

Item 5 File 10-0984	Department(s): Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objective</p> <ul style="list-style-type: none"> • The proposed resolution would approve a new Memorandum of Agreement between the National Park Service (NPS) and the PUC for the NPS to provide watershed management services for the PUC within Yosemite National Park at an estimated cost of \$30,000,000 for a five year term retroactive from July 1, 2010 to June 30, 2015. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The PUC is not required to filter the water that comes from the Hetch Hetchy watershed, which supplies 80 percent of the drinking water for PUC customers, because (a) the exceptionally high water quality of the Hetch Hetchy watershed, and (b) the ongoing watershed management efforts provided by the PUC. On July 21, 2005, the PUC retroactively executed existing agreements between the National Park Service (NPS) and the PUC for the NPS to provide watershed management services for the PUC within Yosemite National Park for a five year term between July 1, 2005 and June 30, 2010, at actual cost of \$19,543,111. The National Park Service provides such watershed management services for the watersheds which lie within Yosemite National Park. Watershed management services include (1) program management, (2) source water protection, (3) security, and (4) special projects. • The PUC is now requesting a new Memorandum of Agreement retroactive to July 1, 2010 between the NPS and the PUC for the NPS to (a) combine the same watershed management services under their existing agreements, and (b) add a new category of services entitled environmental stewardship. Environmental stewardship services include various tasks which are intended to protect and rehabilitate the ecosystems that affect, or are affected by, PUC water operations. • The PUC will pay the NPS an estimated not-to-exceed amount of \$27,486,504 for the watershed management services to be provided by the NPS within Yosemite National Park. The expenditure plan provided by the PUC includes \$27,486,504, which is \$2,513,496 less than the requested not-to-exceed amount of \$30,000,000. The proposed expenditures of \$27,486,504 represent an increase of \$7,943,393, or 40.6 percent, when compared to the actual expenditures under the existing agreements of \$19,543,111. According to Mr. Jacobo, this increase of \$7,943,393 is due to (a) assumed NPS cost escalation of approximately 5.0 percent per year over five years, and (b) increased dam security requirements. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The not-to-exceed \$30,000,000 cost of the proposed agreement would be funded from the water fees paid by PUC water customers, and appropriated by the Board of Supervisors. According to Mr. Carlos Jacobo, Budget Manger for the PUC, the proposed agreement costs were included in the current water rates charged by the PUC. 	

Recommendations

- Amend the proposed resolution to reduce the requested not-to-exceed amount of \$30,000,000 by \$2,513,496, to a not-to-exceed amount of \$27,486,504.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

According to Section 9.118 of the City's Charter, approval of any agreement with a period of more than ten years or a cost of more than \$10,000,000 requires approval by the Board of Supervisors.

Background

According to Mr. Carlos Jacobo, Budget Manager for the PUC, approximately 80 percent of the drinking water provided to the PUC comes from the Hetch Hetchy watershed. Mr. Jacobo advised that the PUC is not required to filter water that comes from the Hetch Hetchy watershed due to (a) the exceptionally high water quality of the Hetch Hetchy watershed, and (b) the ongoing watershed management efforts provided by the PUC and the National Park Service. The National Park Service provides such watershed management services for the watersheds which lie within Yosemite National Park, while the PUC provides less intensive watershed management services¹ for all other areas.

On July, 25 2005, the PUC approved an existing Watershed Protection Memorandum of Agreement between the National Park Service (NPS) and the PUC for the NPS to provide watershed management services for the Hetch Hetchy watersheds that lie entirely within Yosemite National Park, for a five year term between July 1, 2005 and June 30, 2010. Watershed management services are provided in three categories of services including (1) program management, (2) source water protection, and (3) special projects. A separate Security Agreement was executed by the PUC on May 4, 2007 for a five year term from July 1, 2007 through June 30, 2012. The combined actual cost of these two agreements was \$19,543,111 over the five year period, July 1, 2005 through June 30, 2010, including (a) \$17,692,249 under the existing Watershed Protection Agreement, and (b) \$1,850,862 under the existing Security Agreement.

Although approval of the existing Memorandum of Agreement for Watershed Protection between the PUC and the NPS was subject to Board of Supervisors approval pursuant to San Francisco Charter 9.118 because it exceeded \$10,000,000, according to Mr. Jacobo, the PUC

¹ According to Mr. Jacobo, because water collected in watersheds other than those within Yosemite National Park is subject to filtration, the watershed management services provided by the PUC in areas outside Yosemite National Park are less intensive than those provided by NPS.

did not submit the existing Watershed Protection Agreement to the Board of Supervisors for approval due to staff oversight.

