

File No. 101594

Committee Item No. 2

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: January 26, 2011

Board of Supervisors Meeting

Date _____

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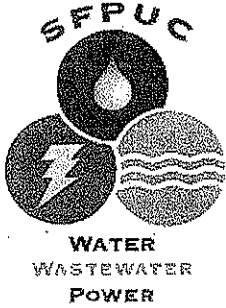
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SAN FRANCISCO PUBLIC UTILITIES COMMISSION

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December 14, 2010

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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 CUW373 –
San Joaquin Pipeline System Release of Reserve for \$98,420,416**

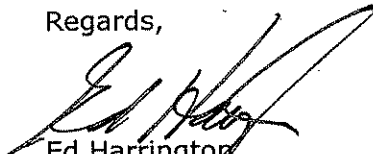
Dear Ms. Calvillo:

I would like to request your assistance to have calendared a release of reserve on WSIP Project CUW373 – San Joaquin Pipeline System.

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 pending California Environmental Quality Act (CEQA) approval.

Funding is now needed to award the construction contracts for both the San Joaquin Pipeline West and East Segments.

Regards,



Ed Harrington
General Manager

Item 2
Files 10-1594

Department(s):
Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- Request to release \$98,420,416 on Budget and Finance Committee reserve for the construction of the Western and Eastern Segments of the San Joaquin Pipeline Project.

Key Points

- The requested release of \$98,420,416 on reserve would be used to fund the San Joaquin Pipeline (SJPL) System Project from proceeds from the sale of Water Revenue Bonds, previously appropriated by the Board of Supervisors for PUC Water Systems Improvement Program (WSIP) projects.
- The SJPL System Project consists of one rehabilitation project, the Rehabilitation of existing San Joaquin Pipelines and three construction projects, (1) the Crossovers, (2) the Western Segment, and (3) the Eastern Segment. Total estimated cost of the SJPL System Project is \$256,500,000. The Crossovers Project is currently under construction phase and anticipated to be completed by November 2011. The Western Segment Project is anticipated to begin construction in February 2011. The Eastern Segment Project is in the final design phase, with construction anticipated to begin in June 2011.
- The proposed release was requested to be increased by \$9,512,684 from \$98,420,416 to \$107,933,100 by the PUC after review and analysis of the request by the Budget and Legislative Analyst's Office.

Recommendations

- Approve a release of reserved funds totaling \$100,800,462 (see Table 6 below) or \$7,132,638 less than the current requested amount of \$107,933,100, for construction of the Western and Eastern Segment portions of the San Joaquin Pipeline Project.
- Replace the existing Budget and Finance Committee reserve with a Controller's reserve in the amount of \$65,148,445 (see Table 6 below) for the Eastern Segment of the San Joaquin Pipeline Project and request 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 for the Eastern Segment contract, plus the standard ten percent construction contingency, and (b) return any remaining funds to the Budget and Finance Committee reserve.

MANDATE STATEMENT/ BACKGROUND**Mandate Statement**

In accordance with Section 3.3 of the City's Administrative Code, the committee of the Board of Supervisors that has jurisdiction over the budget (i.e., Budget and Finance Committee) may place requested expenditures on reserve until released by the Budget and Finance Committee of the Board of Supervisors.

Background

The Public Utilities Commission's (PUC) Water System Improvement Program (WSIP)¹ is a series of 86 separate capital improvement projects designed to provide increased water delivery capacity and seismic reliability throughout the Hetch Hetchy water system. The 86 individual projects are categorized into five geographic regions and standalone projects, and have a current total estimated cost of \$4,576,324,000, including financing costs. The San Joaquin Pipeline (SJPL) System is a water transmission facility², with three major pipelines extending 47.5 miles, from the eastern Foothill Tunnel at Oakdale Portal to the western Coastal Range Tunnel at Tesla Portal in the San Joaquin Valley.

The SJPL System Project is one of the 86 projects included in the WSIP. The SJPL System Project consists of one rehabilitation project, the rehabilitation of existing San Joaquin Pipelines and three new construction projects: (a) the Crossovers, (b) the Western Segment, and (c) the Eastern Segment, which will improve the regional water system's overall delivery reliability by facilitating future maintenance operations. The PUC's Engineering Management Bureau is responsible for the design for all three construction projects with support from the engineering consultant, MWH/AGS Joint Venture, which provides geotechnical investigation and analysis, surveying, mapping, hydraulics analysis, underground utility investigations, corrosion engineering, pipeline design, communications system design, construction cost estimating, and security upgrades design for the entire SJPL System Project.

The PUC's total estimated cost of the SJPL System Project is \$256,500,000.

