

PUBLIC UTILITIES REVENUE BOND OVERSIGHT COMMITTEE CITY AND COUNTY OF SAN FRANCISCO MINUTES - DRAFT

**Public Utilities Commission Building
525 Golden Gate Ave., 4th Floor
San Joaquin Conference Room
San Francisco, CA 94102**

May 8, 2017 - 9:00 AM

Regular Meeting

Mission: The purpose of the Revenue Bond Oversight Committee (RBOC) is to monitor the expenditure of revenue bond proceeds related to the repair, replacement, upgrade and expansion of the SFPUC's water, power and sewer infrastructure. The RBOC's goal is to ensure that specific SFPUC revenue bond proceeds are spent appropriately and according to authorization and applicable laws. The RBOC provides oversight to ensure transparency and accountability in connection with expenditure of the proceeds. The public is welcome to attend RBOC meetings and provide input.

1. Call to Order and Roll Call

Seat 1 Holly Kaufman, Co-Chair (*Holdover status*)
Seat 2 Kevin Cheng (*Holdover status*)
Seat 3 Robert Leshner, Co-Chair
Seat 4 Tim Cronin
Seat 5 Travis George, Vice Chair
Seat 6 Christina Tang
Seat 7 Jennifer Millman

Co-Chairs Leshner and Kaufman called the meeting to order at 9:02 a.m. On the call of the roll, Co-Chairs Leshner and Kaufman and Members Cheng, Millman, and Tang were noted present. Vice Chair George and Member Cronin were noted not present. There was a quorum.

Member Cronin was noted present at 9:04 a.m.

2. Agenda Changes

Co-Chair Leshner noted SFPUC staff request to continue Items 7 and 8 to the June 12, 2017, RBOC meeting, and that Item 11 was inadvertently included on the agenda in error.

3. Public Comment: Members of the public may address the Revenue Bond Oversight Committee (RBOC) on matters that are within the RBOC's jurisdiction but are not on today's agenda.

Public Comment. Speakers: There were none.

4. **San Francisco Public Utilities Commission (SFPUC) Staff Report: Water System Improvement Program (WSIP) Updates**

Dan Wade, Director of Water Capital Projects and Programs (SFPUC); provided an update of the WSIP, including project status; recent accomplishments; storage projects; treatment projects; transmission projects; a revised summary of schedule extensions on the New Irvington Tunnel, Seismic Upgrade of BDPL Nos. 3 & 4, and a security system upgrade; Calaveras Dam Replacement Project update, including the start of Embankment Dam, storms impact on construction, Calaveras Reservoir outlet releases; fish passage facilities at Alameda Creek Diversion Dam; regional groundwater storage and recovery; bioregional habitat restoration; overview of active construction contracts; and an overview of change orders and trends.

Public Comment. Speakers: There were none.

5. **San Francisco Public Utilities Commission (SFPUC) Staff Report: Ratemaking 101**

Richard Morales, Debt Manager (SFPUC); provided a brief overview and introduced the SFPUC Rates Administrator. Rates Administrator Amy Javelosa-Rio, Erin Franks, and Simone Hudson (SFPUC); presented on the SFPUC ratemaking process, including the following: rate-setting background, charter requirements, rates policy, best practices, 2018 water and sewer rate study, Rate Fairness Board, Proposition 218, rate study policy areas, rate structure goals, key rate study tasks, impact of rates on bond ratings, water enterprise 10-year financial plan, and rate study timeline.

Mark Blake, Deputy City Attorney; Mike Brown (SFPUC); joined in the discussion and provided information relating to the hearing matter.

Public Comment. Speakers: There were none.

6. **Committee Discussion: Avoiding major cost overruns and options for consulting assistance in “deep dives”**

Member Cronin requested that SSIP and WSIP presentations include lessons learned on cost overruns and how those lessons learned are being applied, as well as project delivery methods as related to methodologies used on other project, and how the delivery method affected cost overruns.

Mark Blake, Deputy City Attorney; Mike Brown (SFPUC); joined in the discussion and provided information relating to the hearing matter.

Public Comment. Speakers: There were none.

7. **City Services Auditor Staff Report: Consultants’ Pool Presentation**

Public Comment. Speakers: There were none.

