

File No. 100604

Committee Item No. 1

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Sub-Committee: BUDGET AND FINANCE

Date: July 21, 2010

BOARD OF SUPERVISORS MEETING

Date: _____

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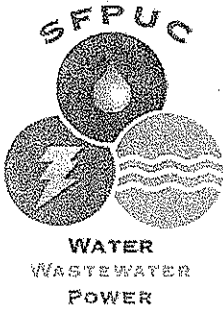
Completed by: Andrea S. Ausberry

Date Friday, July 16, 2010

Completed by: _____

Date _____

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SAN FRANCISCO PUBLIC UTILITIES COMMISSION

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May 17, 2010

File 100604

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Angela Calvillo
Clerk of the Board of Supervisors
1 Dr. Carlton B. Goodlett Place
City Hall, Room 244
San Francisco, CA 94102

**Subject: Water System Improvement Program (WSIP) Project
CUW37101 – Crystal Springs/San Andreas Transmission System Upgrade
Release Reserve for \$170,549,282**

Dear Ms. Calvillo:

I would like to request your assistance to have calendared a release of reserve on WSIP Project CUW37101 - Crystal Springs/San Andreas Transmission System Upgrade.

As part of the \$1.9 billion WSIP Supplemental Appropriation, new project appropriations in that supplemental exceeding \$100 million were placed on Board of Supervisors reserve. A release of reserve is now needed in order to award the construction contracts for both the tunnel and pipeline upgrades, and also related to financing costs as reserved under Project CUW300 WSIP financing costs.

Regards,


Ed Harrington
General Manager

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Items 1 and 2
Files 10-0604 and 10-0606

Department(s):
Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- File 10-0604: Request to release \$170,549,282 on Budget and Finance Committee reserve for the construction of the Crystal Springs/San Andreas Transmission (CSSAT) System Upgrade Project.
- File 10-0606: Resolution adopting findings under the California Environmental Quality Act (CEQA) for the CSSAT System Upgrade Project, and directing the Clerk of the Board of Supervisors to notify the Controller of this action.

Key Points

- The CSSAT System Upgrade Project provides for (a) the replacement of an existing pump station and associated PG&E electrical substation at the base of the Lower Crystal Springs Dam, and (b) seismic reinforcement of existing water outlet structures and pipelines at three PUC reservoirs. The total estimated cost of the project is \$192,070,722, including (a) \$147,668,602 in estimated construction costs, and (b) \$44,402,120 in non-construction costs such as design and construction management costs.
- The Board of Supervisors has previously appropriated the total estimated costs of \$192,070,722 for the CSSAT System Upgrade Project. In its last appropriation to the project on April 20, 2010 (File 10-0337), the Board of Supervisors appropriated \$170,549,282, including (a) \$147,668,602 in estimated construction costs which were placed on reserve, and (b) \$22,880,680 for non-construction costs not reserved. The PUC inadvertently requested the release of the entire last appropriation of \$170,549,282 instead of the amount on reserve for construction costs of \$147,668,602.
- Since the last time funds were appropriated by the Board of Supervisors, the estimated construction costs for the CSSAT System Upgrade Project have increased by \$208,500 from \$147,668,602 to \$147,877,102. However, the PUC estimates that reductions in non-construction costs will offset the increased construction costs such that estimated the total project cost remains \$192,070,722. Actual construction costs will be known after the PUC receives construction bids on July 29, 2010. In order to maintain the project's schedule, the PUC must award a construction contract in September of 2010.

Recommendations

- Reduce the requested release of reserved funds from \$170,549,282 to \$147,668,602 (File 10-0604).
- In order to release the correct amount of construction funds without delaying the project, replace the existing Budget and Finance Committee reserve with a Controller's reserve, and instruct the Controller to, after receiving supporting documentation from the PUC, (a) release funds equal to the lowest responsive construction bid, plus a 10 percent contingency, plus \$4,000,000 for replacement of the PG&E substation which is not included in the construction contract, and (b) return any remaining funds to a Budget and Finance Committee reserve.
- Approve the proposed resolution adopting the findings under CEQA (File 10-0606).

