three inactive Hetch Hetchy Power projects, resulting in one-time savings of \$388,263.

YEAR TWO: FY 2015-16

The Budget and Legislative Analyst's recommended reductions to the proposed budget total \$3,432,956 in FY 2015-16. Of the \$3,432,956 in recommended reductions, \$3,377,393 are ongoing savings and \$55,563 are one-time savings. These reductions would still allow an increase of \$61,672,582 or 6.6% in the Department's FY 2015-16 budget.

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
FOR AMENDMENT OF BUDGET ITEMS
FY 2014-15 AND FY 2015-16**

DEPARTMENT: PUC – PUBLIC UTILITIES COMMISSION

SUMMARY OF PROGRAM EXPENDITURES:

| Program | FY 2013-2014 Budget | FY 2014-2015 Proposed | Increase/ Decrease from FY 2013-2014 | FY 2015-2016 Proposed | Increase/ Decrease from FY 2014-2015 |
|------------------------------------|------------------------|--------------------------|--|--------------------------|--|
| PUBLIC UTILITIES COMMISSION | | | | | |
| ADMINISTRATION | 132,271,368 | 141,909,058 | 9,637,690 | 140,509,200 | (1,399,858) |
| CITY CAPITAL PROJECTS | 0 | 0 | 0 | 0 | 0 |
| CUSTOMER SERVICES | 13,795,151 | 13,966,323 | 171,172 | 14,149,686 | 183,363 |
| DEBT SERVICE | 272,054,871 | 290,136,299 | 18,081,428 | 325,432,906 | 35,296,607 |
| ENGINEERING | 0 | 0 | 0 | 0 | 0 |
| FACILITIES MGMT & OPERATIONS | 0 | 0 | 0 | 0 | 0 |
| FINANCE | 11,120,890 | 11,287,588 | 166,698 | 11,243,331 | (44,257) |
| GENERAL MANAGEMENT | (62,540,562) | (68,762,029) | (6,221,467) | (67,719,368) | 1,042,661 |
| HETCH HETCHY CAPITAL PROJECTS | 47,723,652 | 31,463,100 | (16,260,552) | 32,334,000 | 870,900 |
| HETCH HETCHY POWER | 0 | 0 | 0 | 0 | 0 |
| HETCH HETCHY PROJECT OPERATIONS | 0 | 0 | 0 | 0 | 0 |
| HETCHY WATER OPERATIONS | 55,922,493 | 67,192,346 | 11,269,853 | 65,998,152 | (1,194,194) |
| HUMAN RESOURCES | 10,450,022 | 11,643,754 | 1,193,732 | 11,646,223 | 2,469 |
| MANAGEMENT INFORMATION | 21,637,054 | 25,461,616 | 3,824,562 | 24,304,257 | (1,157,359) |
| OPERATING RESERVE | 4,535,327 | 21,807,583 | 17,272,256 | 21,620,213 | (187,370) |
| POWER INFRASTRUCTURE DEV. | 20,295,346 | 54,097,713 | 33,802,367 | 75,301,176 | 21,203,463 |
| POWER PURCHASING/ SCHEDULING | 45,889,480 | 10,532,805 | (35,356,675) | 10,760,017 | 227,212 |
| POWER UTILITY FIELD SERVICES | 0 | 0 | 0 | 0 | 0 |
| POWER UTILITY SERVICES | 357,000 | 357,000 | 0 | 0 | (357,000) |
| STRATEGIC PLANNING/COMPLIANCE | 12,782,488 | 14,250,842 | 1,468,354 | 14,228,727 | (22,115) |
| WASTEWATER CAPITAL PROJECTS | 37,000,000 | 39,000,000 | 2,000,000 | 41,000,000 | 2,000,000 |
| WASTEWATER COLLECTION | 31,366,160 | 32,314,684 | 948,524 | 32,391,497 | 76,813 |
| WASTEWATER DISPOSAL | 0 | 0 | 0 | 0 | 0 |
| WASTEWATER OPERATIONS | 3,565,309 | 3,098,890 | (466,419) | 3,155,949 | 57,059 |
| WASTEWATER TREATMENT | 71,395,185 | 75,000,871 | 3,605,686 | 76,075,842 | 1,074,971 |
| WATER CAPITAL PROJECTS | 25,772,600 | 5,173,000 | (20,599,600) | 17,799,400 | 12,626,400 |
| WATER PUMPING | 0 | 0 | 0 | 0 | 0 |
| WATER SOURCE OF SUPPLY | 23,170,324 | 53,104,321 | 29,933,997 | 46,457,582 | (6,646,739) |
| WATER TRANSMISSION/ DISTRIBUTION | 51,709,956 | 53,433,328 | 1,723,372 | 54,044,394 | 611,066 |
| WATER TREATMENT | 43,278,524 | 44,032,295 | 753,771 | 44,873,741 | 841,446 |
| PUBLIC UTILITIES COMMISSION | 873,552,638 | 930,501,387 | 56,948,749 | 995,606,925 | 65,105,538 |

FY 2014-15

Major changes in the Department's FY 2014-15 budget are as follows:

Water Enterprise

The Water Enterprise's proposed FY 2014-15 budget has increased by \$40 million largely due to:

- Increased debt service costs of \$25.9 million;
- Increased transfers to the PUC Bureaus to pay for administrative overhead (\$3.0 million), the Hetch Hetchy Enterprise (\$3.5 million), and other internal PUC transfers; and
- Increased transfers to the Capital Improvement Reserve (\$6.0 million).

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
FOR AMENDMENT OF BUDGET ITEMS
FY 2014-15 AND FY 2015-16**

DEPARTMENT: PUC – PUBLIC UTILITIES COMMISSION

The Water Enterprise is also proposing the following expenditure increases in the FY 2014-15 budget:

- The Water Enterprise is undertaking a two-year migration of communications services from the existing AT&T system that will be discontinued in 2015. This project will move the Water Enterprise's primary communications to an AT&T VPN (virtual private network) network.
- The Water Enterprise is increasing its water main replacement rate in San Francisco's distribution system, requiring increased staffing and funding for design, construction, and service connections.
- The Water Enterprise maintains a system of online sensor systems to continuously monitor the water system for contamination and provide early warning of abnormalities. Initially part of a pilot grant program, PUC intends to transition this program to a sustainable operation and expand monitoring from the distribution network to the regional system.

Hetch Hetchy Enterprise

The Hetch Hetchy Enterprise's proposed FY 2014-15 budget has a net decrease of \$2.0 million. The changes in the Hetch Hetchy Enterprise budget are largely due to:

- Reductions in power distribution and transmission expenditures based on historical transmission charges imposed by the California Independent System Operator and historical rate increases approved by the Federal Energy Regulatory Commission for the interconnection agreement between PUC and PG&E; and purchase of power for resale to Hetch Hetchy customers that reflect changes in Hetch Hetchy maintenance and operations;
- Increases in expenditure recoveries from the Port, Airport, and other public agencies due to increased electricity consumption; and
- Increases in expenditures for streetlight maintenance.

The Hetch Hetchy Enterprise is required to expand or develop new compliance programs as a result of increased regulatory requirements imposed by the North American Electric Reliability Corporation (NERC). New requirements over the coming years include increased network security and reliability, increasing the department's information technology costs.

Wastewater Enterprise

The Wastewater Enterprise's proposed FY 2014-15 budget has increased by \$19 million due primarily to an increase in reserves, including approximately \$19 million to the General Reserve and \$2.0 million to the Capital Improvements Reserve, offset by reductions in annual debt service. Other increases in the Wastewater Enterprise budget in FY 2014-15 include:

- Professional services contracts in the Wastewater Enterprise to support: (1) Urban Agriculture programs; (2) the North Point document assessment project; (3) specialized

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
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DEPARTMENT: PUC – PUBLIC UTILITIES COMMISSION

analytical testing for wastewater discharge, biofuel and biosolid programs; (4) educating businesses on Fats, Oils and Greases; and (5) implementation of a Resource Recovery Program.

- A new initiative which seeks to integrate Information technology systems throughout the Wastewater Enterprise business processes. The integrated Emergency Response and Incident Command System will contain a shared database for mobile deployment of Wastewater Enterprise crews in order to optimize resource use.
- Increased cost of hauling and disposing of biosolids and grit under the contract with S&S Trucking, previously approved by the Board of Supervisors (File 13-0962).
- Equipment costs in the Wastewater Enterprise budget primarily due to the purchase of technologies to detect sewer defects that will allow infiltration into the wastewater collection system.

Bureaus

The budget for the PUC Bureaus, which include General Management, Business Services, External Affairs and Infrastructure, has increased by \$6 million, which is funded by transfers to the Bureaus from the Wastewater, Water, and Hetch Hetchy Enterprises. The increase in the Bureau's budget is due largely to the following:

- A new initiative in the Business Services Division for workforce development planning, including (1) developing competency models to serve as core descriptions and proficiency targets in selection, promotion, training, and performance evaluation of PUC staff.
- New funding in the Infrastructure Division to secure leased property to house (1) the Contractor's Assistance Center located at 5 Thomas Mellon Circle; and (2) property at 544 Golden Gate Avenue to house employees and consultants working on the Sewer System Improvement Program.
- Annualization of professional services contracts implemented by the Infrastructure Division in FY 2013-14 support the (1) Cypress Mandela Training Center to provide education and training services to economically disadvantaged individuals, and (2) Contractors Assistance Center to provide on-call consultation and technical assistance to small businesses.
- Professional services contracts in the Business Services Division for new one-time contracts to (1) conduct a cost of service study and evaluate PUC rates, (2) assess document recovery procedures at the North Point Plant, (3) clean up electronic records prior to migration of these records to a new information management system, and (4) workforce development and succession planning.
- New professional services contracts in the External Affairs Division to (1) digitally email PUC's newsletters, notices, and publications, (2) language outreach for the Sewer System Improvement Program, (3) public outreach and education on large scale capital

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
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FY 2014-15 AND FY 2015-16**

DEPARTMENT: **PUC – PUBLIC UTILITIES COMMISSION**

programs, (4) services to implement recommendations of the 2009 Outmigration Task Force, and (5) support youth workforce programming.

- the new information systems for the Continuity of Operations program to support disaster preparedness throughout San Francisco and San Francisco International Airport.

FY 2015-16

Major changes in the Department’s FY 2015-16 budget are as follows:

Water Enterprise

The Water Enterprise’s proposed FY 2015-16 budget has increased by \$33.0 million largely due to increased debt service costs (\$24.2 million), increased transfers to the Capital Improvement Reserve (\$8.3 million), and other internal transfers within the Water Enterprise.

Hetch Hetchy Enterprise

The Hetch Hetchy Enterprise’s proposed FY 2015-16 budget has increased by \$18.0 million largely due to increased costs associated with power purchasing following the expiration of an interconnection agreement with PG&E. This reflects increases in both Power for Resale and Power Distribution Transmission budget items. The cost projections are based on load increases, historical averages, and expected rate increases.

Wastewater Enterprise

The Wastewater Enterprise’s FY 2015-16 budget has increased by \$14.1 million due to \$3.0 million in new funds to the Capital Improvement Reserve and \$11.1 million in debt service payments for proposed new bond issuances in FY 2014-15 and FY 2015-16.

Bureaus

The PUC Bureaus’ FY 2015-16 budget increased by approximately \$600,000, and includes new funding for technology upgrades that will include networking equipment, data storage and new servers.

SUMMARY OF DEPARTMENT POSITION CHANGES:

FY 2014-15

The number of full-time equivalent positions (FTE) budgeted for FY 2014-15 are 1,844.10 FTEs, which are 17.63 FTEs more than the 1,826.47 FTEs in the original FY 2013-14 budget. This represents a 1% increase in FTEs from the original FY 2013-14 budget.

Water Enterprise

The Water Enterprise is requesting three new positions: one new project-funded 5207 Associate Engineer to addressing an increasing quantity of projects that require engineering design; one new project-funded 2482 Water Quality Technician to address regulatory compliance issues with increased construction activity; and one new 2482 Water Quality Technician III in the operating budget to address regulatory compliance issues and ensure conformance to sanitary practices.

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
FOR AMENDMENT OF BUDGET ITEMS
FY 2014-15 AND FY 2015-16**

DEPARTMENT: PUC – PUBLIC UTILITIES COMMISSION

Hetch Hetchy

Hetch Hetchy Water and Power is requesting three new project-funded information technology positions to comply with increased regulatory requirements imposed by the North American Electric Reliability Corporation (NERC).

Wastewater Enterprise

The FY 2014-15 Wastewater Enterprise budget includes three new project-funded positions:

- One new 5602 Post-Construction Policy & Regulatory Specialist to support compliance with the new regulatory requirements and system-wide planning and policy-making for the collection system;
- One 5602 Redevelopment Reviewer to assist in the design of new SFPUC related infrastructure that is compatible with new real estate developments in San Francisco; and
- One new 0932 Manager IV to manage the regulatory interface with the Sewer System Improvement Program.