Item No. 7 was continued to the June 12, 2017, RBOC meeting.

8. **San Francisco Public Utilities Commission (SFPUC) Staff Report:** Debt Management Policies and Procedures, including Green bonds

Public Comment. Speakers: There were none.

Item No. 8 was continued to the June 12, 2017, RBOC meeting.

9. **Committee Discussion:** Review of RBOC Account Budget

Mike Brown (SFPUC); provided the Committee with updated account information in the amount of \$1.4 million. Mark Blake, Deputy City Attorney; joined in the discussion and provided information relating to the hearing matter.

Public Comment. Speakers: There were none.

10. **Approval of Minutes: April 10, 2017, Meeting Minutes**

Public Comment. Speakers: There were none.

Co-Chair Leshner, seconded by Member Tang, moved to APPROVE the April 10, 2017, Meeting Minutes. The motion carried by the following vote:

Ayes: 6 – Cheng, Cronin, Kaufman, Leshner, Millman, and Tang

Absent: 1 – George

11. **Election of Officers**

Public Comment. Speakers: There were none.

Item No. 11 was erroneously included on the May 8, 2017, RBOC agenda. The item was acted upon at the April 10, 2017, RBOC meeting. No further action was taken on the item at the May 8, 2017, RBOC meeting.

12. **Announcements, Comments, Questions, and Tentative Future Agenda Items**

Mike Brown and Richard Morales (SFPUC); provided follow-up information on options for the upcoming site visit. The Committee modified the regular meeting schedule by changing the July 17th meeting to July 24th, and further added clarification to existing pending items and added a discussion item for the RBOC site visit to the June 12, 2017, agenda. Co-Chair Kaufman requested staff reports focus on issues that pertain to the RBOC mission and maintain a presentation of 15 minutes with an additional 15 minutes for questions and answers. The tentative schedule for upcoming regular meetings is included below.

Public Comment. Speakers: There were none.

June 12, 2017

1. SSIP update – Collection System Plan and lessons learned (cost overruns)
2. Debt Management Policies and Procedures – including Green bonds
3. Presentation on consultants' pool – City Services Auditor
4. Environmental Justice Update, including EJ policy and checklist
5. Review RBOC account/budget; preview of debt certification by bond series
6. RBOC field trip / site visit

July 24, 2017

1. WSIP update - staff report
2. Green infrastructure – delivery methods
3. Mountain Tunnel Update

August 7, 2017

1. Half day field trip/site visit – location TBD, possible locations: Mountain Tunnel, Calaveras Dam, Southeast Plant

September 18, 2017

1. SSIP Update
2. Follow up to May discussion on avoiding major costs overruns and consultant pool info
3. Review RBOC account/budget
4. Green infrastructure – delivery methods – follow up

October 16, 2017

1. WSIP update
2. Seminar on capital planning
3. Calaveras Dam – deep dive
4. RBOC Succession Planning
5. Annual Report Draft

November 6, 2017

1. SSIP update

December 11, 2017

1. Clean Power/Power Enterprise presentation

13. Adjournment

There being no further business, the meeting adjourned at 11:16 a.m.

N.B. The Minutes of this meeting set forth all actions taken by the Revenue Bond Oversight Committee on the matters stated but not necessarily in the chronological sequence in which the matters were taken up.

Agenda Item Information

Each item on the agenda may include: 1) Department or Agency cover letter and/or report; 2) Public correspondence; 3) Other explanatory documents. For more information concerning agendas, minutes, and meeting information, such as these documents, please contact RBOC Clerk, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 – (415) 554-5184.

Audio recordings of the meeting of the Revenue Bond Oversight Committee are available at:
http://sanfrancisco.granicus.com/ViewPublisher.php?view_id=97

For information concerning San Francisco Public Utilities Commission please contact by e-mail RBOC@sfgov.org or by calling (415) 554-5184.

Meeting Procedures

Public Comment will be taken before or during the Committee's consideration of each agenda item. Speakers may address the Committee for up to three minutes on that item. During General Public Comment, members of the public may address the Committee on matters that are within the Committee's jurisdiction and are not on the agenda.

