

From: [Barnes, Bill \(BOS\)](#)
To: [BOS Legislation, \(BOS\)](#)
Subject: REQUEST TO INCLUDE IN THE FILE: Correspondence Related to Proposed Increase in Water and Wastewater Rates
Date: Tuesday, June 13, 2023 9:50:41 AM
Attachments: [image001.png](#)
[image002.png](#)
[image003.png](#)
[image004.png](#)
[image005.png](#)
[image006.png](#)
[Water Rates 5.31.23.pdf](#)
[5.22 Letter to PUC Commission.pdf](#)
[PUC letter.pdf](#)

Hello,

I realize that neither the letter Supervisor Safai sent to the Clerk requesting the hearing nor the responses provided by the San Francisco Public Utilities Commission are included in the file for today's hearing. Attached, please find the correspondence Supervisor Safai sent to the SFPUC, the correspondence Supervisor Safai sent to the Clerk on May 31st, and a letter from the West of Twin Peaks Neighborhood Council, with a request that they be included in the file.

Below, please find a response from the SFPUC. Please also include this in the file.

Thanks,

BILL BARNES (*he/him/his*)

Chief of Staff

Supervisor Ahsha Safai

1 Dr. Carlton B. Goodlett Place, Room 244

San Francisco, CA 94102

415.554.7896 (direct)

415.554.6975 (main line)

From: Spitz, Jeremy M <JSpitz@sfwater.org>

Sent: Thursday, June 08, 2023 4:08 PM

To: Safai, Ahsha (BOS) <ahsha.safai@sfgov.org>

Cc: Barnes, Bill (BOS) <bill.barnes@sfgov.org>

Subject: RE: Proposed Increase in Water and Wastewater Rates

Supervisor Safai:

We are responding to your letter dated May 31, 2023, raising questions about the Commission-adopted 2024-2026 Retail Water and Wastewater Rates. Please see the responses to your questions below. We would also note that the rate package was developed after a comprehensive analysis by an independent consultant as required by the Charter and a robust five-month public process with the input, guidance, and review of the Rate Fairness Board. The SFPUC is a nonprofit utility, so by law, its rates reflect only the cost of operating, maintaining, and upgrading our water and sewer

systems.

1. ***What percentage of the rate increases support already approved capital projects and new capital initiatives, and how much is dedicated to operational cost increases? Can you provide a list of capital projects funded specifically by these rate increases?***

80% of the rate increases in the Water and Wastewater enterprises over the next 3 years will be going to pay for capital projects that are mostly either completed or underway – via growth in debt service costs and cash-funded capital investments. 20% of the rate increases is dedicated to operational cost growth such as labor wage and fringe benefit increases, and inflation on equipment, materials, chemicals, cybersecurity and supplies.

Like many other utilities, the SFPUC debt finances the bulk of our infrastructure work. This allows the cost burden of the asset to be spread over its useful life and establishes intergenerational equity by allowing ratepayers that will benefit from the asset to pay for it. Also, the SFPUC uses a mix of commercial paper and capitalized interest to delay the rate impact of a capital project until the asset is in service. This means all the debt service supported during the two coming fiscal years is associated with projects that the Board of Supervisors has already approved, through the budget process, and construction is either recently completed or underway. The SFPUC’s financial plan and the rate increase for the third year (FY25-26) include debt service for new construction projects in addition to debt service on previously approved projects.

The interest rates costs on our bonds are linked to the confidence of borrowers in our financial sustainability, as indicated by our strong, stable credit ratings. In anticipation of Water Bonds to be priced in July, Standard & Poor (S&P) Global Ratings warned that *“The stable outlook reflects our expectation that the San Francisco Board of Supervisors will not delay implementation of the commission's approved three-year rate plan and that near-term financial metrics will be consistent with current forecasts.”* Based on estimates from our Municipal Advisors, if S&P were to downgrade its rating even one notch, borrowing costs could rise by approximately 0.31% resulting in over \$22 million in unnecessary additional interest costs that will be borne by the ratepayers on just this Water Bond transaction. Future transactions, including a Power Bond sale planned for later this summer, would also be impacted. Debt service is our biggest cost driver. The severe impact of rejecting our rates on SFPUC’s future borrowing costs, and therefore on our future rates, cannot be understated.