Bureaus

The PUC Bureaus' FY 2014-15 budget includes 25 new positions. Twenty-one of the 25 new positions have been requested by the Infrastructure Division including:

- One 1822 Administrative Analyst and one 1632 Senior Account Clerk to support the Contractor's Assistance Center;
- One 1822 Administrative Analyst and one 1842 Management Assistant to support the Hetchy System Improvement Program;
- One 1822 Administrative Analyst to support the Sewer System Improvement Program;
- Seven 6318 Construction Inspectors for the Water and Sewer Repair and Replacement Program, and the Hetchy System Improvement Program;
- Two 5207 Associate Engineers to support the Sewer System Improvement Program;
- Two 5241 Engineers to support the Hetchy System Improvement Program and one 5241 Engineer to support the Sewer System Improvement Program;
- Two 5364 Engineer Associates I to work as drafters, updating archival and Geographic Information System (GIS) records as part of the expanded Water and Sewer Repair Replacement Program; and
- Two 5504 Project Managers for the Sewer System Improvement Program.

Four new positions have been requested in Business Services Division including:

- One 1042 IS Engineer-Journey and one 1054 IS Business Analyst-Principal, as well as adjustments to attrition savings to allow the hire of two vacant information technology

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
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FY 2014-15 AND FY 2015-16**

DEPARTMENT: PUC – PUBLIC UTILITIES COMMISSION

systems positions to support enterprise-wide information systems and integration of PUC systems; and

- One 1244 Senior Personnel Analyst and one 1824 Principal Administrative Analyst as part of the PUC's new workforce development initiative in FY 2014-15 as noted above.

FY 2015-16

The number of full-time equivalent positions (FTE) budgeted for FY 2015-16 are 1851.48FTEs, which are 7.38 FTEs more than the 1,844.10 FTEs in the Mayor's proposed FY 2014-15 budget. This represents a 0.4% increase in FTEs from the Mayor's proposed FY 2014-15 budget.

Water Enterprise

The Water Enterprise is requesting one new project-funded 5207 Associate Engineer to perform construction management to oversee water main replacement projects.

Hetch Hetchy Enterprise

The Hetch Hetchy Enterprise is requesting an additional three new project-funded information technology positions to comply with increased regulatory requirements imposed by NERC.

Bureaus

The Business Services division has requested two new 1232 Training Officer positions in FY 2015-16 as part of the PUC's new workforce development initiative in FY 2014-15 as noted above.

DEPARTMENT REVENUES:

FY 2014-15

The Department's revenues of \$930,501,387 in FY 2014-15, are \$56,948,749 or 6.5% more than FY 2013-14 revenues of \$873,552,638.

Water Enterprise

Specific changes in the Department's FY 2014-15 revenues include:

- Increased Water Enterprise revenue from the (1) sale of water to San Francisco consumers and suburban retail customers and (2) water service installation charges.
- Transfer of \$29.2 million from the Water Enterprise fund balance to the operating budget to pay for the revenue portion of capital projects and reserves. The projected Water Enterprise fund balance as of June 30, 2014 is \$221.7 million.

Hetch Hetchy Enterprise

Specific changes in the Department's FY 2014-15 revenues include:

- Increased revenues from the sale of electricity to the City's enterprise departments and non-City agencies, and sale of water;

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
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- Offset by reduced use of fund balance in FY 2014-15 (the Hetch Hetchy Enterprise used \$20.7 million in FY 2013-14 and \$0 in FY 2014-15). The Hetch Hetchy Enterprise’s projected fund balance as of June 30, 2014 is \$19.3 million.

Wastewater Enterprise

The Wastewater Enterprise’s revenues in the FY 2014-15 budget are increasing by \$14.1 million due primarily to increases in sewer rates to commercial and residential customers.

FY 2015-16

The Department's revenues of \$995,606,925 in FY 2015-16, are \$65,105,538 or 7.0% more than FY 2014-15 revenues of \$930,501,387.

Water Enterprise

Increased Water Enterprise revenue in FY 2015-16 come from the sale of water to San Francisco consumers and suburban retail and wholesale customers.

Hetch Hetchy Enterprise

Specific changes in the Hetch Hetchy Enterprise’s FY 2015-16 revenues include: Increased revenue from the sale of electricity to non-city customers in addition to the use of \$10.6 million in the Hetch Hetchy fund balance.

Wastewater Enterprise

The Wastewater Enterprise’s revenues in the FY 2015-16 budget are increasing by \$14.9 million due primarily to increases in sewer rates to commercial and residential customers.

POLICY CONSIDERATION:

Under legislation pending before the Board of Supervisors, the PUC would de-appropriate \$19.5 million previously appropriated by the Board of Supervisors for CleanPowerSF, and re-appropriate the \$19.5 million to other Hetch Hetchy Enterprise power projects (File 14-0480), as discussed in detail in Files 14-0480 and 14-0482 of this report.

In order to retain sufficient funds to implement CleanPowerSF, the Board of Supervisors could:

- (1) Appropriate on-going annual savings of approximately \$800,000 and one-time savings of \$388,263, identified by the Budget and Legislative Analyst in the FY 2014-15 and FY 2015-16 PUC budgets and allocated to Hetch Hetchy Enterprise power projects, to CleanPowerSF; and/or
- (2) Increase the issuance of power bonds by up to approximately \$8.8 million, from the requested amount of \$111,326,842 (File 14-0482) to an estimated amount of \$120,126,842, thus reducing the de-appropriation and re-appropriation of the \$19.5 million on reserve for the CleanPowerSF program by \$8.8 million. Ongoing debt service for the additional \$8.8 million would be funded by the approximate \$800,000 in annual savings identified by the Budget and Legislative Analyst.

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
FOR AMENDMENT OF BUDGET ITEMS
FY 2014-15 AND FY 2015-16**

DEPARTMENT: PUC – PUBLIC UTILITIES COMMISSION

The amount of funds required to implement CleanPowerSF could potentially be less than the \$19.5 million if a future contract to implement CleanPowerSF requires a lower amount of reserves than the \$11.5 million in reserves required under the proposed contract with Shell.

RECOMMENDATIONS:

FY 2014-15

The Budget and Legislative Analyst's recommended reductions to the proposed budget total \$3,512,049 in FY 2014-15. Of the \$3,512,049 in recommended reductions, \$3,255,963 are ongoing savings and \$256,086 are one-time savings. These reductions would still allow an increase of \$53,436,700 or 6.1% in the Department's FY 2014-15 budget.

In addition, the Budget and Legislative Analyst recommends closing out three inactive Hetch Hetchy Power projects, resulting in one-time savings of \$388,263.

FY 2015-16

The Budget and Legislative Analyst's recommended reductions to the proposed budget total \$3,432,956 in FY 2015-16. Of the \$3,432,956 in recommended reductions, \$3,377,393 are ongoing savings and \$55,563 are one-time savings. These reductions would still allow an increase of \$61,672,582 or 6.6% in the Department's FY 2015-16 budget.

**Recommendations of the Budget and Legislative Analyst
For Amendment of Budget Items in the FY 2014-15 and FY 2015-16 Two-Year Budget**

WTR - Water

| Title | FY 2014-15 | | | | FY 2015-16 | | | | | | | |
|--|--|--------|---------------|---------------|------------|-------|----------------------|--------|---------------|---------------|-----------|-------|
| | FTE From | FTE To | Amount From | Amount To | Savings | GF 1T | FTE From | FTE To | Amount From | Amount To | Savings | GF 1T |
| BDA - Administration | | | | | | | | | | | | |
| Travel | | | \$61,560 | \$57,965 | \$3,595 | | | | \$61,560 | \$57,965 | \$3,595 | |
| | Reduce Travel to baseline level to reflect historical expenditures. | | | | | | | | | | | |
| Training | | | \$255,675 | \$230,000 | \$25,675 | | | | \$255,675 | \$230,000 | \$25,675 | |
| | Reduce Training budget to baseline level to reflect historical expenditures. | | | | | | | | | | | |
| Other Current Expenses | | | \$8,000 | \$0 | \$8,000 | | | | \$8,000 | \$0 | \$8,000 | |
| | Insufficient justification provided for new funding. | | | | | | | | | | | |
| Attrition Savings | | | (\$99,104) | (\$156,920) | \$57,816 | | | | (\$101,093) | (\$160,069) | \$58,976 | |
| Mandatory Fringe Benefits | | | (\$46,089) | (\$76,855) | \$30,766 | | | | (\$45,362) | (\$75,543) | \$30,181 | |
| | <i>Total Savings</i> | | | | \$88,582 | | <i>Total Savings</i> | | | | \$89,157 | |
| | Increase Attrition Savings to account for one long term vacant position. The Department projects a FY 2013-14 salary surplus of \$1.1 million, offset by an increase in Attrition Savings of \$297,836 in FY 2014-15. The Department will still have sufficient funds to meet their FY 2014-15 hiring plan. | | | | | | | | | | | |
| | Ongoing savings. | | | | | | | | | | | |
| BDJ - Water Source of Supply | | | \$2,704,178 | \$2,604,178 | \$100,000 | | | | \$2,626,578 | \$2,604,178 | \$22,400 | |
| City Grant Programs | | | | | | | | | | | | |
| | Reduce to reflect historic annual expenditure and actual need. | | | | | | | | | | | |
| | Ongoing savings. | | | | | | | | | | | |
| BDK - Water Transmission/Distribution | | | | | | | | | | | | |
| Attrition Savings | | | (\$2,044,656) | (\$2,194,656) | \$150,000 | | | | (\$2,044,656) | (\$2,194,656) | \$150,000 | |
| Mandatory Fringe Benefits | | | (\$953,876) | (\$1,023,854) | \$69,978 | | | | (\$936,748) | (\$1,005,470) | \$68,722 | |
| Attrition Savings | | | (\$1,308,681) | (\$1,458,681) | \$150,000 | | | | (\$1,334,956) | (\$1,498,681) | \$163,725 | |
| Mandatory Fringe Benefits | | | (\$630,335) | (\$702,584) | \$72,249 | | | | (\$618,447) | (\$694,296) | \$75,849 | |
| | <i>Total Savings</i> | | | | \$442,227 | | <i>Total Savings</i> | | | | \$458,296 | |
| | Increase Attrition Savings to account for 26 vacant positions in Water Transmission and Distribution, not including positions that the Department is holding open to meet salary savings targets. The Department projects a FY 2013-14 salary surplus of \$1.1 million, offset by an increase in Attrition Savings of \$297,836 in FY 2014-15. The Department will still have sufficient funds to meet their FY 2014-15 hiring plan. | | | | | | | | | | | |
| | Ongoing savings. | | | | | | | | | | | |
| Utility Plumber | 36.00 | 35.00 | \$3,543,741 | \$3,445,304 | \$98,437 | | 36.00 | 35.00 | \$3,614,891 | \$3,514,477 | \$100,414 | |
| Mandatory Fringe Benefits | | | \$1,663,775 | \$1,617,559 | \$46,216 | | | | \$1,638,694 | \$1,593,175 | \$45,519 | |
| | <i>Total Savings</i> | | | | \$144,653 | | <i>Total Savings</i> | | | | \$145,933 | |
| | Delete 1.0 FTE 7388 Utility Plumber position, which has been vacant since February 2010. The Department projects a FY 2013-14 salary surplus of \$1.1 million offset by an increase in Attrition Savings in FY 2014-15 of \$297,836. The Department will still have sufficient funds to meet their FY 2014-15 hiring plan. | | | | | | | | | | | |
| | Ongoing savings. | | | | | | | | | | | |

**Recommendations of the Budget and Legislative Analyst
For Amendment of Budget Items in the FY 2014-15 and FY 2015-16 Two-Year Budget**