The rehabilitation of existing San Joaquin Pipelines Project includes (a) an initial conditions assessment phase to identify the highest pipeline rehabilitation priorities, to be followed by (b) a replacement phase of the existing aged pipes. This rehabilitation project is still in the planning phase and is estimated to cost \$32,000,000.

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, to provide increased water delivery and seismic reliability throughout the Hetch Hetchy water system. The previously 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.

² Water transmission facilities consist of pipelines, tunnels, dams, and reservoirs that are used to deliver water to San Francisco and the neighboring counties.

The Crossovers Project consists of the addition of new crossover facilities³ in Stanislaus County. The main objective of the Crossovers Project is to provide additional system flexibility by adding the ability to isolate shorter segments of the pipelines in order to reduce water system flow and pipeline drainage requirements. The Crossovers Project, estimated to cost a total of \$28,100,000, is currently under construction, and is anticipated to be completed by November 2011.

The Western Segment Project consists of (a) the design and construction of a new pipeline, (b) four trenchless crossings⁴ of roads and highways, and (c) one aerial crossing⁵ of the California Aqueduct. According to Mr. Surinderjeet Bajwa, Deputy Water System Improvement Program Manager at the PUC, the PUC has completed the design work for the Western Segment Project and the is now ready to proceed with an award of a construction agreement in February of 2011. The Western Segment Project is estimated to cost a total of \$113,500,000 and be completed by March 2014.

The Eastern Segment Project consists of (a) the design and construction of a new pipeline segment, (b) the addition of new facilities to existing pipelines along the Eastern Segment to isolate these pipelines' maintenance and control pressure in the system, (c) a condition assessment⁶ followed by upgrading and renewal as required to access facilities and pipe coating at approximately 800 locations, and (d) upgrade of the existing SJPL Supervisory and Control and Data Acquisition (SCADA) system. Mr. Bajwa advises that the Eastern Segment Project is in the final design phase, such that the construction agreement for the Eastern Segment Project is anticipated to be bid in February 2011, with construction scheduled to commence in June 2011. The Eastern Segment Project is estimated to cost a total of \$82,900,000 and be completed by March 2014.

As shown in Table 1 below, these four projects will result in a total estimated cost for the SJPL System Project of \$256,500,000.

Table 1: Total Cost of SJPL System Project

Rehabilitation of existing San Joaquin Pipelines Project	\$32,000,000
Crossovers Project	28,100,000
Western Segment Project	113,500,000
Eastern Segment Project	82,900,000
Total Cost	\$256,500,000

³ Crossover facilities are valve stations located along the right-of-ways for two or more parallel pipelines, which provide for interconnection of the parallel pipelines so that water flow from one pipeline can be diverted into another pipeline. A crossover facility consists of a control building that houses the electrical and control equipment, backup generator, propane tank, and concrete vault that houses the valves, piping and other mechanical equipment.

⁴ A trenchless crossing is a construction method of installing a pipeline under the ground that does not involve continuous soil excavation for the entire pipeline alignment. This method is required when pipelines cross highways, railroads and canals to prevent interference with traffic and operation.

⁵ An aerial crossing is a construction method of installing a pipeline above ground, often supported on concrete piers.

⁶ A condition assessment is an investigation of the existing facilities to identify and evaluate the extent of deterioration, and develop proposals for the necessary repair or replacement of the facilities.

On September 22, 2009, the Board of Supervisors approved the California Environmental Quality Act (CEQA) findings for the subject SJPL System Project.

On April 20, 2010, the Board of Supervisors approved an appropriation of \$1,647,249,198 (File 10-0337) for various PUC WSIP projects such that, including all previous WSIP appropriations, the total WSIP budget of \$4,576,324,000 has now been fully appropriated to the PUC. When approving the \$1,647,249,198 WSIP appropriation, the Board of Supervisors placed on Budget and Finance Committee reserve all construction funds for projects which were estimated to cost more than \$100,000,000, including the subject SJPL System Project.