Below is a list of projects funded by recent and upcoming water and wastewater debt issuances, however, due to the long (typically 30-year) terms on our revenue bonds, these rate increases will be going to pay for debt service on projects completed decades ago.

2023 Water Revenue Bonds, Series A

Lombard Geotechnical Improvement
New CDD Headquarters
New Services connection Program
Regional Water Treatment RNR
Town of Sunol Pipeline

UB Non-WSIP Water Bond-CP Expense
UW Alameda Watershed Monitoring
UW Automated Meter Reading System
UW Bay Area Watershed & ROW Pr
UW Bay Bridge West Pump Station
UW Bay Division Pipeline Upgrade
UW Building & Grounds – Regional
UW Calaveras Dam Replacement
UW Chlorine Trim Station Repair
UW College Hill Reservoir Outl.
UW Communications
UW Controls
UW Crystal Springs PS & CS-SA
UW Dam Structural Upgrades
UW Harding Park Pump Station
UW HTWTP & West Bay Fields
UW Lake Merced Pump Station FU
UW Large Meter Program
UW Local Reservoir – Budget
UW Local Water Conveyance – Dist.
UW Long Term Monitoring & Permitting
UW Microvalve Backbone Upgrade
UW Millbrae Yard
UW New Fuel Station CDD
UW New Irving Tunnel
UW New Services
UW Peninsula Water System Improvement
UW Peninsula Watershed Monitor
UW Pipeline Improvements
UW Pipeline Replacement
UW Recycled Water Project
UW Regional Groundwater Storage
UW Regional Water Treatment Pr
UW Renew Services
UW Rollins Road Purchase
UW San Joaquin Water Sys Improvement
UW Sunol Long Term Improvement
UW Sunol Valley Water System 1

2023 Water Revenue Bonds, Series A Cont.

UW Sunol Valley Water Treatment
UW Systems Monitoring & Control
UW Tesla UV Facility
UW University Mound Improvement

UW Upper Alameda Creek Filter
UW Water Transmission Program
Water Diversification Projects
WTR Buildings and Grounds R&R
UW Calaveras Dam and Reservoir
UW Corrosion Control
UW Ingleside Garden Site Hydra
UW Local Water Supply – Other RE.
UW Merced Manor Reservoir Facility
UW San Francisco Groundwater S.
UW Security Systems
UW Sunol Yard Upgrades
UW Town of Sunol Fire Suppress
UW Valve Replacement
Water Diversification Projects

2023 Water Revenue Bonds – Series B

UH Hetchy Water – Joint Projects
UH Hetchy Water – Water Only

2023 Wastewater Revenue Bonds, Series A

Collection System Improvements
Central Bayside System Improvements
SSIP Biosolids – Digester Program
Stormwater Management
Flood Resilience-Hydraulic
SSIP Program- Wide Management
Treatment Plan Improvement
Urban Watershed Assessment

2023 Wastewater Revenue Bonds, Series B

Interim Clean Water CIP
Treasure Island Capital Improvements
Ocean Beach Project
Collection Division Consolidation
Southeast Community Center
Islais Creek Outfall

WWE RNR Collection System
Outfall Inspection – Receiving
Bond – Commercial Paper Expense
SE Outfall Assessment & Rehabilitation
Sewer Improvements – Small Diameter

2. *How long would it take for the SFPUC to conduct a meaningful Rate Fairness Board process with a full Board, and when does the Mayor plan to appoint her two vacant ratepayer seats?*

For the current rate-setting process, the Rate Fairness Board process required several months and involved eight separate public hearings, each with a quorum. A new process, even if compressed, would require at least a month of intensive effort after appointments are complete, assuming the availability and willingness of the Rate Fairness Board members. The SFPUC has no authority or control over such appointments and cannot estimate the time for the Mayor and Board of Supervisors to make such appointments.