WTR - Water

| Title | FY 2014-15 | | | | | | FY 2015-16 | | | | | |
|--|--|-------|----------------------|-------------|-------|------------|------------|-------|----------------------|----|-------------|------------|
| | FTE | | Amount | | GF 1T | Savings | FTE | | Amount | | GF 1T | Savings |
| | From | To | From | To | | | From | To | From | To | | |
| General Laborer | 24.00 | 23.00 | \$1,496,120 | \$1,433,782 | | \$62,338 | 24.00 | 23.00 | \$1,526,158 | | \$1,462,568 | \$63,590 |
| Mandatory Fringe Benefits | | | \$781,857 | \$749,280 | | \$32,577 | | | \$766,724 | | \$734,777 | \$31,947 |
| | | | <i>Total Savings</i> | | | \$94,916 | | | <i>Total Savings</i> | | | \$95,537 |
| | Delete 1.0 FTE 7514 General Laborer position, which has been vacant since June 2009. The Department projects a FY 2013-14 salary surplus of \$1.1 million offset by an increase in Attrition Savings in FY 2014-15 of \$297,836. The Department will still have sufficient funds to meet their FY 2014-15 hiring plan. | | | | | | | | | | | |
| Gardener | 10.00 | 9.00 | \$645,206 | \$580,685 | | \$64,521 | 10.00 | 9.00 | \$658,160 | | \$592,344 | \$65,816 |
| Mandatory Fringe Benefits | | | \$332,660 | \$299,394 | | \$33,266 | | | \$326,103 | | \$293,493 | \$32,610 |
| Apprentice Stationary Engineer Water Treatment | 1.00 | 0.00 | \$82,110 | \$0 | | \$82,110 | 1.00 | 0.00 | \$83,759 | | \$0 | \$83,759 |
| Mandatory Fringe Benefits | | | \$332,660 | \$299,394 | | \$33,266 | | | \$326,103 | | \$293,493 | \$32,610 |
| Attrition Savings | | | (\$180,475) | (\$100,000) | | (\$80,475) | | | (\$184,098) | | (\$100,000) | (\$84,098) |
| Mandatory Fringe Benefits | | | (\$85,929) | (\$47,613) | | (\$38,316) | | | (\$84,387) | | (\$45,838) | (\$38,549) |
| | | | <i>Total Savings</i> | | | \$94,371 | | | <i>Total Savings</i> | | | \$92,149 |
| | Delete two long-term vacant positions that the Department was holding open to meet salary savings targets, offset by a reduction in Attrition Savings. | | | | | | | | | | | |
| | BDM - Water Treatment | | | | | | | | | | | |
| Attrition Savings | | | (\$67,937) | (\$130,000) | | \$62,063 | | | | | | |
| Mandatory Fringe Benefits | | | (\$28,486) | (\$54,509) | | \$26,023 | | | | | | |
| | | | <i>Total Savings</i> | | | \$88,086 | | | <i>Total Savings</i> | | | |
| | Increase Attrition Savings to account for delays in hiring one vacant 5207 Associate Engineer | | | | | | | | | | | |

| FY 2014-15 | | | FY 2015-16 | | |
|------------------------------|-----------------|--------------------|------------------------------|------------------|------------------|
| Total Recommended Reductions | | Total | Total Recommended Reductions | | Total |
| One-Time | Ongoing | | One-Time | Ongoing | |
| General Fund | \$0 | \$0 | General Fund | \$0 | \$0 |
| Non-General Fund | \$88,086 | \$1,002,019 | Non-General Fund | \$940,741 | \$940,741 |
| Total | \$88,086 | \$1,002,019 | Total | \$940,741 | \$940,741 |

**Recommendations of the Budget and Legislative Analyst
For Amendment of Budget Items in the FY 2014-15 and FY 2015-16 Two-Year Budget**

**HHP - Hetch Hetchy
Water and Power**

| Title | FY 2014-15 | | | | | | FY 2015-16 | | | | | |
|-----------------------------|---|------|----------------------|-------------|-------------|----|------------|------|----------------------|-------------|----|-------------|
| | FTE | | Amount | | GF | IT | FTE | | Amount | | GF | IT |
| | From | To | From | To | | | From | To | From | To | | |
| BDA - Administration | | | | | | | | | | | | |
| Manager VII | 1.00 | 0.00 | \$177,971 | \$0 | \$177,971 | | 1.00 | 0.00 | \$181,544 | \$0 | | \$181,544 |
| Mandatory Fringe Benefits | | | \$68,765 | \$0 | \$68,765 | | | | \$68,776 | \$0 | | \$68,776 |
| Manager V | 0.00 | 1.00 | \$0 | \$154,939 | (\$154,939) | | 0.00 | 1.00 | | \$158,049 | | (\$158,049) |
| Mandatory Fringe Benefits | | | \$0 | \$63,130 | (\$63,130) | | | | | \$63,438 | | (\$63,438) |
| | | | <i>Total Savings</i> | \$28,667 | | | | | <i>Total Savings</i> | \$28,833 | | |
| | Downgrade 1.0 FTE vacant Manager VII position to 0933 Manager V based on Department's representation of required classification. | | | | | | | | | | | |
| Attrition Savings | | | (\$48,234) | (\$243,000) | \$194,766 | | | | (\$49,202) | (\$244,000) | | \$194,798 |
| Mandatory Fringe Benefits | | | (\$20,638) | (\$103,973) | \$83,335 | | | | (\$20,346) | (\$100,899) | | \$80,553 |
| | | | <i>Total Savings</i> | \$278,101 | | | | | <i>Total Savings</i> | \$275,351 | | |
| | Increase Attrition Savings. Department decreased Attrition Savings in FY 2014-15 by \$680,781 in order to hire vacant positions but has a projected salary surplus of \$1.4 million in FY 2013-14. Our recommendation still gives the Department sufficient funds to hire vacant positions. | | | | | | | | | | | |
| Air Travel | | | \$22,850 | \$13,074 | \$9,776 | | | | \$22,850 | \$13,074 | | \$9,776 |
| | Reduce to FY 2013-14 amount. Department has not shown that the increased air travel to conferences, training and other events is necessary. | | | | | | | | | | | |
| Non Air Travel | | | \$42,350 | \$18,946 | \$23,404 | | | | \$42,350 | \$18,946 | | \$23,404 |
| | Reduce to FY 2013-14 amount. Department has not shown that the increased travel to conferences, training and other events is necessary. | | | | | | | | | | | |
| Training | | | \$90,177 | \$63,926 | \$26,251 | | | | \$94,177 | \$63,926 | | \$30,251 |
| | Increase Attrition Savings. Reduce to FY 2013-14 budget amount. Department underspent in this program in FY 2013-14. Maintaining the training budget at the FY 2013-14 amount provides sufficient funds to provide technical and regulatory compliance training to new employees. | | | | | | | | | | | |

**Recommendations of the Budget and Legislative Analyst
For Amendment of Budget Items in the FY 2014-15 and FY 2015-16 Two-Year Budget**

**HHP - Hetch Hetchy
Water and Power**

| Title | FY 2014-15 | | | | | | FY 2015-16 | | | | | | | |
|---|------------|----|----------------------|------------------|----|----|------------|----|--------|----------------------|------------------|----|---------|-----------|
| | FTE | | Amount | | GF | IT | FTE | | Amount | | GF | IT | | |
| | From | To | From | To | | | From | To | From | To | | | Savings | Savings |
| BDO - Hetchy Water Operations | | | | | | | | | | | | | | |
| Attrition Savings | | | (\$1,348,227) | (\$1,453,553) | | | | | | (\$1,375,295) | (\$1,482,735) | | | \$107,440 |
| Mandatory Fringe Benefits | | | (\$622,735) | (\$670,331) | | | | | | (\$609,934) | (\$656,450) | | | \$46,516 |
| | | | <i>Total Savings</i> | <i>\$152,921</i> | | | | | | <i>Total Savings</i> | <i>\$153,956</i> | | | |
| Increase Attrition Savings to account for one long-term vacancy. Hetch Hetchy projects FY 2013-14 year-end salary savings of \$1.4 million. Our recommendation still gives the Department sufficient funds to hire vacant positions. | | | | | | | | | | | | | | |
| BDG - Hetchy Power Operations | | | | | | | | | | | | | | |
| Attrition Savings | | | (\$48,244) | (\$101,452) | | | | | | (\$49,212) | (\$100,000) | | | \$50,788 |
| Mandatory Fringe Benefits | | | (\$21,731) | (\$45,698) | | | | | | (\$21,408) | (\$43,502) | | | \$22,094 |
| Attrition Savings | | | (\$28,324) | (\$100,000) | | | | | | (\$28,893) | (\$101,500) | | | \$72,607 |
| Mandatory Fringe Benefits | | | (\$12,732) | (\$44,951) | | | | | | (\$12,543) | (\$44,063) | | | \$31,520 |
| | | | <i>Total Savings</i> | <i>\$181,070</i> | | | | | | <i>Total Savings</i> | <i>\$177,009</i> | | | |
| Increase Attrition Savings. Department has 5 vacant positions in this program that are not being held vacant to meet salary savings targets. Department decreased Attrition Savings in FY 2014-15 by \$680,781 in order to hire vacant positions but has a projected salary surplus of \$1.4 million in FY 2013-14. | | | | | | | | | | | | | | |
| BDG - Power Purchasing | | | | | | | | | | | | | | |
| Attrition Savings | | | (\$140,438) | (\$300,000) | | | | | | (\$143,258) | (\$305,000) | | | \$161,742 |
| Mandatory Fringe Benefits | | | (\$59,809) | (\$127,762) | | | | | | (\$58,755) | (\$125,091) | | | \$66,336 |
| | | | <i>Total Savings</i> | <i>\$227,515</i> | | | | | | <i>Total Savings</i> | <i>\$228,078</i> | | | |
| Increase Attrition Savings. Department has 8 vacant positions in this program that are not being held vacant to meet salary savings targets. Department decreased Attrition Savings in FY 2014-15 by \$680,781 in order to hire vacant positions but has a projected salary surplus of \$1.4 million in FY 2013-14. | | | | | | | | | | | | | | |

FY 2014-15

Total Recommended Reductions

| | One-Time | Ongoing | Total |
|------------------|------------|------------------|------------------|
| General Fund | \$0 | \$0 | \$0 |
| Non-General Fund | \$0 | \$927,706 | \$927,706 |
| Total * | \$0 | \$927,706 | \$927,706 |

* Includes \$822,619 allocated to Hetch Hetchy Power

FY 2015-16

Total Recommended Reductions

| | One-Time | Ongoing | Total |
|------------------|------------|------------------|------------------|
| General Fund | \$0 | \$0 | \$0 |
| Non-General Fund | \$0 | \$926,658 | \$926,658 |
| Total * | \$0 | \$926,658 | \$926,658 |

* Includes \$810,932 allocated to Hetch Hetchy Power

**Recommendations of the Budget and Legislative Analyst
For Amendment of Budget Items in the FY 2014-15 and FY 2015-16 Two-Year Budget**

CWP - Waste Water

| Object Title | FY 2014-15 | | | | FY 2015-16 | | | | |
|--|------------|-------|----------------------|------------------|------------|----|----------------------|------------------|-----------|
| | FTE | | Amount | | FTE | | Amount | | |
| | From | To | From | To | From | To | From | To | |
| BDC - TREATMENT | | | | | | | | | |
| 1820 Junior Administrative Analyst | 1.00 | 0.00 | \$64,994 | \$0 | \$64,994 | | \$0 | | \$66,298 |
| Mandatory Fringe Benefits | | | \$33,028 | \$0 | \$33,028 | | \$0 | | \$32,364 |
| | | | <i>Total Savings</i> | <i>\$98,022</i> | | | <i>Total Savings</i> | <i>\$98,662</i> | |
| Delete one position which has been vacant since July 2012. Department currently has other filled positions that fit the needs of this classification. The Department's projected FY 2013-14 salary savings are \$2.0 million. | | | | | | | | | |
| 3417 Gardener | 1.00 | 0.00 | \$64,521 | \$0 | \$64,521 | | \$0 | | \$65,816 |
| Mandatory Fringe Benefits | | | \$33,266 | \$0 | \$33,266 | | \$0 | | \$32,610 |
| | | | <i>Total Savings</i> | <i>\$97,787</i> | | | <i>Total Savings</i> | <i>\$98,426</i> | |
| Delete one position which has been vacant since July 2011. Department currently has other filled positions that fit the needs of this classification. The Department's projected FY 2013-14 salary savings are \$2.0 million. | | | | | | | | | |
| 7514 General Laborer | 25.00 | 23.00 | \$1,558,458 | \$1,433,781 | \$124,677 | | \$1,589,748 | \$1,462,568 | \$127,180 |
| Mandatory Fringe Benefits | | | \$814,432 | \$749,277 | \$65,155 | | \$798,670 | \$734,776 | \$63,894 |
| | | | <i>Total Savings</i> | <i>\$189,831</i> | | | <i>Total Savings</i> | <i>\$191,073</i> | |
| The Treatment Division has 25 General Laborer positions of which 5 are vacant. Deletion of two positions, which have been vacant since July 2012, allows the Treatment Division 23 positions. | | | | | | | | | |
| Attrition Savings | | | (\$1,297,010) | (\$1,410,000) | \$112,990 | | (\$1,323,050) | (\$1,410,000) | \$86,950 |
| Mandatory Fringe Benefits | | | (\$615,607) | (\$669,236) | \$53,629 | | (\$603,032) | (\$642,663) | \$39,631 |
| | | | <i>Total Savings</i> | <i>\$166,619</i> | | | <i>Total Savings</i> | <i>\$126,581</i> | |
| Increase Attrition Savings to offset 39 vacant positions in the Treatment division that the Department is not holding open to meet salary savings targets. The Department's projected FY 2013-14 salary savings are \$2.0 million. The Budget and Legislative Analyst's recommended reduction provides the Department sufficient funds to meet their hiring goals. | | | | | | | | | |
| Attrition Savings | | | (\$1,365,793) | (\$1,635,000) | \$269,207 | | (\$1,393,215) | (\$1,635,000) | \$241,785 |
| Mandatory Fringe Benefits | | | (\$635,150) | (\$760,342) | \$125,192 | | (\$622,441) | (\$730,462) | \$108,021 |
| | | | <i>Total Savings</i> | <i>\$394,399</i> | | | <i>Total Savings</i> | <i>\$349,806</i> | |
| Increase Attrition Savings to offset 39 vacant positions in the Treatment division that the Department is not holding open to meet salary savings targets. The Department's projected FY 2013-14 salary savings are \$2.0 million. The Budget and Legislative Analyst's recommended reduction provides the Department sufficient funds to meet their hiring goals. | | | | | | | | | |