BACKGROUND

According to Mr. Carlos Jacobo, Budget Director at the PUC, the Crystal Springs / San Andreas Transmission System Upgrade Project is one of 85 projects included in the PUC's Water System Improvement Program (WSIP)¹.

The Upper Crystal Springs Reservoir, Lower Crystal Springs Reservoir, and the San Andreas Reservoir, all located in San Mateo County, serve primarily as the supplementary water supply for the San Francisco Peninsula (the primary water supply is the Hetch Hetchy Water System). The Crystal Springs/San Andreas Transmission (CSSAT) System is composed of the pumps, valves, pipelines, tunnels, and outlet structures (which allow water to be withdrawn from the reservoirs) necessary to move water from the Upper Crystal Springs Reservoir to the Lower Crystal Springs Reservoir, and then from the Lower Crystal Springs Reservoir to the San Andreas Reservoir. The water in the San Andreas Reservoir is ultimately moved, through a separate transmission system, to the Harry Tracy Water Treatment Plant for treatment, then delivered to customers in the City and County of San Francisco and northern San Mateo County. The Crystal Springs / San Andreas Transmission System Upgrade Project provides for seismic improvements for the CSSAT System, including (a) the replacement of an existing pump station at the base of the Lower Crystal Springs Dam, increasing the pumping capacity from the current 80,000,000 gallons of water per day to 120,000,000 gallons of water per day, (b) replacing the existing Pacific Gas & Electric (PG&E) electrical substation and associated transmission lines at the base of the Lower Crystal Springs Dam in order to provide the increased electricity needed to power the increased capacity new pump station discussed above, and (c) seismic reinforcement of existing water outlet structures and pipelines at the three reservoirs.

The current total estimated cost of the Crystal Springs / San Andreas Transmission System Upgrade Project is \$192,070,722. On April 20, 2010, the Board of Supervisors approved the final appropriation to various WSIP projects in the amount of \$1,647,249,198 (File 10-0337), such that, including all previous WSIP appropriations, the total WSIP budget of \$4,585,556,261 has now been appropriated to the PUC, including the total estimated \$192,070,722 for the subject CSSAT System Upgrade Project. The Board of Supervisors also placed on Budget and Finance Committee reserve all construction funds for projects which reserved appropriations than \$100,000,000 under File 10-0337, including the Crystal Springs / San Andreas Transmission System Upgrade Project, such that out of the last \$170,549,282 appropriated to the CSSAT System Upgrade Project, (a) \$147,668,602 in estimated construction costs were placed on reserve, and (b) \$22,880,680 for non-construction costs were not reserved. The Table 1 below summarizes the previously approved appropriations to the CSSAT System Upgrade Project.

¹ Propositions A and E, which were approved by the San Francisco voters on November 4, 2002, authorized the issuance of Water Revenue Bonds to finance the PUC's \$4,585,556,261 WSIP, consisting of 85 separate projects designed to provide increased water delivery and seismic reliability throughout the Hetch Hetchy water system. The approved budget for all WSIP projects is \$4,585,556,261, however the most recent quarterly report published by the PUC on May 18, 2010, estimates that WSIP will have a total cost of \$4,576,324,000.

Table 1: Previous Appropriations to the CSSAT System Upgrade Project

Appropriation	Construction Funds On Budget and Finance Committee Reserve	Non-Construction Funds <u>Not</u> On Budget and Finance Committee Reserve	Total Appropriation
Previous Appropriations Except File 10-0337 (below)	\$0	\$21,521,440	\$21,521,440
Last Appropriation by the Board of Supervisors on April 20, 2010 (File 10-0337)	147,668,602	22,880,680	170,549,282
Total	\$147,668,602	\$44,402,120	\$192,070,722

The PUC is now requesting the release of the funds on Budget and Finance Committee reserve for the CSSAT System Upgrade Project (File 10-0604).