As shown in Table 2 below, a total of \$309,453,629 was previously appropriated for the SJPL System Project including (a) \$179,000,000 in estimated construction costs which was placed on reserve, and (b) \$130,453,629 for non-construction costs which were not placed on reserve. According to Mr. Chris Nelson, Project Manager for the PUC, since the time of the compilation of the 2009 budget when the SJPL System Project was estimated to cost a total of \$309,453,629, the construction industry has had major changes in its market conditions resulting in a \$52,953,629 drop in the estimated total costs for the SJPL Systems Project, resulting in the current estimated total SJPL Project cost of \$256,500,000

Table 2: Previous Appropriations to the SJPL System Project

Total Appropriations	Construction Funds On Budget and Finance Committee Reserve	Non-Construction Funds <u>Not</u> On Budget and Finance Committee Reserve	Total Appropriation
Appropriations Prior to April 20,2010	\$0	\$92,300,142	\$92,300,142
Appropriation on April 20, 2010	\$179,000,000	38,153,487	217,153,487
Total	\$179,000,000	\$130,453,629	\$309,453,629

DETAILS OF PROPOSED LEGISLATION

The PUC is now requesting the release of \$98,420,416 out of the total \$179,000,000 (see Table 2 above) currently on reserve to partially fund the construction and contingencies for the Eastern and Western Segment portions of the San Joaquin Pipeline System Project. As noted above, the Board of Supervisors placed on Budget and Finance Committee reserve all construction funds for WSIP projects which were estimated to cost more than \$100,000,000, including a total of \$179,000,000 for the SJPL System Project. As also noted above, on September 22, 2009, the Board of Supervisors approved the CEQA findings for the subject SJPL System Project (Resolution No. 369-09).

On September 8, 2010, the PUC issued a competitive Invitation to Bid for construction of the Western Segment of the SJPL System Project, and received bids from the following eleven pre-qualified firms on November 9, 2010, as shown in Table 3 below.

Table 3: Bidders for Construction of the Western Segment of the SJPL System Project

Bidders	Bid Amount
1. Mountain Cascade, Inc.	\$48,706,379
2. Don Kelly Construction	\$50,984,305
3. Steve P. Rados	\$51,048,692
4. Oscar Renda Contracting	\$51,098,216
5. Flatiron West	\$51,807,287
6. McGuire and Hester	\$52,276,853
7. Ranger Pipelines	\$52,664,286
8. W.A. Rasic Construction	\$53,203,706
9. Contri Construction	\$53,265,828
10. S.J. Louis Construction	\$55,150,691
11. L.H. Woods & Sons	\$59,131,812

As shown in Table 3 above, the lowest, qualified and responsive bidder was Mountain Cascade, Inc., in the amount of \$48,706,379. According to Mr. Bajwa, the PUC awarded the Western Segment construction agreement to Mountain Cascade, Inc. on December 14, 2010 for \$48,706,379. However, Mr. Bajwa advises that the PUC cannot execute this agreement, until the requested funds are released from reserve. Separate approval by the Board of Supervisors is not required for each of these PUC construction agreements, in accordance with Charter Section 8B.127 of the Municipal Code.

Mr. Bajwa further advises that if the subject funds are released from reserve, the construction of the Western Segment will commence in early February 2011 and extend through March 2014, when the Western Segment of the SJPL Project is expected to be completed.

According to Mr. Bajwa, construction bids for the Eastern Segment of the SJPL Project are anticipated to be issued by the PUC in February 2011 and to be awarded in June 2011. Mr. Bajwa advises that the PUC is requesting the release of \$65,148,445 currently on reserve in order to enter into a competitively bid construction agreement for the Eastern Segment of the SJPL Project. Construction of the Eastern Segment of the SJPL Project is anticipated to commence in June 2011 and extend through March 2014, when the Eastern Segment of the SJPL Project is also expected to be completed.

FISCAL IMPACTS

Approval of this request would result in the release of \$98,420,416 in reserved funds from Water Revenue Bonds previously appropriated by the Board of Supervisors. Debt service on the Water Revenue Bonds totaling \$4,585,556,261 issued by the PUC to fund all WSIP projects, including \$256,500,000 in total estimated project costs for the SJPL System Project will be paid through water rates⁷ charged to PUC's water customers.

Based on an analysis of this PUC request by the Budget and Legislative Analyst, and subsequent discussions with Mr. Bajwa and Mr. Carlos Jacobo, Budget Director at the PUC, as shown in Table 4 below, the PUC is now requesting that instead of the original \$98,420,416 request, that \$107,933,100 to cover additional construction and related expenses be released from reserve, an increase of \$9,512,684.

Table 4: PUC's Request For \$107,933,100 To Be Released From Reserve

SJPL Western Segment Construction	\$48,706,379
Construction Contingency (10%) for Western Segment Construction	4,870,638
Management Construction Contingency (10%) for Western Segment Construction	4,870,638
Subtotal SJPL Western Segment Construction	\$58,447,655
Subtotal Estimated Eastern Segment Construction	\$65,148,445
PUC Furnished Equipment ⁸	\$2,262,000
Total Estimated Cost	\$125,858,100
Available Remaining Funding from Controllers Reserve	-\$17,925,000
Total Requested for Release from Budget and Finance Committee Reserve	\$107,933,100

The Budget and Legislative Analyst notes that the PUC previously estimated construction costs of \$65,256,085 for the Western Segment of the SJPL Project. However, the actual construction low bid of \$48,706,379 as shown in Table 2 above, is \$16,549,706 or 25.4 percent below the PUC's estimate. While the PUC's estimate was significantly higher than the amount of the awarded agreement, Mr. Jacobo now advises that the PUC's estimate did not include the

⁷ 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.