**Recommendations of the Budget and Legislative Analyst
For Amendment of Budget Items in the FY 2014-15 and FY 2015-16 Two-Year Budget**

CWP - Waste Water

| Object Title | FY 2014-15 | | | | | | FY 2015-16 | | | | | | |
|---|------------|----|-----------|-----------|----|----|------------|----|-----------|-----------|----|----------|---|
| | FTE | | Amount | | GF | IT | FTE | | Amount | | GF | IT | |
| | From | To | From | To | | | From | To | From | To | | | |
| 4 Wheel Electric Burden/ Personnel Carrier | | | | | | | | | \$20,563 | \$0 | | \$20,563 | x |
| Electric Cart 2 Seat | | | | | | | | | \$20,000 | \$0 | | \$20,000 | x |
| | | | | | | | | | | | | | |
| BDA - ADMINISTRATION | | | | | | | | | | | | | |
| Membership Fees | | | \$335,501 | \$290,000 | | | | | \$378,373 | \$290,000 | | \$88,373 | |
| Air Travel | | | \$35,120 | \$24,600 | | | | | \$34,420 | \$24,600 | | \$9,820 | |
| | | | | | | | | | | | | | |

Although the Department states that the proposed equipment purchase is justified because the current vehicle is being borrowed occasionally from another department, no description on the functional efficiency of the equipment was given and as a result it is not a justifiable expense.

Department requests two additional carts. The justification of use or efficiencies gained for each cart was not specified.

FY 2014-15

| Total Recommendations | | |
|-----------------------|--------------------|--------------------|
| One-Time | Ongoing | Total |
| General Fund | \$0 | \$0 |
| Non-General Fund | \$1,002,679 | \$1,002,679 |
| Total | \$1,002,679 | \$1,002,679 |

FY 2015-16

| Total Recommendations | | |
|-----------------------|------------------|--------------------|
| One-Time | Ongoing | Total |
| General Fund | \$0 | \$0 |
| Non-General Fund | \$962,742 | \$1,003,305 |
| Total | \$962,742 | \$1,003,305 |

**Recommendations of the Budget and Legislative Analyst
For Amendment of Budget Items in the FY 2014-15 and FY 2015-16 Two-Year Budget**

PUC - Bureaus

| Object Title | FY 2014-15 | | | | | | FY 2015-16 | | | | | |
|-------------------------------------|--|----|-----------|-----------|----------|----|------------|----|----------|----------|----------|----|
| | FTE | | Amount | | GF | 1T | FTE | | Amount | | GF | 1T |
| | From | To | From | To | | | From | To | From | To | | |
| BCV - STRATEGIC PLANNING | | | | | | | | | | | | |
| Entertainment & Promotions | | | \$44,021 | \$29,021 | \$15,000 | | | | \$76,542 | \$44,024 | \$32,518 | |
| Entertainment & Promotions | | | \$60,000 | \$45,000 | \$15,000 | | | | \$76,542 | \$50,000 | \$26,542 | |
| | <p>The Department is requesting \$44,021 in first-time funds to support the Mayor's Youth Workforce Initiative. The Budget and Legislative Analyst's recommendation provides sufficient funds for the Department's proposed program.</p> <p>The Department is requesting \$45,000 increase, from \$15,000 in FY 2013-14 to \$60,000 in FY 2014-15 for tours of Hech Hetchy and in-City facilities for community leaders and stakeholders. The Budget and Legislative Analyst's recommendation provides sufficient funds for the Department's proposed program.</p> | | | | | | | | | | | |
| Professional & Specialized Services | | | \$797,400 | \$747,400 | \$50,000 | x | | | | | | |
| | <p>The Department is requesting an increase of \$355,000, from \$442,400 in FY 2013-14 to \$797,400 in FY 2014-15 to support the Mayor's African American Outmigration Initiative. The Budget and Legislative Analyst's recommendation provides an increase of \$305,000, which are sufficient funds for the Department's proposed program.</p> | | | | | | | | | | | |
| Professional & Specialized Services | | | \$93,199 | \$63,199 | \$30,000 | | | | \$93,445 | \$63,199 | \$30,246 | |
| | <p>The Department is requesting an increase of \$73,199, from \$20,000 in FY 2013-14 to \$93,199 in FY 2014-15 for translating the digital arts wall into Spanish and Chinese. The Budget and Legislative Analyst's recommendation provides an increase of \$43,199, which are sufficient funds for the Department's proposed program.</p> | | | | | | | | | | | |
| Food | | | \$25,000 | \$16,000 | \$9,000 | | | | \$45,000 | \$20,000 | \$25,000 | |
| | <p>The Department is requesting new funds of \$25,000 in FY 2014-15 for four planned events. The Budget and Legislative Analyst's recommendation provides \$4,000 for food for each of four events.</p> | | | | | | | | | | | |
| BCT - FINANCE | | | | | | | | | | | | |
| Other Materials & Supplies | | | \$43,289 | \$39,150 | \$4,139 | | | | \$58,007 | \$48,938 | \$9,070 | |
| Other Materials & Supplies | | | \$53,908 | \$46,575 | \$7,333 | | | | \$73,899 | \$58,219 | \$15,680 | |
| | <p>The Department requested an increase for purchases of electronics to adjust for inflation; our recommendation provides for a 30% COLA.</p> | | | | | | | | | | | |
| | <p>The Department requested an increase for purchases of electronics to adjust for inflation; our recommendation provides for a 25% COLA.</p> | | | | | | | | | | | |

**Recommendations of the Budget and Legislative Analyst
For Amendment of Budget Items in the FY 2014-15 and FY 2015-16 Two-Year Budget**

PUC - Bureaus

| Object Title | FY 2014-15 | | | | | | FY 2015-16 | | | | | |
|--|------------|----|-------------|-------------|-----------|----|------------|------|-------------|-------------|-------------|----|
| | FTE | | Amount | | GF | | FTE | | Amount | | GF | |
| | From | To | From | To | Savings | 1T | From | To | From | To | Savings | 1T |
| BCS - MANAGEMENT INFORMATION | | | | | | | | | | | | |
| Equipment | | | \$236,000 | \$118,000 | \$118,000 | x | | | \$0 | \$118,000 | (\$118,000) | x |
| The Department is requesting upgraded audio-visual equipment for 7 conference rooms; our recommendation spreads the upgrades over 2 years | | | | | | | | | | | | |
| Other Materials and Supplies | | | \$1,432,701 | \$1,323,300 | \$109,401 | | | | \$1,669,293 | \$1,455,630 | \$213,663 | |
| The Department requested an increase for purchases of electronics to adjust for inflation; our recommendation provides for a 10% COLA. | | | | | | | | | | | | |
| BCW - HUMAN RESOURCES | | | | | | | | | | | | |
| Training | | | \$426,699 | \$377,299 | \$49,400 | | | | \$428,699 | \$377,299 | \$51,400 | |
| Training | | | \$124,505 | \$72,759 | \$51,746 | | | | \$98,375 | \$72,729 | \$25,646 | |
| The Department increased the total training budget in the Human Resources unit by \$101,146 in FY 2014-15 but did not provide sufficient justification for the increase. The Budget and Legislative Analyst's recommendation provides \$450,058 for training in this unit's budget. | | | | | | | | | | | | |
| 1232 - Training Officer | | | | | | | 1.54 | 0.77 | \$141,172 | \$70,586 | \$70,586 | |
| Mandatory Fringe Benefits | | | | | | | | | \$62,283 | \$31,142 | \$31,142 | |
| Ongoing savings | | | | | | | | | | | | |
| Total Savings \$101,728 | | | | | | | | | | | | |
| Delete on Training Officer position. The Department is requesting two new training officers in FY 2015-16 to support the new workforce development planning initiative. Addition of one new training officer gives the Department four training officers to provide training services. | | | | | | | | | | | | |
| BCU - ENGINEERING | | | | | | | | | | | | |
| Air Travel | | | \$28,100 | \$8,310 | \$19,790 | | | | \$29,600 | \$19,790 | \$9,810 | |
| | | | \$18,850 | \$6,100 | \$12,750 | | | | \$18,700 | \$12,750 | \$5,950 | |
| The Department increased the travel budget for FY 2014-15 and FY 2015-16 but did not demonstrate the benefits of the additional travel expenditures; our recommendation allows the Department to have the same resources for travel as in FY 2013-14. | | | | | | | | | | | | |
| Rents/Leases-Bldgs & Structures Budget | | | | | | | | | \$770,000 | \$637,000 | \$133,000 | x |
| Department anticipates reduction in tenant improvement spending for 2nd year of proposed lease. The Budget and Legislative Analyst recommends reducing this line item by \$133,000 to reflect projected expenditures. | | | | | | | | | | | | |

| FY 2014-15 | | | FY 2015-16 | | |
|-----------------------|------------------|------------------|-----------------------|-----------------|------------------|
| Total Recommendations | | Total | Total Recommendations | | Total |
| One-Time | Ongoing | | One-Time | Ongoing | |
| General Fund | \$0 | \$0 | General Fund | \$0 | \$0 |
| Non-General Fund | \$168,000 | \$323,559 | Non-General Fund | \$15,000 | \$547,252 |
| Total | \$168,000 | \$323,559 | Total | \$15,000 | \$562,252 |

GF = General Fund
1T = One Time

Budget and Finance Committee, June 11, 2014

Recommendations of the Budget and Legislative Analyst
For Amendment of Budget Items in the FY 2014-15 and FY 2015-16 Two-Year Budget

**PUC -
Departmentwide**

| FY 2014-15 | | | |
|-----------------------|------------------|--------------------|--------------------|
| Total Recommendations | | | |
| | One-Time | Ongoing | Total |
| General Fund | \$0 | \$0 | \$0 |
| Non-General Fund | \$256,086 | \$3,255,963 | \$3,512,049 |
| Total | \$256,086 | \$3,255,963 | \$3,512,049 |

| FY 2015-16 | | | |
|-----------------------|-----------------|--------------------|--------------------|
| Total Recommendations | | | |
| | One-Time | Ongoing | Total |
| General Fund | \$0 | \$0 | \$0 |
| Non-General Fund | \$55,563 | \$3,377,393 | \$3,432,956 |
| Total | \$55,563 | \$3,377,393 | \$3,432,956 |

Division Title Hetchy Power
 Fund Title Hetchy Operating Fund 5TAAAAAAA

| Index Code | Project Title | Sum of | Sum of | Sum of | Project |
|--------------------------------------|---------------------------------|--------------|--------------|----------|-----------|
| | | 2014 Revised | 2014 Actuals | 2014 Enc | Close Out |
| HETCH HETCHY CAPITAL PROJECTS | | | | | |
| 519361 | ELECTRIC DISTRIBUTION SYSTEM-HH | 80,437 | 0 | 0 | 80,437 |
| 519691 | SFIA SCADA - HHP | 225,826 | 0 | 0 | 225,826 |
| 539863 | 652 BRYANT ST ENERGY EFF - HHP | 82,000 | 0 | 0 | 82,000 |
| Total | | | | | 388,263 |

| | |
|--|---|
| Items 5 and 10 Files 14-0479 and 14-0484 | Department: Public Utilities Commission (PUC) |
| EXECUTIVE SUMMARY | |
| Legislative Objectives | |
| <p>File 14-0479: The proposed ordinance: (1) appropriates \$363,758,000 from water revenue bond proceeds and other Water Enterprise revenues; and (2) places \$229,023,000 by project on Controller's reserve pending PUC and Board of Supervisors approval of California Environmental Quality Act (CEQA) findings and Controller's certification of available funds.</p> | |
| <p>File 14-0484: The proposed ordinance authorizes PUC to issue water revenue bonds in the aggregate principal not-to-exceed amount of \$290,431,536 to finance water capital projects.</p> | |
| Key Points | |
| <ul style="list-style-type: none"> • In November 2002, the voters approved Proposition A, authorizing PUC to issue \$1,628,000,000 in water revenue bonds to fund the Water System Improvement Program (WSIP); and Proposition E, allowing the Board of Supervisors to authorize PUC to issue additional water revenue bonds to fund the WSIP and other water capital projects with a two-thirds vote. The Board of Supervisors has authorized \$3,260,531,157 in water revenue bonds under Proposition E. • Under File 14-0484, the Board of Supervisors would authorize PUC to issue \$290,431,536 in new water revenue bonds to fund WSIP and other Water Enterprise and Hetch Hetchy Enterprise water projects. Of the \$290,431,536, \$61,408,536 of the bond proceeds would be allocated to the Hetch Hetchy Enterprise, and the balance of \$229,023,000 would be allocated to the Water Enterprise. • Under File 14-0479, the Board of Supervisors would appropriate (1) \$229,023,000 in water revenue bonds, placing these funds on Controller's reserve, (2) \$134,735,000 in other Water Enterprise revenues to fund \$363,758,000 in Water Enterprise capital projects in the PUC's FY 2014-15 to FY 2023-24 Capital Plan, and the associated financing costs. | |
| Fiscal Impact | |
| <ul style="list-style-type: none"> • The anticipated interest rate for the proposed water revenue bonds is 5 percent. Total estimated debt service over the 30-year term of the bonds is \$533,090,970, consisting of \$290,431,536 in principal and \$242,659,434 in interest. The estimated average annual debt service payment is \$19,834,110 • As a result of receiving unanticipated lump-sum payments from wholesale customers, the PUC was able to use cash for certain projects rather than bond proceeds. As a result, the PUC currently has \$81,259,970 in surplus revenue bond authority. | |
| Recommendations | |
| <ul style="list-style-type: none"> • Amend the proposed ordinance (File 14-0484) to reduce the aggregate principal revenue bond amount by \$81,259,970 from \$290,431,536 to \$209,171,566. • Approve the proposed ordinance as amended, authorizing the issuance and sale of revenue bonds (File 14-0484). • Approve the appropriation ordinance (File 14-0479) | |

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

Charter Section 8B.124 (Proposition E, November 2002) authorizes the San Francisco Public Utilities Commission (PUC) to issue revenue bonds, notes payable, commercial paper, and other forms of indebtedness for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities, subject to approval by two-thirds of the Board of Supervisors.