Since the expiration of the current Watershed Protection Agreement on June 30, 2010, the PUC and NPS have extended the current Agreement on a month-to-month basis in anticipation of the proposed new Memorandum of Agreement which would replace the two existing agreements. If the proposed resolution is approved, the proposed Memorandum of Agreement would retroactively approve a new agreement effective as of July 1, 2010.

For the purposes of this report, these two existing agreements are referenced in combination because (a) they both provide services in the Hetch Hetchy watershed which are necessary to maintain the water quality of the Hetch Hetchy watershed, and (b) they are proposed to be replaced by the subject proposed single agreement.

DETAILS OF PROPOSED LEGISLATION

The PUC is now requesting a new Memorandum of Agreement between the NPS and the PUC for the NPS to provide watershed management services within Yosemite National Park. The proposed new agreement has a term of five years, retroactive from July 1, 2010 through June 30, 2015, at a not-to-exceed amount of \$30,000,000, payable by the PUC to the NPS for the watershed management services provided by the NPS within Yosemite National Park.

According to the Attachment from the PUC, the PUC estimates expending \$27,486,504 under the proposed agreement, which is \$2,513,496 less than the requested not-to-exceed amount of \$30,000,000. Therefore, the Budget and Legislative Analyst recommends the proposed resolution be amended to reduce the authorized not-to-exceed amount by \$2,513,496, from a not-to-exceed amount of \$30,000,000 to a not-to-exceed amount of \$27,486,504. Table 1 below provides a summary of the detailed expenditure plan provided in the Attachment to the report.

Table 1: Summary of Expenditures

Raker Act Fees	\$150,000
Watershed Protection	20,448,808
Dam Security	3,519,938
Environmental Stewardship	1,207,651
Special Projects	2,160,107
Total	\$27,486,504

As shown in Table 1 above, the proposed expenditure plan is categorized into (a) Raker Act Fees, (b) Watershed Protection, (c) Dam Security, (d) Environmental Stewardship, and (e) Special Projects. A description of each category of service follows.

Description of Services

1-Raker Act Fees

According to Federal Law known as the Raker Act of 1913, the National Park Services is entitled to, in addition to reimbursement of costs for the other services described below, an

annual fee of \$30,000 for each of the five years of the proposed agreement term for a total of \$150,000.

2- Watershed Protection

The proposed Agreement includes \$20,448,808 for source water protection services including (a) \$1,011,137 for staffing for roadway entrance stations which control access to Hetch Hetchy watershed areas, (b) \$7,884,512 for patrolling the watershed area and enforcing proper visitor use, (c) \$4,321,233 for trail and restroom maintenance, (d) \$4,192,812 for operation of the wilderness permitting system which controls the number of overnight campers in the Hetch Hetchy watershed areas, (e) \$2,231,376 for outreach, education, and impact monitoring services, and (f) \$807,738 for program management services including one full time NPS staff member to serve as the program manager who prepares all reports, invoices, and budgets, and ensures the timeliness and quality of all work performed by the NPS.

3-Dam Security

Dam security services, totaling \$3,519,938 under the proposed new Agreement, generally include (a) patrols, (b) monitoring, (c) emergency response, (d) investigations and, (e) supporting equipment and activities. Under the existing agreements, the total expenditures for dam security were \$2,276,186, as shown in the Attachment. According to Mr. Jacobo, details regarding the specific security services are not publicly available due to Homeland Security restrictions.

4-Environmental Stewardship

In June of 2006, the PUC adopted an Environmental Stewardship Policy which requires the PUC to protect and rehabilitate the ecosystems that affect, or are affected by, PUC water operations. Under the existing agreements with NPS which were executed in July of 2005, prior to the adoption of the PUC's Environmental Stewardship Policy, environmental stewardship services were provided under the Special Projects category for as-needed services as discussed below.

The proposed new Agreement would include new environmental stewardship services totaling \$1,207,651, in accordance with the PUC's Environmental Stewardship Policy, including (a) reptile and amphibian studies (this project, entitled "Amphibian/Reptile Survey", is an ongoing project which was previously included as a special project under the existing agreements, as shown in the Attachment), (b) studies of the ecosystem downstream of the O'Shaughnessy Dam (this project, entitled "Looking Downstream", is an ongoing project which was previously included as a special project under the existing agreements, as shown in the Attachment), and (c) review of the water release amounts allowed for the O'Shaughnessy Dam and the Eleanor Dam.

5- Special Projects

Special Projects serves as a funding set aside for as-needed services which are not anticipated at the time of execution of the Agreement. Under the existing agreements with the NPS, \$1,719,417 was expended under Special Projects for (a) environmental stewardship services (which are now included in the regular agreement services as shown in Table 1 above at an

estimated cost of \$1,207,651), and (b) various other projects such as livestock monitoring and visitor impact monitoring.