In addition to the Budget and Finance Committee reserve for construction funds imposed by the Board of Supervisors under File 10-0337, the Board of Supervisors also placed on Controller's reserve all funds for projects requiring Environmental Impact Reports (EIRs) under the California Environmental Quality Act (CEQA) pending approval of the project EIR by the Board of Supervisors. The PUC is now requesting approval of the findings under the California Environmental Quality Act (CEQA) for the Crystal Springs / San Andreas Transmission System Upgrade Project, such that the Controller can release the funds on Controller's reserve.

DETAILS OF PROPOSED LEGISLATION

According to Mr. Jacobo, the PUC's letter requesting the release of reserved funds inadvertently requests the release of the entire last previous appropriation of \$170,549,282 instead of the current amount on reserve for construction costs of \$147,668,602. Therefore the Budget and Legislative Analyst recommends reducing the requested release of funds by \$22,880,680, from \$170,549,282 to \$147,668,602. The remainder of this report refers to the current amount on Budget and Finance Committee reserve of \$147,668,602, as shown in Table 1 above.

The PUC is now requesting that the Budget and Finance Committee release the remaining \$147,668,602 currently held on reserve to fund the construction of the Crystal Springs / San Andreas Transmission System Upgrade Project (File 10-0604).

According to Mr. Jacobo, the estimated cost of construction has increased by \$208,500 since the time funds were appropriated, from \$147,668,602 (the amount of construction funds on reserve as shown in Table 1 above) to \$147,877,102. Mr. Jacobo stated that the PUC anticipates that savings in non-construction costs (such as construction management and City staff costs) will offset the increased construction costs, such that the total project costs remains the same at \$192,070,722. Table 2 below shows the current estimated project costs, of \$192,070,722, including the increased construction costs totaling \$147,877,102.

Table 2: Estimated Project Costs

Non-Construction Costs	
Planning, Design, and Engineering	\$15,670,000
Environmental Mitigation	4,436,000
Construction and Project Management	24,087,620
Subtotal	\$44,193,620
Construction Costs	
Construction Contract	130,797,365
Construction Contingency – 10 percent	13,079,737
PG&E Substation Replacement ²	4,000,000
Subtotal	\$147,877,102
Total	\$192,070,722

The Budget and Legislative Analyst notes that while estimated construction costs have increased since the time funds were appropriated, the actual construction costs will not be known until after the PUC receives construction bids. The PUC (a) issued a competitive request for construction bids on June 18, 2010, with bids due by July 29, 2010, and (b) anticipates awarding a construction contract in the estimated amount of \$130,797,365 (as shown in Table 2 above) by September of 2010. The Budget and Legislative Analyst notes the approval of this construction contract is not subject to Board of Supervisors approval because the PUC is authorized to award construction contracts, using the City's competitive bidding procedures, without subsequent Board of Supervisors approval, under Section 9.118(b) of the San Francisco Charter.

The PUC is also requesting the Board of Supervisors approval of the proposed resolution (File 10-0606) to adopt the findings included in the CEQA-required environmental report for the Crystal Springs / San Andreas Transmission System Upgrade Project (File 10-0606). According to Mr. Jacobo, the San Francisco Planning Commission approved the CEQA required environmental report on May 11, 2010, which identifies project modifications necessary to mitigate the environmental impact of the subject Project.

Mr. Jacobo advises that environmental mitigation work and project modifications required by the environmental permits are not anticipated to alter the total current estimated total project cost of \$192,070,722 or the estimated project completion date of April of 2014. The proposed CEQA resolution would also require the Clerk of the Board to notify the Controller that the Board of Supervisors approved the proposed resolution because the WSIP project funds previously appropriated for the Crystal Springs / San Andreas Transmission System Upgrade Project were placed on Controller's reserve, pending the Board of Supervisors' adoption of the relevant CEQA report.