According to Charter Section 8B.124, authorization of revenue bonds is subject to certification (1) from an independent engineer that the projects to be financed by such debt meet utility standards; (2) that estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements; and (3) by the Planning Department that facilities under the PUC's jurisdiction that are to be funded by such debt will comply with the California Environmental Quality Act (CEQA).

Charter Section 5A.31(d) states that one-twentieth of one percent from the proceeds of each issuance or sale of public utility revenue bonds must be set aside for use by the Public Utilities Commission Revenue Bond Oversight Committee to cover the costs of Committee activities.

Charter Appendix F1.113 states that 0.2 percent of the bond expenditures net of bond financing and auditing costs be allocated to the support the Controller's Audit Fund.

Charter Section 9.105 states that all amendments to the Annual Appropriation Ordinance are subject to approval by the Board of Supervisors after the Controller certifies the availability of funds.

Background

The Public Utilities Commission (PUC) owns and operates a municipal water supply, storage, and distribution system that provides drinking water to (1) retail customers in the City, (2) certain retail customers that are located outside of the City, and (3) wholesale customers in Alameda County, Contra Costa County, and Santa Clara County.

The PUC water system is divided into two geographic groups including (1) the regional water conveyance system and the (2) in-city distribution system. The regional water conveyance system includes: (a) the Hetch Hetchy System, comprised of the Hetch Hetchy Reservoir and associated pipelines; (b) the Alameda System, comprised of the San Antonio and Calaveras Reservoirs and associated pipelines including the Irvington Tunnel; and (c) the Peninsula System, comprised of the San Andreas and Crystal Springs Reservoirs and associated pipelines that connect the regional water conveyance system to the in-city distribution system. The in-city distribution system is a series of pipelines that distributes water from the regional water conveyance system to residences and retail businesses in the City.

Table 1 below summarizes the assets of the PUC's regional water conveyance system and the in-city distribution system.

Table 1: Regional Water Conveyance System and In-City Distribution System Assets

| Asset | Regional Water Conveyance System | In-City Distribution System |
|--------------------------|--|--------------------------------|
| Pipelines | 280 Miles | 1,250 Miles |
| Tunnels | 60 Miles | 0 |
| Pump Stations | 5 | 12 |
| Reservoirs / Water Tanks | 11 | 21 |
| Treatment Plants | 2 | 0 |

Water Enterprise Capital Improvement Plan

The PUC annually updates its ten-year capital improvement plan to renew and replace the water enterprise's infrastructure. The FY 2014-15 through FY 2023-24 Ten-Year Capital Plan was approved by the Public Utilities Commission on January 28, 2014 and includes \$1,093,229,000 in various water capital projects.

The PUC began the Water System Improvement Program (WSIP) in 2002 to administer 83 projects designed to improve the water system. The San Francisco voters approved Proposition A in November 2002, authorizing the PUC to issue revenue bonds in the amount of \$1,628,000,000 to fund the WSIP. The voters also approved Proposition E in November 2002, authorizing the PUC to issue future water revenue bonds subject to approval by ordinance of two-thirds of the Board of Supervisors. The Board of Supervisors has authorized the PUC to issue an additional \$3,260,531,157 in water revenue bonds, as shown in Table 2 below.

Table 2: Water Enterprise Bond Authority and Revenue Bond Issuances

| | Water System Improvement Program | Non - Water System Improvement Program | Total |
|---|----------------------------------|--|------------------------|
| Proposition A Bond Authority | \$1,611,480,000 | \$16,520,000 | \$1,628,000,000 |
| <i>Prop A Bonds Issued</i> | | | |
| 2006 Series A | (507,815,000) | - | (507,815,000) |
| 2009 Series A | (412,000,000) | - | (412,000,000) |
| 2009 Series B | (412,000,000) | - | (412,000,000) |
| 2012 Series B | - | (16,520,000) | (16,520,000) |
| Subtotal Proposition A | (1,331,815,000) | (16,520,000) | (1,348,335,000) |
| Remaining Proposition A Bond Authority | \$279,665,000 | \$0 | \$279,665,000 |
| Proposition E Bond Authority | 2,957,556,317 | 302,974,840 | 3,260,531,157 |
| <i>Prop E Bonds Issued</i> | | | |
| 2010 Series A | - | (56,945,000) | (56,945,000) |
| 2010 Series B | (417,720,000) | - | (417,720,000) |
| 2010 Series D | (71,360,000) | - | (71,360,000) |
| 2010 Series E | (344,200,000) | - | (344,200,000) |
| 2010 Series FG | (532,430,000) | - | (532,430,000) |
| 2011 Series A | (602,715,000) | - | (602,715,000) |
| 2011 Series B | - | (28,975,000) | (28,975,000) |
| 2011 Series C | - | (33,595,000) | (33,595,000) |
| 2012 Series A | (591,610,000) | - | (591,610,000) |
| Subtotal Proposition E | (\$2,560,035,000) | (119,515,000) | (2,679,550,000) |
| Remaining Proposition E Authority | \$397,521,317 | \$183,459,840 | \$580,981,157 |
| Total Remaining Debt Authority | \$677,186,317 | \$183,459,840 | \$860,646,157 |

As shown in Table 2 above, the PUC currently has \$860,646,157 in authorized but unissued revenue bonds, of which \$677,186,317 is allocated to future WSIP projects (see Table 3 below). Therefore, there is a balance of \$183,459,480 in authorized and unissued revenue bonds.

Table 3: WSIP Projects to be Funded by Authorized and Unissued Revenue Bonds

| <i>Regional Water System</i> | Authorized and Unissued |
|---|--------------------------------|
| San Joaquin Water System | \$7,143,025 |
| Sunol Valley Water System | 119,190,207 |
| Bay Division Water System | 25,710,869 |
| Peninsula Water System | 65,240,834 |
| San Francisco Regional Water System | 77,388,543 |
| Regional System-wide Projects | 66,891,795 |
| Subtotal Regional Water System | \$361,565,273 |
| <i>In-City Distribution</i> | |
| San Francisco Local Reservoirs | 6,592,475 |
| San Francisco Local Pump Station / Tanks | 1,719,699 |
| Miscellaneous | 325,502 |
| Lake Merced Water Level Restoration | 25,333,964 |
| San Francisco Groundwater Supply | 49,751,999 |
| Recycled Water Project in San Francisco | 139,724,120 |
| Harding Park Recycled Water | 1,466,153 |
| San Francisco Eastside Recycled Water | 19,412,012 |
| San Francisco Bay Area Desalinization Plant | 23,402 |
| Subtotal In-City Distribution System | 244,349,326 |
| Costs of Issuance | 71,271,718 |
| Total Water System Improvement Program | \$677,186,317 |

According to Mr. Mike Brown, PUC Capital Finance, of the remaining \$183,459,840 in authorized and unissued bonds, \$102,223,574 is allocated to other Water Enterprise projects and financing costs and \$81,236,266 remains unallocated, as shown in Table 4 below.

**Table 4: Water Enterprise Projects Authorized but Unissued Debt –
Non-Water System Improvement Program**

| | |
|---|----------------------|
| Currently Existing Bond Issuance Authority | \$183,459,840 |
| Proposed Uses | |
| Pipeline Renewal and Replacement | \$24,621,000 |
| Hetch Hetchy Water Projects | 18,600,000 |
| Buildings and Ground Improvements | 13,054,000 |
| Hetch Hetchy Joint Projects | 12,040,200 |
| Regional Water Treatment Program | 2,073,000 |
| Town of Sunol-Fire Suppression System | 930,000 |
| Subtotal , Projects | \$71,318,200 |
| Reserve Pending Sale | \$20,060,490 |
| Financing Costs | 10,406,765 |
| City Auditor’s Fund | 373,345 |
| Revenue Bond Oversight Committee | 41,070 |
| Subtotal, Financing and Oversight | \$30,881,670 |
| Subtotal Proposed Uses | \$102,199,870 |
| Surplus Authority | \$81,259,970 |

In May 2013, the Board of Supervisors approved an ordinance (File 13-0365) that de-appropriated the use of bond proceeds for various capital projects. According to Mr. Brown, as a result of receiving unanticipated lump-sum payments from wholesale customers, the PUC was able to use cash for certain projects rather than bond proceeds. As a result, the PUC currently has a remaining balance of \$81,259,970 in authorized and unissued bonds that are not allocated to projects.

The Budget and Legislative Analyst’s Office recommends reducing PUC’s authorization to issue new bonds by \$81,259,970, from the requested \$290,431,536 to \$209,171,566. The PUC would still be able to issue \$81,259,970 in revenue bonds previously authorized by the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

File 14-0484: The proposed ordinance authorizes PUC to issue and sell water revenue bonds in the aggregate principal not-to-exceed amount of \$290,431,536 to finance various projects in the Water Enterprise and Hetch Hetchy Enterprise capital improvement plans.

File 14-0479: The proposed ordinance: (1) appropriates \$363,758,000 from revenue bond proceeds, Bay Area Water Supply and Conservation Agency pre-payment funds, water revenues, and water capacity fees for various projects in the Water Enterprise capital plan in FY 2014-15 and FY 2015-16; and (2) places \$229,023,000 by project on Controller’s reserve pending PUC and Board of Supervisors approval of California Environmental Quality Act (CEQA) findings and Controller’s certification of available funds.

FISCAL IMPACT**File 14-0484 :**

The proposed ordinance authorizes the PUC to issue and sell water revenue bonds in the aggregate principal not-to-exceed amount of \$290,431,536 to fund various capital projects in the Water Enterprise and Hetch Hetchy Enterprise capital plans.

The anticipated interest rate for the bond payments is 5 percent. Total estimated debt service over the 30-year term of the bonds is \$533,090,970, consisting of \$290,431,536 in principal and \$242,659,434 in interest. The estimated average annual debt service payment is \$19,834,110.

On May 13, 2014, the PUC approved its schedule of water rates that are charged to retail and wholesale customers and which project the debt service coverage ratios for the next ten years. According to Mr. Brown, PUC rates are increasing in part because the PUC assumes in its projections that the PUC will issue all previously authorized and requested bond amounts.

Public Utilities Commission Debt Policy

The PUC annually approves a set of debt policies and procedures that govern the PUC debt program. PUC has established a debt limit in which annual net operating income must be at least 1.25 times annual debt service (debt service coverage ratio). The PUC anticipates that debt service coverage ratios in the Water Enterprise will range from 2.17 in FY 2014-15 to 1.46 in FY 2023-24, exceeding the minimum ration established by PUC's debt service ratio of 1.25.

File 14-0479 – Supplemental Appropriation of Revenues Including Bond Proceeds

The proposed ordinance appropriates \$363,758,000 in various revenues for various capital projects, as shown in Table 5 below.