⁸ Owner Furnished equipment is purchased by PUC through a separate contract through the PUC Purchasing Department. The equipment is delivered to the Contractor during construction.

additional construction contingency (\$4,870,638) and management construction contingency (\$4,870,638) of ten percent each as detailed in Table 4 above. According to Mr. Jacobo, the lower construction bid for this project is a reflection of the poor economy and that construction companies are submitting significantly lower bids in order to secure construction agreements.

Mr. Jacobo advises that a ten percent construction contingency for \$4,870,638 shown above in Table 4 for the Western Segment construction agreement would be used by the project team to address potential changes that may be required to cover additional work as a result of design errors and omissions or unanticipated conditions encountered during the term of the agreement.

Also shown above in Table 4 is a separate ten percent management construction contingency for \$4,870,638 for the Western Segment construction agreement. According to Mr. Jacobo, this second management construction contingency of \$4,870,638 was established by the PUC in recognition of the Western Segment Project's high risk profile, which includes construction alongside high voltage electrical transmission towers and underground work in areas of high groundwater. Including both of these contingencies, the total construction costs for the Western Segment agreement are \$58,447,655, as shown in Table 4 above. However, Mr. Jacobo acknowledges that the management construction contingency of \$4,870,638 is not needed at this time. Given that this second contingency is not currently needed, the Budget and Legislative Analyst recommends that this \$4,870,638 not be released at this time and should be continued to be held on reserve by the Budget and Finance Committee.

Upon review of this report, Mr. Bajwa advised that he believes that the management construction contingency of \$4,870,638 should be released and held in a Controllers' Reserve in case an emergency arises and the PUC needs the money immediately. The Budget and Legislative Analyst's Office disagrees due to the fact that the PUC will receive a ten percent construction contingency of \$4,870,638 as is now being recommended by the Budget and Legislative Analyst, through this subject reserve release and that such contingency funds can be used in case of emergency.

As shown in Table 6 below, the total needed amount to be released from reserve for the Western Segment Program is \$53,577,017 (\$48,706,379 plus \$4,870,638).

According to Mr. Bajwa, and as shown above in Table 4, the current PUC's estimate for the Eastern Segment construction agreement is \$65,148,445, which is being requested to be released from reserve at this time.

Table 4 above also includes \$2,262,000 for PUC Furnished Equipment. Mr. Nelson has advised that the \$2,262,000 is for \$470,000 for Energy Dissipating Valves⁹ and \$1,790,000 is for In-Line Butterfly Valves¹⁰, which are separately purchased by the PUC through a separate agreement. However, given that the PUC has not provided the Budget and Legislative Analyst with supporting documentation for this request, as shown in Table 6 above the Budget and Legislative Analyst's Office recommends that this \$2,262,000 continue to be held on reserve by the Budget and Finance Committee and not be released at this time.

⁹ Energy dissipating valves are used in large diameter pipeline systems to 'throttle' or slow down the flow of water.

¹⁰ In-line butterfly valves are used in large diameter pipeline systems to stop the flow and allow drainage of a pipe on one side of the valve during maintenance.

An original Controllers' Reserve totaling \$30,654,000 has been released from Controllers Reserve based on the September 22, 2009 approval by the Board of Supervisors of the CEQA findings for the subject SJPL System Project. The Budget and Legislative Analyst reviewed the PUC's anticipated expenditures totaling \$12,729,000, as shown in Table 5 below that would be incurred against the Controller's Reserve. Based on these anticipated expenditures, a remaining \$17,925,000 (\$30,654,000 less \$12,729,000) would be available to partially offset the requested release of reserves to fund the subject construction projects.

Original Amount in Controllers' Reserve	\$30,654,000
Project Management	2,336,000
Right of Way	434,000
Construction Management	9,959,000
Total Anticipated Expenditures to be Incurred	\$12,729,000
Available Funds from Controllers Reserve for Subject Request	\$17,925,000

POLICY 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 \$179,000,000 PUC funds were placed on reserve on April 20, 2010, the Budget and Finance Committee did not specify criteria that needed to be met for the subject funds to be released from reserve. The Budget and Legislative Analyst notes that (a) the required CEQA reports were approved by the Board of Supervisors on September 22, 2009, (b) the SJPL System Project was previously estimated to cost a total of \$309,453,629, and (c) the Project was anticipated to be completed by March 2014. The total estimated Project cost has since decreased by \$52,953,629 or 17.1 percent to \$256,500,000, and the estimated completion date remains unchanged at March 2014.