For the rates resolution adopted on May 23, the Rate Fairness Board held eight separate public hearings – each with a quorum – on the rates proposal. These hearings provided a detailed, comprehensive analysis of the consultant and staff’s development of the rates. This also included in-depth responses to questions from the members of the Board, all of whom have dedicated their time as public servants, and each of whom are providing their time and expertise to ensure the SFPUC’s rates are fiscally responsible and comply with all legal requirements and industry best practices. All meetings were properly noticed and open to any members of the public who wanted to attend; the SFPUC provided the dates of these meetings and encouraged the public to attend all alternative public meetings (described below). This was “a meaningful Rate Fairness Board process,” which was inclusive and complied with all Charter requirements.

SFPUC went well above and beyond our legal requirements and utility industry standards in conducting public outreach and inviting public participation in our rate setting. The SFPUC’s only legal requirements from the State and the City’s Charter are to issue the Prop 218 notices to all property owners and to engage with the Rate Fairness Board, which is required by the Charter to hold at least one hearing. The SFPUC sent Prop 218 notices to property owners as well as renters and responded to any protest letters (see next question). In addition to engaging with the Rate Fairness Board, recognizing that there are vacancies on the Board and that many customers may not find these meetings convenient to attend, we also provided a series of town hall meetings (some of which were live interpreted into Cantonese, Tagalog, and Spanish) and offered to speak to over forty neighborhood associations, business associations, and environmental groups at their existing meetings to meet customers where they are. We also put out targeted digital & social media ads in four languages which garnered 600,000 impressions.

Moreover, SFPUC staff have invested a considerable amount of effort in requesting that the Mayor and Board assist with filling the vacant positions. As the SFPUC is unable to nominate Rate Fairness Board members itself, we rely on our elected officials for this support. Our understanding is that the Mayor has filled one of the open seats as of June 5, 2023.

3. Has the SFPUC responded to the ratepayers who submitted letters of protest with specific, actionable requests from the agency? If not, when will the SFPUC respond?

Under Proposition 218, rate protest letters are statements in opposition to the rate proposal. They are not designed as an open channel for questions or dialogue.

Although Proposition 218 does not require agencies to respond to each protest letter, the SFPUC has chosen to do so to ensure that people protesting our rates have information in their hands about how to lower their bills.

We have responded to ratepayers who submitted a protest letter with a hard copy letter and two informational flyers. One flyer provides information on how to sign up for our Customer Assistance Program for low-income customers. The second flyer provides detailed information for any of our customers on how to take advantage of the many rebates and incentive programs we offer, as well as other ways to lower their bills. These include free water-saving devices, rebates on efficient washers, and grants for rainwater harvesting. We also provide information on grants of up to \$100,000 to help residents or businesses protect their property from flooding. The cover letter in response to protest letters also includes information on how to reach us directly with specific questions: “You can also contact us directly by emailing ratesinfo@sfgwater.org or calling 415-554-3289.”

That is a special email inbox for those with specific questions regarding the rate proposal. We respond within 48 business hours to all inquiries received there.

In addition, we set up a special web page as a one-stop shop with all of our resources regarding rates. That website has received more than 9,900 unique visitors since it was set up.

As mentioned in the prior question, we also held three virtual town hall meetings, two of which had simultaneous interpretation in Cantonese, Tagalog, and Spanish, and we did direct outreach to merchant and community groups.

4. When was the last time a performance audit of the SFPUC's water and wastewater enterprises was conducted to eliminate waste, fraud, and abuse?

The last relevant audit was undertaken in February 2023, but we have been undergone four audits on this topic since 2017 and 75 audits of various types since 2020. We also created an Audit Bureau in 2021 to lead and evaluate the department’s oversight and governance activities and track and follow up on findings.

The SFPUC has promoted good stewardship with its resources and positive internal controls by engaging with the Controller’s Office to assist in providing oversight of the water and wastewater enterprises through performance audits. For example, on February 16, 2023, the SFPUC engaged the Office of the Controller to conduct an audit over the 15-year professional services Program Management Consultant (PMC) contract with AECOM-Parsons Joint Venture. The audit concluded the contract was appropriately fulfilled. In addition, the SFPUC fully accepted 15 recommendations from the Office of the Controller to improve its contract management practices over similar large-

scale programs. The SFPUC has solid practices around appropriate and allowable invoicing, staying within contract limits, and approving labor hours and billing rates.