Table 5: Sources and Uses of Proposed Supplemental Appropriation

| Sources | FY 2014-15 | FY 2015-16 | Total |
|---|----------------------|----------------------|----------------------|
| Water Bonds (Files 14-0479 and 14-0484) | \$125,166,088 | \$165,265,448 | \$290,431,536 |
| Hetch Hetchy Enterprise (Files 14-0480 and 14-0482) | <u>(38,204,088)</u> | <u>(23,204,448)</u> | <u>(61,408,536)</u> |
| Net Bond Proceeds to Water Enterprise | 86,962,000 | 142,061,000 | 229,023,000* |
| Water Enterprise Operating Funds | 29,219,000 | 37,484,000 | 66,703,000 |
| Water Capacity Fee Fund Balance | 2,500,000 | 3,000,000 | 5,500,000 |
| Wholesale Customer Revenues | 62,532,000 | 0 | 62,532,000 |
| Subtotal Sources | \$181,213,000 | \$182,545,000 | \$363,758,000 |
| Uses | FY 2014-15 | FY 2015-16 | Total |
| Pipeline Renewal and Replacement | \$53,700,000 | \$53,700,000 | \$107,400,000 |
| Calaveras Dam | 50,000,000 | 40,000,000 | 90,000,000 |
| Sunol Yard Upgrade | 500,000 | 25,875,000 | 26,375,000 |
| Pacific Rod and Gun Club Remediation Project | 11,105,000 | 155,000 | 11,260,000 |
| New Irvington Tunnel | 10,000,000 | - | 10,000,000 |
| Regional Groundwater Storage and Recovery | 7,178,000 | 1,074,000 | 8,252,000 |
| Systems Monitoring and Control | 1,510,000 | 5,900,000 | 7,410,000 |
| South Valley Water Treatment Plant | 5,900,000 | 700,000 | 6,600,000 |
| Crystal Springs / San Andreas Reservoir Upgrades | 5,000,000 | - | 5,000,000 |
| Other Recycled Water Projects | 986,000 | 3,925,000 | 4,911,000 |
| HT Water Treatment Plant | 2,341,000 | 2,347,000 | 4,688,000 |
| Calaveras Micro Turbine | 1,500,000 | 2,860,000 | 4,360,000 |
| Watershed Road and ROW Management | 1,408,000 | 2,804,000 | 4,212,000 |
| Pipeline Improvement Program | 730,000 | 3,450,000 | 4,180,000 |
| Microwave Backbone Upgrade | 2,500,000 | 1,500,000 | 4,000,000 |
| Corrosion Protection Capital Upgrades | 1,850,000 | 1,850,000 | 3,700,000 |
| College Hill Reservoir Outlets Structure Retrofit | 650,000 | 2,820,000 | 3,470,000 |
| Dam Structural Upgrades | 1,855,000 | 994,000 | 2,849,000 |
| Buildings and Ground Improvements | 800,000 | 1,525,000 | 2,325,000 |
| Pipeline Inspection and Repair Project | 1,010,000 | 1,010,000 | 2,020,000 |
| Town of Sunol Fire Suppression System | 2,000,000 | 0 | 2,000,000 |
| Pump Station Upgrades | 910,000 | 910,000 | 1,820,000 |
| Valve Replacement | 508,000 | 1,013,000 | 1,521,000 |
| Security System | 1,000,000 | 500,000 | 1,500,000 |
| Millbrae Yard Upgrade | - | 1,490,000 | 1,490,000 |
| Tesla UV Facility | 600,000 | 600,000 | 1,200,000 |
| Vault Upgrades | 338,000 | 338,000 | 676,000 |
| Metering Upgrades | 350,000 | 200,000 | 550,000 |
| Desalination | 200,000 | 200,000 | 400,000 |
| McLaren Park Pump Station Upgrades | - | 358,000 | 358,000 |
| Merced Manor Reservoir Facilities Repairs | - | 270,000 | 270,000 |
| Subtotal, Projects | \$166,429,000 | \$158,368,000 | \$324,797,000 |
| Bond Financing | 14,407,661 | 23,789,234 | 38,196,895 |
| Controller's Audit Fund | 332,858 | 316,736 | 649,594 |
| Revenue Bond Oversight Committee | 43,481 | 71,030 | 114,511 |
| Subtotal, Financing and Oversight | \$14,784,000 | \$24,177,000 | \$38,961,000 |
| Total | \$181,213,000 | \$182,545,000 | \$363,758,000 |

*Placed on Controller's reserve.

The proposed ordinance places a Controller's Reserve on \$229,023,000 of the water revenue bond proceeds allocated to the Water Enterprise, as shown in Table 5 above, pending certification by the Controller of receipt of bond proceeds and other revenues and approval of environmental findings by the Board of Supervisors for specific projects under the California Environmental Quality Act (CEQA).

Four of the largest projects to be funded by the proposed ordinance are:

- The Water Pipeline Renewal and Replacement Program: The PUC is requesting \$107,400,000 as part of an annual, ongoing appropriation to replace and renew portions of the 1,230 miles of distribution system pipelines that supply drinking water to residences and customers in the City.

The PUC is proposing to increase the rate of pipeline replacement from the 6 miles per year that was included in previous budgets to 12 miles in FY 2014-15 and 15 miles in FY 2015-16. According to PUC staff, the useful life of the pipes used to distribute water throughout the City is 100 years. Currently, 16 percent of the system is older than 100 years, increasing to more than 50 percent by 2040. The PUC is proposing to increase the rate of replacement to avoid broken water mains and lost service. Additionally, the PUC anticipates that more significant investments in this program will be required beginning in 2035 to maintain service.

- Calaveras Dam: The PUC is requesting an additional \$90,000,000 for delays and increased project costs related to site excavation and slope mitigation for seismic reasons at the Calaveras Dam. The PUC anticipates an up to 30-month delay in this project.
- New Irvington Tunnel: The PUC is requesting an additional \$10,000,000 for project costs related to groundwater flows for the New Irvington Tunnel. The ground conditions around the underground tunnel were more unstable than initially thought. As a result, the tunnel requires additional mining and support work. The PUC does not anticipate a delay in the project completion.
- Crystal Spring / San Andreas Reservoirs: The PUC is requesting an additional \$5,000,000 for slower than anticipated underwater construction work at Crystal Spring and San Andreas Reservoirs resulting in a one-year delay of project completion.

RECOMMENDATIONS

1. Amend the proposed ordinance (File 14-0484) to reduce the aggregate principal revenue bond amount by \$81,259,970 from \$290,431,536 to \$209,171,566.
2. Approve the proposed ordinance as amended, authorizing the issuance and sale of the revenue bonds (File 14-0484).
3. Approve the appropriation ordinance (File 14-0479).

Items 6 and 8
Files 14-0480 and 14-0482

Department:
 Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed supplemental appropriation ordinance authorizes \$215,108,836 of Hetch Hetchy revenues, Cap and Trade allowances, and Power and Water Revenue Bonds for the PUC Hetch Hetchy Capital Improvement Program, including \$103,508,198 in FY 2014-15, and \$111,600,638 in FY 2015-16 and places \$172,735,378 of these funds on Controller's reserve by project subject to PUC and Board of Supervisors' approval following completion of project-related analysis pursuant to the California Environmental Quality Act, where required, and receipt of proceeds of indebtedness and loan funds.
- The proposed ordinance (File 14-0482) authorizes the issuance and sale of power revenue bonds by the PUC in an amount not to exceed \$111,326,842, to finance a portion of the costs to design, acquire and construct various capital projects benefiting the PUC Power Enterprise.

Key Points

- The Public Utilities Commission approved the 10-year Hetch Hetchy Enterprise Capital Plan in May 2014. The Hetch Hetchy Capital Plan calls for \$1.25 billion in total capital expenditures over 10 years, of which \$750 million is for power projects and \$500 million is for water projects.
- The appropriation includes funding to provide construction and permanent electric services to the new Transbay Transit Center, including adjacent bus ramps, and the new bus storage facility at Stillman Street. It also includes funding to install a new underground 12-kV electric distribution system on Treasure Island, which will replace the existing overhead 12-kV system. Finally, includes funding to rehabilitate the Lower Cherry Aqueduct, which supplements the primary Hetchy Reservoir supply during a drought year.

Fiscal Impact

- The sources of funding for the proposed supplemental appropriation include Hetch Hetchy revenue bonds, re-appropriation of surplus Hetch Hetchy capital project funds, the Hetch Hetchy Cap and Trade allowance, and de-appropriation and re-appropriation of \$19.5 million of Budget and Finance Committee reserves intended for Clean Power SF.
- The proposed ordinance authorizing PUC to sell up to \$111,326,842 in revenue bonds delegates the authority to the PUC to determine the timing, amount and manner of the sale. The first revenue bond sale of approximately \$54 million, including previously authorized bonds, is scheduled to occur in October, 2014, and is anticipated to be sold on a negotiated basis because these bonds are a new and unique credit that are not expected to generate a number of competitive bid

- Debt service payments will be covered by Hetch Hetchy Enterprise revenues from the sale of electricity. The electricity rate charged to the City's enterprise departments and other non-General Fund agencies is currently \$.13/kWH. This rate will remain flat through FY 2014-15, and will be increased by 3% annually starting in FY 2015-16. The City's General Fund departments pay a subsidized rate, which will increase by \$.01/kWH in FY 2014-15, FY 2015-16, and FY 2016-17 and by \$.005/kWH annually thereafter.

Policy Consideration

- The proposed ordinance (File 14-0480) de-appropriates the \$19.5 million originally appropriated by the Board of Supervisors to CleanPowerSF and re-appropriates these funds as a source of revenues for the proposed Hetch Hetchy Enterprise capital projects. As an alternative, the Board of Supervisors could:
 - Appropriate on-going annual savings of approximately \$800,000 and one-time savings of \$388,263, identified by the Budget and Legislative Analyst in the FY 2014-15 and FY 2015-16 PUC budgets and allocated to Hetch Hetchy Enterprise power projects, to CleanPowerSF; and/or
 - Increase the issuance of power bonds by up to approximately \$8.8 million, from the requested amount of \$111,326,842 to an estimated amount of \$120,126,842, thus reducing the de-appropriation and re-appropriation of the \$19.5 million on reserve for the CleanPowerSF program by \$8.8 million. Ongoing debt service for the additional \$8.8 million would be funded by the approximate \$800,000 in annual savings identified by the Budget and Legislative Analyst.

Recommendations

- Approve the proposed ordinance authorizing the issuance of revenue bonds (File 14-0482).
- Approve \$215,108,836 of the requested appropriation of \$234,608,836 (File 14-0480), which represents a reduction of \$19,500,000.
- Approval of the balance of \$19,500,000, which has been previously appropriated by the Board of Supervisors for CleanPowerSF, is a policy matter for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND

Charter Section 9.107(6, 8) states that the Board of Supervisors is authorized to provide for the issuance of revenue bonds. Revenue bonds shall be issued only with the assent of a majority of the voters upon any proposition for the issuance of revenue bonds, except that no voter approval shall be required with respect to revenue bonds:

Issued for the purpose of the reconstruction or replacement of existing water facilities or electric power facilities or combinations of water and electric power facilities under the jurisdiction of the Public Utilities Commission, when authorized by resolution adopted by a three-fourths affirmative vote of all members of the Board of Supervisors; and

Issued to finance or refinance the acquisition, construction, installation, equipping, improvement or rehabilitation of equipment or facilities for renewable energy and energy conservation.

Charter Section 5A.31(d) states that one-twentieth of one percent from the proceeds of each issuance or sale of public utility revenue bonds must be set aside for use by the Public Utilities Commission Revenue Bond Oversight Committee to cover the costs of Committee activities.

Charter Appendix F1.113 states that 0.2 percent of the bond expenditures net of bond financing and auditing costs be allocated to the support the Controller's Audit Fund.

Charter Section 9.105 states that the Board of Supervisors shall approve by ordinance all amendments to the Annual Appropriation Ordinance after the Controller certifies the availability of funds.

Background

The San Francisco PUC has provided electricity services to San Francisco customers and the Modesto and Turlock Irrigation Districts since the construction of the Hetch Hetchy project in 1918. Currently, the PUC serves 140 megawatts (MW) of retail customer demand.

The Hetch Hetchy Enterprise is responsible for power trading and scheduling, customer relations and billing, in-City facilities, distribution infrastructure, street lights, public policy and financial planning). The Hetch Hetchy Enterprise is also responsible for all water and power facilities at Hetch Hetchy.

Power sales must generate sufficient revenues to fund the Hetch Hetchy Enterprise's operating expenses while funding capital investments to provide safe and reliable service and maintaining stable and affordable electrical rates. According to Harlan Kelly, General Manager of the PUC, the Hetch Hetchy Enterprise must plan for several interrelated challenges in the coming years, including:

- Identifying and securing additional revenues needed to fund essential capital investments in aging Hetch Hetchy infrastructure and in-City facilities;
- Identifying additional revenues to fund “build-out” of local renewable and energy efficiency projects;
- Interconnection arrangements with Pacific Gas & Electric (PG&E) that will serve the City’s best interests and are consistent with the Raker Act¹;
- Changes to energy management strategies that will accompany the expiration of the current transmission and distribution (T&D) agreement with PG&E, including ways to deploy available Hetch Hetchy power to best serve the community; and
- Identifying opportunities to serve more San Francisco customers, which will benefit those customers and help fund capital needs and public policy programs.