The PUC anticipates additional future as-needed services totaling \$2,160,107. Because such a special project set aside of \$2,160,107 is 7.9 percent of the total estimated expenditure plan of \$27,486,504, the Budget and Legislative Analyst finds a 7.9 percent special projects set aside to be reasonable.

FISCAL IMPACT

The estimated expenditures under the proposed Agreement totaling \$27,486,504 will be funded from water fees paid by PUC water customers, subject to appropriations approval by the Board of Supervisors. According to Mr. Jacobo, the additional estimated cost of \$27,486,504 under the proposed Agreement with the National Park Service is included in the water rates previously approved by the Board of Supervisors² through FY 2013-2014.

The estimated expenditures of \$27,486,504 represent an increase of \$7,943,393, or 40.6 percent, when compared to the actual expenditures under the existing agreements of \$19,543,111. According to Mr. Jacobo, this increase of \$7,943,393 is due to (a) assumed NPS cost escalation of approximately 5.0 percent per year over the five year period of the agreement, and (b) increased dam security requirements.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the requested not-to-exceed amount of \$30,000,000 by \$2,513,496, from \$30,000,000 to a not-to-exceed amount of \$27,486,504.
2. Approve the proposed resolution, as amended.

² The FY 2009-2010 through FY 2013-2014 water rates were considered approved by the Board of Supervisors on June 5, 2009 because, pursuant to Proposition E approved by the San Francisco voters on November 5, 2002, the PUC's water rates were not rejected within 30 days of their submission to the Board of Supervisors.

**Hetch Hetchy Water & Power
National Park Service Funding
FY05-06 Through FY14-15**

	Previous 5-Year Agreement					New 5-Year Agreement					Total	
	Year 1 FY05-06	Year 2 FY06-07	Year 3 FY07-08	Year 4 FY08-09	Year 5 FY09-10	Year 1 FY10-11	Year 2 FY11-12	Year 3 FY12-13	Year 4 FY13-14	Year 5 FY14-15		
Core Tasks												
Raker Act Fee	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$150,000
Watershed Protection	2,716,345	2,913,285	3,090,991	3,255,342	3,421,545	3,770,717	3,867,356	4,062,223	4,266,835	4,481,677	4,481,677	20,448,808
Dam Security	6,548	418,776	595,675	642,617	612,570	637,020	668,871	702,315	737,430	774,302	774,302	3,519,938
Environmental Stewardship Projects						179,553	238,531	250,458	262,980	276,129	276,129	1,207,651
Core Task Subtotal	\$2,752,893	\$3,362,061	\$3,716,666	\$3,927,959	\$4,064,115	\$4,617,290	\$4,804,758	\$5,044,996	\$5,297,245	\$5,562,108	\$5,562,108	\$25,926,397
Special Projects												
Watershed Protection Projects												
Glen Aulin Composting Toilets		225,000										225,000
Tuolumne User Capacity Management Program		104,225										104,225
Stock Use Management		9,643										9,643
Portable Toilets at Cathedral Lakes Trailhead		10,000										10,000
Visitor Impact Monitoring			91,439		110,396							201,835
Meadow Degradation & Impacts on Water Stream					169,796							169,796
Wilderness Restoration & Watershed Protection					61,912							61,912
Lake Eleanor Housing Structural Improvements					252,980							252,980
Subtotal		\$348,868	\$0	\$91,439	\$595,084							\$1,035,391
Environmental Stewardship Projects												
HH Cultural Landscape Assessment		34,703										34,703
Submerged Cultural Resources		14,175										14,175
Looking Downstream: Assessment below the Dam		220,501		112,540	139,628							472,669
Tuolumne Meadow Health Assessment		38,588	33,455									72,043
Amphibian/Reptile Survey		\$307,967	\$33,455	\$152,976	\$189,628							\$684,026
Subtotal		\$656,835	\$33,455	\$244,415	\$784,712							\$1,719,417
Future Special Projects Allocation						\$214,581	\$451,385	\$479,954	\$497,652	\$522,535	\$522,535	\$2,160,107
Special Projects Subtotal		\$656,835	\$33,455	\$244,415	\$784,712	\$214,581	\$451,385	\$473,954	\$497,652	\$522,535	\$522,535	\$2,160,107
Grand Total	\$2,752,893	\$4,018,896	\$3,750,121	\$4,172,374	\$4,848,827	\$4,831,871	\$5,256,143	\$5,518,950	\$5,794,897	\$6,084,643	\$6,084,643	\$27,486,504