The SFPUC ensures that revenue bonds are also spent appropriately. As recently as February 22, 2022, the SFPUC underwent an audit of its revenue bonds which concluded that the SFPUC had appropriate revenue bond expenditures in our operations. SFPUC has since coordinated with the Revenue Bond Oversight Committee to determine the most effective method to comprehensively report project expenditures by funding source and uses of revenue bond proceeds (see question 8).

The SFPUC is modernizing and updating its procedures and documentation as recommended by the Controller's Office in its audit of Preconstruction Practices for the Sewer System Improvement Program on March 8, 2018. In addition, SFPUC has continued to comply with its policies regarding quality assurance audits.

Lastly, the SFPUC engaged with the Office of the Controller in its audit called "The Wastewater Enterprise Should Better Manage and Monitor Workflow, Premium Pay, Overtime, and Absenteeism" on June 8, 2017. Subsequently, the SFPUC followed the recommendations from the report to improve management and monitoring of workflow, purchasing, watch engineer "t" shifts, premium pay, sick leave, and overtime. The SFPUC has enhanced existing procedures to investigate and discipline employees with excessive absences and discouraged sick leave abuse.

The following is a list of links to relevant audit reports in reverse chronological order:

1. [Although Its SSIP Management Consultant Complied With Contract Terms, the SFPUC Should Improve Its Contract Management \(2/16/23\)](#)
2. [The San Francisco Public Utilities Commission Spent Revenue Bond Funds for Allowable Purposes but Should Improve Its Controls Over Reporting and Quality Assurance \(2/9/22\)](#)
3. [Procedures Should Be Refined and Documentation Improved to Strengthen Preconstruction Practices for the Sewer System Improvement Program \(3/8/18\)](#)
4. [The Wastewater Enterprise Should Better Manage and Monitor Work Flow, Premium Pay, Overtime, and Absenteeism \(6/08/17\)](#)
5. **What is the status of capital projects designed to prevent and reduce flooding in neighborhoods like the Excelsior, Mission, West Portal, and the Marina?**

For the Excelsior and Outer Mission, Mission, and West Portal neighborhoods, SFPUC has allocated \$630 million in the latest 10-Year Capital Plan to improve stormwater management with three projects. The status is as follows:

1. **Excelsior and Outer Mission Neighborhoods:** The Lower Alemany Area Stormwater Improvements Project began the design phase in January 2023 and is currently on track for construction completion by 2028, pending obtaining temporary construction power from PG&E, coordinating with Caltrans and environmental clearance. The project will increase the conveyance capacity of the combined sewer to improve stormwater management near the Alemany Farmer's Market/Flea Market area surrounding the U.S. 101 and I-280 highways interchange, and the Cayuga neighborhood. Information and updates can be found here: [Lower Alemany Area Stormwater Improvements Project | SFPUC](#)
2. **Mission Neighborhood:** The Folsom Area Stormwater Improvements Project will be

implemented in separate components: upstream and tunnel components, which are planned to be constructed with four separate contracts. The first contract (part of the upstream component) has been awarded by the SFPUC Commission and is anticipated to start construction in 2023. The next two contracts (part of the upstream components and the entire tunnel component) are in the design phase, and are on track for construction completion by 2027, pending approval of right-of-way agreements, coordinating with Caltrans, and obtaining temporary construction power from PG&E. This project will improve stormwater conveyance away from the 17th and Folsom neighborhood to reduce the risk of flooding in the area. Information and updates can be found here: [Folsom Area Stormwater Improvement Project | SFPUC](#)

- 3. West Portal Neighborhood:** The Wawona and Vicente Streets Stormwater and Water Main Replacement Project started construction in 2021 and anticipates completion of stormwater work in early 2024. This project will divert combined sewer flows from the existing sewer upstream of the 15th Avenue and Wawona Street intersection into a new sewer pipe on Vicente Street, extending from Wawona Street to 34th Ave. Information and updates can be found here: [Wawona and Vicente Streets Stormwater and Water Main Replacement | SFPUC](#)