DETAILS OF PROPOSED LEGISLATION

File 14-0482: The proposed ordinance authorizes the issuance and sale of power revenue bonds by the PUC in an amount not to exceed \$111,326,842 to finance a portion of the costs to design, acquire and construct various capital projects benefitting the PUC Power Enterprise.

File 14-0480: The proposed ordinance appropriates (1) \$215,108,836 of Hetch Hetchy revenues, Cap and Trade allowances, and revenue bonds and re-appropriates \$19,500,000 previously appropriated by the Board of Supervisors for Clean Power SF, totaling \$234,608,836, to the Hetch Hetchy Capital Improvement Program; and (2) places \$172,735,378 by project on Controller’s reserve pending PUC and Board of Supervisors approval of California Environmental Quality Act (CEQA) findings and Controller’s certification of available funds.

FISCAL IMPACT

File 14-0482:

The proposed ordinance, authorizing PUC to issue and sell up to \$111,326,842 in power revenue bonds, delegates the authority to the PUC to determine the timing, amount and manner of sale (e.g., whether the sale is competitive or negotiated). According to Michael Brown, of PUC Capital Finance, the first revenue bond sale of approximately \$54.0 million, including previously authorized bonds, is scheduled to occur in October, 2014, and is anticipated to be sold on a negotiated basis because these bonds are a new and unique credit for the PUC. According to Mr. Brown, the PUC anticipates selling the remaining \$69.3 million in revenue bonds in FY 2015-16.

¹ The Raker Act is a federal law passed in 1913 allowing San Francisco to build a dam in the Hetch Hetchy Valley.

The anticipated interest rate for the bond payments is 6%. Total estimated debt service over the 30-year term of the bonds is \$235,959,556, consisting of \$111,326,842 in principal and \$124,632,714 in interest. The estimated average annual debt service payment is \$8,427,127.

Debt service payments will be covered by Hetch Hetchy Enterprise revenues from the sale of electricity. The electricity rate charged to the City's enterprise departments and other non-General Fund agencies is currently \$.13/kWH. This rate will remain flat through FY 2014-15, and will be increased by 3% annually starting in FY 2015-16. The City's General Fund departments pay a subsidized rate of \$.0475/kWH in FY 13-14; this rate will increase by \$.01/kWH in FY 2014-15, FY 2015-16, and FY 2016-17, and by \$.005/kWH annually thereafter.

Consultants for the first bond issuance will be selected from the Controller's Underwriter and Financial Advisor Pool. The PUC will issue a two-page mini-solicitation to consultants in the pool and then will select a winner based on the submissions.

File 14-0480:

The proposed ordinance appropriates \$234,608,836 in various Hetch Hetchy revenues for project and bond financing and oversight costs, as shown in Table 1 below.

These Hetch Hetchy revenues include \$19.5 million which was previously appropriated by the Board of Supervisors and placed on Budget and Finance Committee reserve for CleanPowerSF. The proposed ordinance de-appropriates from that project the \$19.5 million and re-appropriates these monies to pay for the other projects listed in Table 1.

Table 1: Sources and Uses of Funds

| Sources | FY 2014-15 | FY 2015-16 | Total |
|---|----------------------|----------------------|----------------------|
| Power Bonds (File 14-0482) | \$41,984,314 | \$69,342,528 | \$111,326,842 |
| Water Bonds (Files 14-0479 and 14-0484) | 38,204,088 | 23,204,448 | 61,408,536 |
| Subtotal Bonds | 80,188,402 | 92,546,976 | 172,735,378 |
| De-appropriation CleanPowerSF | 19,500,000 | 0 | 19,500,000 |
| Continuing Capital Projects | 21,901,796 | 17,353,662 | 39,255,458 |
| Hetch Hetchy Cap and Trade Allowance | 1,418,000 | 1,700,000 | 3,118,000 |
| Subtotal Hetch Hetchy Funds | \$123,008,198 | \$111,600,638 | \$234,608,836 |
| Uses | FY 2014-15 | FY 2015-16 | Total |
| Streetlight Improvement Program | \$14,070,000 | \$11,946,000 | \$26,016,000 |
| Transbay Transit Center | 0 | 1,250,000 | 1,250,000 |
| Load meter program | 1,000,000 | 0 | 1,000,000 |
| Small renewables generation | 1,000,000 | 1,000,000 | 2,000,000 |
| Small hydro generation | 200,000 | 200,000 | 400,000 |
| SF Go Solar | 5,000,000 | 5,000,000 | 10,000,000 |
| Civic Center energy efficiency | 162,000 | 162,000 | 324,000 |
| General Fund energy efficiency | 500,000 | 500,000 | 1,000,000 |
| All other energy efficiency | 338,000 | 338,000 | 676,000 |
| Treasure Island | 3,050,000 | 2,950,000 | 6,000,000 |
| Lower Cherry Aqueduct | 18,100,000 | 0 | 18,100,000 |
| Power only projects | 36,008,000 | 31,578,000 | 67,586,000 |
| Water and power | 26,422,000 | 34,000,000 | 60,422,000 |
| Water projects | 1,720,000 | 3,960,000 | 5,680,000 |
| Subtotal Projects | 107,570,000 | 92,884,000 | 200,454,000 |
| Bond Financing Costs | 15,182,964 | 18,484,597 | 33,667,561 |
| City Services Auditor | 215,140 | 185,768 | 400,908 |
| Revenue Bond Oversight Committee | 40,094 | 46,273 | 86,367 |
| Subtotal Financing and Oversight | 15,438,198 | 18,716,638 | 34,154,836 |
| TOTAL | \$123,008,198 | \$111,600,638 | \$234,608,836 |

Source: Public Utilities Commission

The Public Utilities Commission approved the 10-year Hetch Hetchy Enterprise Capital Plan in May 2014. The Hetch Hetchy Capital Plan has \$1.25 billion in total capital expenditures over 10 years, of which \$750 million are power projects and \$500 million are water projects. Most of the projects in the Capital Plan are ongoing renovation or replacement projects.

Four of the largest projects are described below.

Power Projects

Streetlight Improvement Program

The Capital Plan calls for \$31 million, including the \$26 million listed in Table 1 above, to be expended on the Streetlight Improvement Program over a three-year period. Projects to be funded include: 3rd Street Rehabilitation; Holiday and Festivity Pole Use; the Pedestrian Lighting Project, and the Rehabilitation of Streetlight Poles, among others.

Transbay Transit Center

The Transbay Transit Center project is scheduled to receive \$1.25 million in FY 2015-16. For this project, the PUC will provide construction and permanent electric services to the new Transbay Transit Center, including adjacent bus ramps, and the new bus storage facility at Stillman Street. The PUC, pursuant to an agreement with the Transbay Joint Powers Authority, will provide electric service to the Transit Center by installing two 12-kilovolt (kV) electric circuits, 12-kV switchgear, transformers, and other electrical equipment. According to Brown, PUC will charge the Transbay Joint Powers Authority electricity rates sufficient to recover the costs.

Treasure Island

The \$6 million requested for the Treasure Island plan is consistent with the Hetch Hetchy Enterprise's prior ten-year capital plans. The funds will be spent on the installation of a new underground 12-kV electric distribution system that replaces the existing overhead 12-kV system. The PUC, as the electric utility provider, will be responsible for installing the wires in the conduits, transformers, switches, and metering equipment and connecting the existing electrical distribution with the new system. According to Brown, PUC will charge the Treasure Island Development Authority rates sufficient to recover the costs.

Water Project

Lower Cherry Aqueduct

The \$18.1 million request for the Lower Cherry Aqueduct was not previously budgeted in the Hetch Hetchy Enterprise's prior ten-year capital plan. The Lower Cherry Aqueduct system consists of a low head, gated diversion structure and a series of tunnels, open canals and enclosed pipes that are used to convey water from Cherry Creek to Early Intake Reservoir. The primary purpose of the Lower Cherry Aqueduct system is to convey a water supply that can supplement the primary Hetchy Reservoir supply during a drought year. Due to its age, and the damage caused by the Rim Fire, the Lower Cherry Aqueduct is unable to reliably convey the supplemental water supply from Cherry Creek to Early Intake Reservoir, thus necessitating the Lower Cherry Aqueduct Rehabilitation Project.

POLICY CONSIDERATION

The proposed appropriation ordinance de-appropriates \$19.5 million previously appropriated by the Board of Supervisors for CleanPowerSF

On September 18, 2012, the Board of Supervisors approved Ordinance 11-1340, which appropriated \$19.5 million from Hetch Hetchy's fund balance for the San Francisco Community Choice Aggregation (CCA) program, also known as CleanPowerSF. The appropriation designated required reserves of \$13 million for PUC, of which \$11.5 million is for the proposed contract with Shell Energy North America (Shell); \$6 million for local sustainability services, and \$500,000 for related start-up costs.

The purpose of CleanPowerSF was to allow San Francisco residents and businesses to purchase electricity from 100% renewable sources. Ordinance 11-1340 authorized the General Manager

of the PUC to enter into a four-and-a-half year contract with Shell to provide customers with clean power. It was estimated that participation in the program would lead to an \$18 or 23.3% total increase in the average combined gas and electricity bill to San Francisco residents and businesses.

The proposed ordinance (File 14-0480) de-appropriates the \$19.5 million originally allocated to CleanPowerSF and re-appropriates these funds as a source of revenues for the proposed capital projects listed in Table 1 above.

The PUC has provided the Budget and Legislative Analyst's Office with alternative scenarios, in which the PUC would fund the proposed projects with \$19.5 million in operating or bond revenues, rather than de-appropriating the subject \$19.5 million. According to the PUC analysis, each of these scenarios would result in an electricity rate surcharge to the City's General Fund and enterprise departments and other PUC customers as discussed below.

If the PUC were to fund the requested capital projects with \$19.5 million in Hetch Hetchy operating revenues, the PUC would generate the \$19.5 million over several years, depending on the amount of the surcharge. As shown in Table 2 below, if the surcharge is \$0.01 per kWh, PUC would generate \$19.3 million over six years, and if the surcharge is \$0.04 per kWh, PUC would generate \$19.5 million over two years.

Table 2: Scenarios for Raising the \$19.5 Million through Rate Surcharges

| Year | Electricity Rate Surcharge per Kwh | | | |
|--------------|------------------------------------|---------|---------|---------|
| | \$.01 | \$.02 | \$.03 | \$.04 |
| | Revenues Generated (\$million) | | | |
| 1 | \$3.2 | \$7.8 | \$12.4 | \$17 |
| 2 | \$3.5 | \$8.4 | \$7.1 | \$2.5 |
| 3 | \$3.8 | \$3.2 | | |
| 4 | \$4.1 | | | |
| 5 | \$4.4 | | | |
| 6 | \$.3 | | | |
| Total | \$19.30 | \$19.40 | \$19.50 | \$19.50 |

Source: PUC

As shown in Table 3 below, if the PUC were to fund these projects with \$19.5 million in revenue bonds, annual debt service would range from approximately \$1,765,000 to \$2,000,000, depending on interest rates, and total debt service would range from approximately \$35.3 million to \$40.0 million. The PUC would charge an electricity rate surcharge to repay the bonds, ranging from \$0.0041 to \$0.0047 per kWh, as shown in Table 3 below.

Table 3: Scenarios for Raising the \$19.5 Million through Rate Surcharges

| Interest Rate | 4.5% | 5.0% | 5.5% | 6.0% |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Annual Debt Service Over 20 Years | \$1,765,000 | \$1,840,000 | \$1,920,000 | \$2,000,000 |
| Total Debt Service | \$35,300,000 | \$36,800,000 | \$38,400,000 | \$40,000,000 |
| Electricity Rate Surcharge | \$0.0041 | \$0.0043 | \$0.0045 | \$0.0047 |

Source: PUC

In order to retain sufficient funds to implement CleanPowerSF, the Board of Supervisors could:

- (1) Appropriate on-going annual savings of approximately \$800,000 and one-time savings of \$388,263, identified by the Budget and Legislative Analyst in the FY 2014-15 and FY 2015-16 PUC budgets and allocated to Hetch Hetchy Enterprise power projects, to CleanPowerSF; and/or
- (2) Increase the issuance of power bonds by up to approximately \$8.8 million, from the requested amount of \$111,326,842 to an estimated amount of \$120,126,842, thus reducing the de-appropriation and re-appropriation of the \$19.5 million on reserve for the CleanPowerSF program by \$8.8 million. Ongoing debt service for the additional \$8.8 million would be funded by the approximate \$800,000 in annual savings identified by the Budget and Legislative Analyst.

The amount of funds required to implement CleanPowerSF could potentially be less than the \$19.5 million if a future contract to implement CleanPowerSF requires a lower amount of reserves than the \$11.5 million in reserves required under the proposed contract with Shell.