FISCAL IMPACTS

Approval of the this request would result in the release of \$147,668,602 in reserved funds from Water Revenue Bonds previously appropriated by the Board of Supervisors. As discussed above, because estimated construction costs have increased by \$208,500 since the time funds were appropriated and placed on reserve, Table 2 above shows a total of \$147,877,102,

² According to Mr. Jacobo, the PG&E substation replacement work is separate from the construction contract to be awarded by the PUC because PG&E requires that modifications to PG&E facilities be performed by PG&E.

including (a) \$130,797,365 in estimated construction contract costs, (b) \$13,079,737 for a 10 percent construction contingency, and (c) \$4,000,000 for PG&E's cost to replace the substation at the Lower Crystal Spring Pump Station. Mr. Jacobo stated that the PUC estimates that reductions in non-construction costs will offset the increased construction costs, such that the total estimated project cost remains at \$192,070,722.

Debt service on the Water Revenue Bonds totaling \$4,585,556,261 issued by the PUC to fund all WSIP projects, including \$190,070,722 in total estimated project costs for the Crystal Springs / San Andreas Transmission System Upgrade Project as shown in Table 2 above, will be paid through water rates³ charged to PUC's water customers.

OTHER CONSIDERATIONS

The Budget and Finance Committee did not specify criteria for the release of the subject construction funds when they were placed on reserve.

The Budget and Legislative Analyst notes that when the subject funds were placed on reserve on April 20, 2010, (a) the required CEQA reports were not completed, (b) the Crystal Springs / San Andreas Transmission System Upgrade Project was estimated to cost a total of \$192,070,722, and (c) the Project was anticipated to be completed by April of 2014. As discussed above, (a) approval of the proposed resolution (File 10-0606) would adopt environmental findings required by CEQA, (b) the Project has a current total estimated project cost which remains unchanged at \$192,070,722, and (c) the estimated completion date remains unchanged at April of 2014.

The actual construction costs will be known after the PUC receives construction bids, which are currently due on July 29, 2010.

The Budget and Legislative Analyst notes the Board of Supervisors could review the requested release of reserved funds based on actual construction costs, instead of current estimated construction costs, after the PUC receives construction bids, which are currently due on July 29, 2010.

The Budget and Legislative Analyst would have recommended continuing the requested release of reserved construction funds until the PUC receives the actual construction bids on July 29, 2010. However, according to Mr. Jacobo, the PUC wants to award a construction contract in September in order to maintain the project's schedule. Therefore, according to Mr. Jacobo, a continuance of the PUC request could result in delays to the project due to (a) potential extensions in the bid deadline, and (b) the period in late August when the Board of Supervisors is in recess.

As such, the Budget and Legislative Analyst instead recommends replacing the existing Budget and Finance Committee reserve with a Controller's reserve, instructing the Controller to, after

³ Water rates through FY 2013-2014 were considered approved by the Board of Supervisors on June 5, 2009 because, pursuant to Proposition E approved by the voters on November 5, 2002, the rates were not rejected within 30 days of their submission to the Board of Supervisors.

receiving supporting documentation from the PUC, (a) release an amount equal to the lowest responsive construction bid received by the PUC, plus a 10 percent construction contingency⁴, and plus \$4,000,000 for the estimated cost for replacing the PG&E substation which is not included in the anticipated construction bid, and (b) return any remaining funds to a Budget and Finance Committee reserve.

RECOMMENDATIONS

1. Reduce the requested release of reserved funds by \$22,880,680, from \$170,549,282 to \$147,668,602 (File 10-0604), and release the requested \$147,668,602 on reserve.
2. Replace the existing Budget and Finance Committee reserve with a Controller's reserve, and instruct the Controller to, after receiving supporting documentation from the PUC, (a) release the amount of construction funds equal to the lowest responsive construction bid received by the PUC, plus a 10 percent construction contingency, and plus \$4,000,000 for the estimated cost for replacing the PG&E substation which is not included in the anticipated construction bid, and (b) return any remaining funds to a Budget and Finance Committee reserve.
3. Approve the proposed resolution adopting the findings under the California Environmental Quality Act (CEQA) (File 10-0606).

⁴ According to Mr. Jacobo, a 10 percent construction contingency is the standard construction contingency included in all WSIP project construction budgets.