Marina Neighborhood: Residents have expressed concerns about the combined sewer discharge outfalls in the Marina neighborhood. The Laguna Combined Sewer Discharge (CSD) Outfall Rehabilitation Project is currently in the design phase. The project will repair and rehabilitate an aging outfall structure to ensure the City's combined sewer system can continue to do its part in protecting public health and the environment. The project is anticipated to be in construction in mid-to-late 2024 and complete work by late 2025. Note that this project will not increase or decrease the capacity of the conveyance system.

These capital projects will not eliminate the risk of flooding in extreme precipitation. While San Francisco's combined sewer and stormwater system has or, after the capital projects described above, will have the capacity to divert, manage, and treat a large volume of wastewater and stormwater, building infrastructure — like pipes, pump stations, or storage vaults — large enough to prevent flooding in extremely large storms is not feasible. With climate change, California expects to see more intense storms more frequently. The October 2021 and December 2022 storms were exceptionally strong atmospheric rivers that resulted in record amounts of rainfall, and flooding across the Bay Area.

Adapting to extreme precipitation can't be solved by a single project or strategy alone. The SFPUC encourages property owners to add other layers of protection, including purchasing flood insurance and taking advantage of grants that we offer of up to \$100,000 to make their properties more flood resilient. Details on these and more resources can be found at sfpuc.org/rainreadysf.

6. *When does the SFPUC plan to permanently fill the Assistant General Manager for Wastewater position?*

The Assistant General Manager for Wastewater left on April 15 and a recruitment was opened on April 20. The recruitment is currently open and in process, and the position will be filled as quickly as possible once a pool of qualified candidates has been identified and a top candidate has been selected.

Joel Prather is currently the Acting Assistant General Manager of the Wastewater Enterprise. His professional background includes more than a decade at SFPUC Wastewater Enterprise and over twenty years with the City and County of San Francisco. He started with San Francisco Public Works in the Bureau of Street and Sewer Repair and came to the San Francisco Public Utilities Commission

in 2011 as a Maintenance Planner. He held the position of Maintenance Manager for the past seven years, where he managed the day-to-day maintenance systems and practices for the wastewater treatment facilities.

7. *Is water consumption of customers outside of San Francisco comparable to San Franciscans? How are their rates calculated?*

The SFPUC provides wholesale water service to 26 different wholesale water suppliers in the Peninsula, South, and East Bay, including the Cities of Brisbane, Mountain View, San Jose, California Water Service Company, and others. San Francisco customers generally have lower water usage than residential customers in our wholesale service area due to having smaller household sizes and smaller properties.

By law and contract, SFPUC may charge the wholesale water suppliers only “regional water” costs – those that benefit both wholesale and San Francisco customers, such as our reservoirs and water treatment plants – are included in the water price charged to wholesale water suppliers. These costs are allocated between San Francisco and wholesale water suppliers proportionally based on water usage, which means that wholesale water suppliers pay about 2/3 of these costs. Expenses that only benefit San Franciscans, such as in-City water distribution, must be paid from retail water rates. The wholesale water price calculation goes through a rigorous annual audit to ensure it is fair and complies with the contract.

8. *What reforms, if any, has the SFPUC implemented in response to the Controller's performance audit that found the PUC Revenue Bond Oversight Committee "does not have adequate visibility over bond proceeds" issued in December 2021?*

The SFPUC responded to the recommendations in the audit report and has implemented new procedures as a result. SFPUC’s Financial reporting team has started providing semi-annual (2x per year) reports to the Revenue Bond Oversight Committee (RBOC) which include a Summary of Available Proceeds report, a Proceeds Available for Capital expenditures, and a Project Capital Expenditure by Funding Source report as recommended by the RBOC auditor. The SFPUC began providing these reports for each of the SFPUC enterprises in August 2022 for the period ending June 30, 2022. So far, since providing these reports as recommended there have been no issues raised by RBOC or the Controller’s Office. We communicated with the Controller’s office to notify them of our follow-up actions in the fall of 2022, and the Controller’s office has closed the matter as of December 2022 (see below). Despite this matter being closed, the Controller’s office has advised us that they may still get some further questions on this from their external auditing partner about this, which we will answer should they arise.