Construction costs for the Eastern Segment will be known when the design phase of the Project is completed and the bids for the construction agreement are received by the PUC

The Budget and Legislative Analyst would normally recommend that the Board of Supervisors review the requested release of reserved funds for the Eastern Segment construction agreement based on actual construction bids, instead of the current estimated construction costs, after the

PUC receives such construction bids in the spring of 2011. This is particularly significant, because, as noted above, the PUC estimated a construction cost of \$65,256,085 for the Western Segment of the SJPL Project, although the low bid of \$48,706,379 turned out to be \$16,549,706 or 25.4 percent below the PUC's estimate.

However, according to Mr. Bajwa, "release of the project funding including the Eastern Segment work is sought at this time in keeping with efforts to schedule program efforts to minimize impacts of the work on regional water system operations, as well as for administrative convenience and efficiency. This approach is taken considering that the Eastern Segment design is nearly complete, that contracting will follow immediately and that the overall schedule for getting work started on the Eastern Segment would be delayed if the PUC were required to return following award of the Eastern Segment contract to request another Budget and Finance Committee release. The Eastern Segment includes work that may only be performed during a full Hetch Hetchy flow shutdown, which has been coordinated with regional water system operations and would be very costly and disruptive to the WSIP to reschedule. Therefore the PUC is seeking to minimize the time required to complete all of the steps in the process of preparing for this shutdown, including obtaining this release of funding."

As such, the Budget and Legislative Analyst instead recommends replacing the existing Budget and Finance Committee reserve with a Controller's Reserve for the \$65,148,445 Eastern Segment construction estimate only, instructing the Controller to, after receiving supporting documentation from the PUC, (a) release an amount equal to the lowest responsive construction bid received by the PUC, plus the standard ten percent construction contingency and (b) return any remaining funds to a Budget and Finance Committee Reserve.

SUMMARY

In summary, based on the PUC's revised request of \$107,933,100 as detailed in Table 4 above, the Budget and Legislative Analyst recommends that (a) a total of \$100,800,462 (see Table 6 below) be released from reserve, and (b) \$65,148,445 (see Table 6 below) of that amount be transferred to Controller's Reserve pending supporting documentation from the PUC, regarding the bid awards for the Eastern Segment construction agreement.

Table 6: Recommendations Regarding the Requested Reserve

	Budget and Legislative Analyst's Amounts Not Recommended for Release from Reserve	Budget and Legislative Analyst's Amounts Recommended for Release from Reserve
SJPL Western Segment Construction		\$48,706,379
Construction Contingency (10%) for Western Segment Construction		4,870,638
Management Construction Contingency (10%) for Western Segment Construction	\$4,870,638	
Total SJPL Western Segment Construction		\$53,577,017
Total Estimated Eastern Segment Construction		\$65,148,445
Owner Furnished equipment	\$2,262,000	
Total Cost	\$7,132,638	\$118,725,462
Controllers Reserve (Release contingent upon awarding of agreements)		- \$17,925,000
Total Recommended for Release from Budget and Finance Committee Reserve		\$100,800,462
Total Approved for Placement in Controllers Reserve (Eastern Segment Construction Estimate)		\$65,148,445

RECOMMENDATIONS

1. Approve release of reserved funds totaling \$100,800,462, for construction of the Western and Eastern Segment portion of the San Joaquin Pipeline Project, in accordance with Table 6 above.

As noted in Table 6 above, there are two \$4,870,638 contingency amounts. The Budget and Legislative Analyst recommends approval of only one of the \$4,870,638 contingency amounts. The PUC disagrees and wants both of the \$4,870,638 contingency amounts, or total contingencies of \$9,741,276. The Budget and Legislative Analyst's Office disagrees due to the fact that the PUC will receive one of the ten percent contingency amounts of \$4,870,638 (see Table 6 above) through this subject reserve release and that such contingency funds can be used in case of emergency.

2. Replace the existing Budget and Finance Committee reserve with a Controller's reserve in the amount of \$65,148,445 for the Eastern Segment of the San Joaquin Pipeline Project in accordance with Table 6 above, and request 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 for the Eastern Segment contract, plus the standard ten percent construction contingency and (b) return any remaining funds to the Budget and Finance Committee reserve.