RECOMMENDATIONS

1. Approve the proposed ordinance authorizing the issuance of revenue bonds (File 14-0482).
2. Approve \$215,108,836 of the requested appropriation of \$234,608,836 (File 14-0480), which represents a reduction of \$19,500,000.
3. Approval of the balance of \$19,500,000, which has been previously appropriated by the Board of Supervisors for CleanPowerSF, is a policy matter for the Board of Supervisors.

| | |
|--|---|
| Items 7 and 9 Files 14-0481 and 14-0483 | Department: Public Utilities Commission (PUC) |
| EXECUTIVE SUMMARY | |
| Legislative Objectives | |
| <p>File 14-0481: The proposed ordinance appropriates (2) \$950,906,000 in revenues from revenue bond proceeds and other wastewater revenues; and (2) places \$846,906,000 in bond proceeds on Controller's reserve, pending Board of Supervisors' approval of California Environmental Quality Act (CEQA) findings and Controller's certification of available funds.</p> | |
| <p>File 14-0483: The proposed ordinance authorizes the Public Utilities Commission (PUC) to issue wastewater revenue bonds in the aggregate principal not-to-exceed amount of \$846,906,000 to fund various wastewater capital projects.</p> | |
| Key Points | |
| <ul style="list-style-type: none"> • Master planning for Sewer System Improvement Program (SSIP) began in 2004 with the goal of bringing the City's sewer system to a state of good repair and ensuring continued regulatory compliance and system reliability. The SSIP consists of approximately 20 capital improvement projects to be completed from 2011 through 2040, a period of approximately 30 years. The FY 2014-15 through FY 2023-24 Ten-Year Capital Plan was approved by the Public Utilities Commission on May 13, 2014 and includes \$5,547,358,000 in various capital Wastewater Enterprise projects including projects under the SSIP. • The Board of Supervisors has previously authorized \$820,566,235 in wastewater revenue bonds for the SSIP and other wastewater projects, of which \$331,585,000 has been sold, resulting in \$488,981,235 in bonds previously authorized but unissued • The PUC anticipates issuing the proposed revenue bonds in an aggregate principal amount not-to-exceed \$846,906,000 through multiple competitive or negotiated sales over the next two years with the first sale occurring in approximately Spring 2015. | |
| Fiscal Impact | |
| <ul style="list-style-type: none"> • The anticipated interest rate for the bond payments is 5%. Total estimated debt service over the 30-year term of the bonds is \$1,591,701,272, consisting of \$846,906,000 in principal and \$744,795,272 in interest. The estimated average annual debt service payment is \$56,846,474 • In June 2013, the Board of Supervisors approved an ordinance (File 13-0365) that de-appropriated \$27,870,059 in wastewater revenue bond proceeds. The Budget and Legislative Analyst's Office recommends reducing the aggregate principal amount in the proposed ordinance (File 14-0483) by \$27,870,059 from \$846,906,000 to \$819,035,941. | |
| Recommendations | |
| <ul style="list-style-type: none"> • Amend the proposed ordinance (File 14-0483) to reduce the principal aggregate not-to-exceed amount by \$27,870,059 from \$846,906,000 to \$819,035,941. • Approve the proposed ordinance (File 14-0483) as amended. • Approve the proposed ordinance (File 14-0481). | |

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

Charter Section 8B.124 (Proposition E, November 2002) authorizes the San Francisco Public Utilities Commission (PUC) to issue revenue bonds, notes payable, commercial paper, and other forms of indebtedness for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities, subject to approval by two-thirds of the Board of Supervisors.

According to Charter Section 8B.124, authorization of revenue bonds is subject to certification (1) from an independent engineer that the projects to be financed by such debt meet utility standards; (2) that estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements; and (3) by the Planning Department that facilities under the PUC's jurisdiction that are to be funded by such debt will comply with the California Environmental Quality Act (CEQA).

Charter Section 5A.31(d) states that one-twentieth of one percent from the proceeds of each issuance or sale of public utility revenue bonds must be set aside for use by the Public Utilities Commission Revenue Bond Oversight Committee to cover the costs of Committee activities.

Charter Appendix F1.113 states that 0.2 percent of the bond expenditures net of bond financing and auditing costs be allocated to the support the Controller's Audit Fund.

Charter Section 9.105 states that the Board of Supervisors shall approve by ordinance all amendments to the Annual Appropriation Ordinance after the Controller certifies the availability of funds.

Background

The PUC Wastewater Enterprise provides sanitary waste and stormwater collection, treatment and disposal services to residents in the City as well as residents of north San Mateo County. The service area encompasses 29,773 acres and provides a level of service that can accommodate approximately 990,449 people using approximately 40 billion gallons of water per year.

The PUC annually updates its ten-year capital improvement plan to renew and replace the Wastewater Enterprise's infrastructure. The FY 2014-15 through FY 2023-24 Ten-Year Capital Plan was approved by the Public Utilities Commission on May 13, 2014 and includes \$5,547,358,000 in various capital Wastewater Enterprise projects including projects under the Sewer System Improvement Program (SSIP).

Master planning for SSIP began in 2004 with the goal of bringing the City's sewer system to a state of good repair and ensuring continued regulatory compliance and system reliability. The SSIP consists of approximately 20 capital improvement projects to be completed from 2011 through 2040, a period of approximately 30 years.

Funding for capital projects in the Wastewater Enterprise is provided through wastewater revenue bonds issued by the PUC and through commercial paper, a short-term debt instrument issued by the PUC.

DETAILS OF PROPOSED LEGISLATION

File 14-0483: The proposed ordinance authorizes the Public Utilities Commission (PUC) to issue and sell wastewater revenue bonds in the aggregate principal not-to-exceed amount of \$846,906,000 to fund various capital projects in the Wastewater Enterprise capital improvement plan

File 14-0481: The proposed ordinance appropriates (2) \$950,906,000 in revenues from revenue bond proceeds, wastewater revenues, and capacity fee fund balance to fund various projects in the wastewater ten-year capital plan; and (2) places \$846,906,000 in bond proceeds on Controller’s reserve, pending PUC and Board of Supervisors’ approval of environmental review for wastewater projects under the California Environmental Quality Act (CEQA) and receipt of bond proceeds, as certified by the Controller.

FISCAL IMPACT

File 14-0483:

As shown in Table 1 below, the Board of Supervisors has previously authorized \$820,566,235 in wastewater revenue bonds, of which \$331,585,000 has been sold, resulting in \$488,981,235 in bonds previously authorized but unissued.

Table 1: Previously Authorized Wastewater Revenue Bonds

| File | Amount Authorized | Amount Sold | Bonds Authorized But Unissued |
|-----------------|----------------------|----------------------|-------------------------------|
| 10-0340 | \$297,756,235 | \$260,450,326 | \$37,305,909 |
| 12-0469 | 522,810,000 | 71,134,674 | 451,675,326 |
| Subtotal | \$820,566,235 | \$331,585,000 | \$488,981,235 |

According to Mr. Mike Brown, PUC Capital Finance, the PUC anticipates issuing the proposed revenue bonds in an aggregate principal amount not-to-exceed \$846,906,000 through multiple competitive or negotiated sales over the next two years with the first sale occurring in approximately Spring 2015.

The anticipated interest rate for the bond payments is 5%. Total estimated debt service over the 30-year term of the bonds is \$1,591,701,272, consisting of \$846,906,000 in principal and \$744,795,272 in interest. The estimated average annual debt service payment is \$56,846,474.

On May 13, 2014, the PUC approved its schedule of wastewater rates that are charged to retail customers in the City. According to Mr. Brown, PUC wastewater rates are increasing in part because the PUC assumes in its projections that the PUC will issue all previously authorized and requested bond amounts.

Public Utilities Commission Debt Policy

The PUC annually approves a set of debt policies and procedures that govern the PUC debt program. PUC has established a debt limit in which annual net operating income must be at least 1.25 times annual debt service (debt service coverage ratio). The PUC anticipates that debt service coverage ratios in the Wastewater Enterprise will range from 4.53 in FY 2014-15 to 1.43 in FY 2023-24, exceeding the minimum ration established by PUC's debt service ratio of 1.25.

File 14-0481:

The proposed ordinance would appropriate \$950,906,000 to wastewater capital projects, as shown in Table 2 below.

Table 2: Sources and Uses of Funds

| Sources | FY 2014-15 | FY 2015-16 | Amount |
|--|----------------------|----------------------|----------------------|
| Proceeds from the Sale of Bonds | \$292,775,000 | \$554,131,000 | \$846,906,000 |
| Wastewater Revenues | 39,000,000 | 41,000,000 | 80,000,000 |
| Wastewater Capacity Fee Fund Balance | 11,000,000 | 13,000,000 | 24,000,000 |
| Total Sources | \$342,775,000 | \$608,131,000 | \$950,906,000 |
| Uses | FY 2014-15 | FY 2015-16 | Amount |
| Biosolids Digester Phase I | 42,600,000 | 122,600,000 | 165,200,000 |
| Southeast Plant Improvements - Southeast | 42,420,000 | 102,981,000 | 145,401,000 |
| Renewal & Replacement-Collection System | 40,422,000 | 40,351,000 | 80,773,000 |
| Treatment Plant Improvements | 22,100,000 | 45,280,000 | 67,380,000 |
| Storm Water Management | 37,300,000 | 23,670,000 | 60,970,000 |
| Collection System Improvements | 16,500,000 | 41,100,000 | 57,600,000 |
| Renewal & Replacement-Collection System | 23,858,000 | 24,637,000 | 48,495,000 |
| SSIP - Program-Wide Management | 23,000,000 | 24,000,000 | 47,000,000 |
| Central Bayside System Improvements | 14,000,000 | 24,800,000 | 38,800,000 |
| SSIP - Land Reuse | 5,000,000 | 29,253,000 | 34,253,000 |
| Renewal & Replacement-Treatment Facilities | 12,442,000 | 13,063,000 | 25,505,000 |
| Renewal & Replacement-Collection System | 11,000,000 | 13,000,000 | 24,000,000 |
| Collection Division Consolidation | - | 20,000,000 | 20,000,000 |
| Pump Stations/Bayside & Westside | 1,300,000 | 8,600,000 | 9,900,000 |
| Southeast Community Center Improvements | 7,000,000 | - | 7,000,000 |
| Ocean Beach Visioning Process | 2,700,000 | 3,300,000 | 6,000,000 |
| Urban Watershed Assessment | 3,000,000 | - | 3,000,000 |
| Subtotal, Projects | 304,642,000 | 536,635,000 | 841,277,000 |
| Financing Cost | 37,377,329 | 70,145,665 | 107,522,994 |
| City Services Auditor | 609,284 | 1,073,270 | 1,682,554 |
| Revenue Bond Oversight Committee | 146,387 | 277,065 | 423,452 |
| Subtotal, Financing and Oversight | 38,133,000 | 71,496,000 | 109,629,000 |
| Total Uses | \$342,775,000 | \$608,131,000 | \$950,906,000 |

The two largest projects to be funded by the proposed appropriation include:

- The proposed \$165,200,000 for a replacement biosolids digester at the Southeast Water Pollution Control Plant (Southeast Plant). The existing biosolids digester was constructed in 1952 and currently treats 80 percent of City flows. According to Mr. Brown, the current biosolids digester is showing signs of corrosion. Additionally, the roofing on the digester does not adequately insulate the contents of the digester and the surrounding community has been complaining about the smell.

Total estimated projected costs are \$1.15 billion, of which \$196.4 million are planning, design and environmental review (including the requested \$165,200,000) and \$953.9 million are construction management and construction costs. The PUC anticipates construction to begin in 2018.

- The proposed \$145,401,000 for improvements to the Southeast Plant, which is the PUC's largest wastewater treatment facility. These improvements include seismic retrofits, process equipment upgrades, a new secondary effluent disinfection building and chemical systems, and new infrastructure for sludge co-thickening, screening and de-gritting.

Total estimated project costs are \$658.9 million, of which \$106.5 million are planning, design and environmental review, and \$552.4 million are construction management and construction.

De-Appropriated Bond Proceeds

In June 2013, the Board of Supervisors approved an ordinance (File 13-0365) that de-appropriated \$27,870,059 in wastewater revenue bonds. The Budget and Legislative Analyst's Office recommends reducing the authorization to issue and sell the not-to-exceed aggregate principal amount of wastewater revenue bonds under the proposed ordinance (File 14-0483) by \$27,870,059 from \$846,906,000 to \$819,035,941.

RECOMMENDATIONS

1. Amend the proposed ordinance (File 14-0483) to reduce the authorization to issue and sell the not-to-exceed principal aggregate amount of wastewater revenue bonds by \$27,870,059 from \$846,906,000 to \$819,035,941.
2. Approve the proposed ordinance (File 14-0483) as amended.
3. Approve the proposed appropriation ordinance (File 14-0481).