[City Services Auditor Summary of Implementation Status of Recommendations Followed up on in the First & Second Quarters of Fiscal Year 2022-23](#)

Exhibit 1: Number of recommendations followed up on and closed in Quarters 1 & 2 and open reports as of 12/31/22

Department	Recommendations		Reports ^a
	Followed Up On	Closed Through 12/31/22	Open
Airport (AIR)	1	1	-
Capital Planning (ORCP)	3	3	-
Children, Youth & Their Families (DCYF)	4	4	-
Controller (CON)	3	2	1
Housing and Community Development (MOHCD)	4	0	2
Information Technology (COIT)	2	2	-
Police Department (POL)	17	7	1
Port (PRT)	2	0	1
Public Health (DPH)	29	1	2
Rec and Park (REC)	2	1	1
SFMTA (MTA)	20	10	3
SFPUC (PUC)	6	6	-
Sheriff (SHF)	7	7	-
Total	100	44	11

Note:

^aCSA follows up on the recommendations in its Public Integrity assessments (nonaudit projects) separately from this follow-up. The only Public Integrity report recommendations included in this follow-up come from a Public Integrity audit. As part of its Public Integrity Program, to date CSA has issued eight assessment reports, one audit report, and two status update reports.

9. Has the SFPUC calculated the cost pressures to other public agencies, such as the School District and City Departments, of these changes?

Yes, we put together detailed utility budget projections for all City departments as well as other non-City agencies like the SFUSD and communicated these as appropriate.

Every fall we provide the Mayor’s Office with a projection for utility costs which is included in the Mayor’s 5-Year Financial Plan/Joint Report and included in the General Fund Deficit Projection that the Mayor issues along with Budget Instructions. This occurred as usual in the fall of 2022. In addition, during spring 2023 we met with the Mayor’s Office as well as several City departments including the SFMTA, School District, Recreation and Parks, Real Estate, the Port, and the Airport to go over the proposed utility rates and answer any questions. Upon request, we have provided detailed supporting data and discussed the rate and volume forecasts driving the budgets with various agencies. We also created a memo to all City Departments regarding the upcoming rate changes for FY 2023-24 which was distributed by the Mayor’s Budget Office. We also presented our rates at the Capital Planning Committee and to each member of the Board of Supervisors (or their staff). The projected utility budgets (based on our rates) have been incorporated into the Mayor’s proposed balanced budget that is currently before the Board for adoption.

In addition, the stormwater charge within the sewer rates is expected to have a bigger impact on certain City Departments (such as Recreation and Parks) and public agencies like the School District. The stormwater charge is not a new charge, but an adjustment to the existing rate structure; it is

revenue-neutral to the SFPUC and is intended to more fairly allocate the costs associated with collecting and treating stormwater to customers based on the runoff from their properties. Our rates consultants have been suggesting that we incorporate a stormwater charge into our rate structure since 2014. The SFPUC has been in contact with the most heavily impacted departments for at least four years, alerting them to the upcoming change to the rate structure, providing estimated bill forecasts, and encouraging them to apply to resources that can reduce their bills, such as the SFPUC's Green Infrastructure Grant Program. The stormwater charge will be slowly phased in over the next seven years to give customers time to adjust and apply for the grant and credit programs. To date, we have awarded just over \$16M in Green Infrastructure grants, of which \$6.67M is to City departments or other public agencies like SFUSD. The spring 2023 cycle has just closed. The SFPUC received four applications for consideration, all of them from public agencies, so the ratio of public to private applicants and awardees will increase considerably after this cycle's awards. The SFPUC's budget includes \$61.3M for GI grants over the next 10 years.

Please let us know if you have any additional questions.

Sincerely,

Jeremy Spitz

Local and Regional Policy and Government Affairs Manager

San Francisco Public Utilities Commission

Pronouns: he, him, his

sfpuc.org