Procedures do not permit: 1) persons in the audience to vocally express support or opposition to statements by Commissioners by other persons testifying; 2) ringing and use of cell phones, pagers, and similar sound-producing electronic devices; 3) bringing in or displaying signs in the meeting room; and 4) standing in the meeting room.

The ringing of and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing or use of a cell phone, pager, or other similar sound-producing electronic devices.

LANGUAGE INTERPRETERS: Requests must be received at least 48 hours in advance of the meeting to help ensure availability. Contact Peggy Nevin at (415) 554-5184. AVISO EN ESPAÑOL: La solicitud para un traductor debe recibirse antes de mediodía de el viernes anterior a la reunion. Llame a Derek Evans (415) 554-5184. PAUNAWA: Ang mga kahilingan ay kailangang matanggap sa loob ng 48 oras bago mag miting upang matiyak na matutugunan ang mga hiling. Mangyaring tumawag kay sa (415) 554-5184.

Disability Access

Revenue Bond Oversight Committee meetings are held at the Public Utilities Commission, 525 Golden Gate Avenue, San Francisco, CA. The hearing rooms at the Public Utilities Commission are specified on the agenda and are wheelchair accessible. To request sign language interpreters, readers, large print agendas or other accommodations, please call (415) 554-5184. Requests made at least 48 hours in advance of the meeting will help to ensure availability.

翻譯 必須在會議前最少四十八小時提出要求
請電 (415) 554-7719

Know Your Rights Under the Sunshine Ordinance

Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils, and other agencies of the City and County exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review.

For more information on your rights under the Sunshine Ordinance (San Francisco Administrative Code, Chapter 67) or to report a violation of the ordinance, contact by mail: Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102; phone at (415) 554-7724; fax at (415) 554-7854; or by email at sotf@sfgov.org.

Citizens may obtain a free copy of the Sunshine Ordinance by printing San Francisco Administrative Code, Chapter 67, at <http://www.sfbos.org/sunshine>.

Lobbyist Registration and Reporting Requirements

Individuals and entities that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance [SF Campaign & Governmental Conduct Code, Section 2.100, et. seq.] to register and report lobbying activity. For more information about the Lobbyist Ordinance, please contact the Ethics Commission at: 25 Van Ness Avenue, Suite 220, San Francisco, CA 94102; telephone (415) 581-3100; fax (415) 252-3112; website www.sfgov.org/ethics.



WSIP Update

Revenue Bond Oversight Committee

May 8, 2017
Daniel L. Wade, Director
Water Capital Projects and Programs
Infrastructure Division



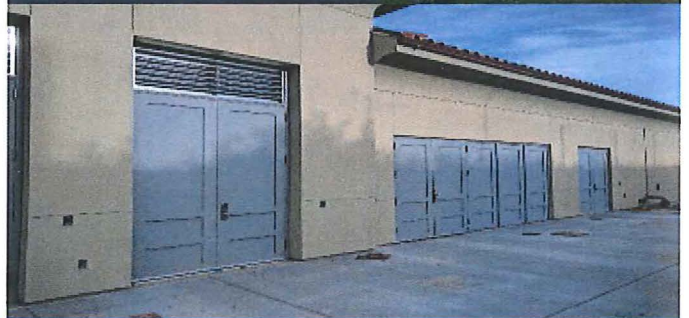
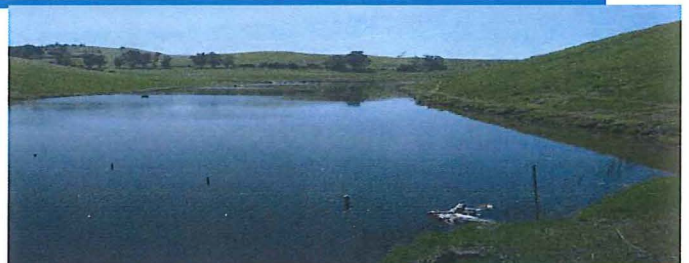
San Francisco
Water Power Sewer

Services of the San Francisco Public Utilities Commission



Water System Improvement Program (WSIP) Status

- Regional: **93.7%**
- Local: **99.9%**
- Overall WSIP: **94.3%**

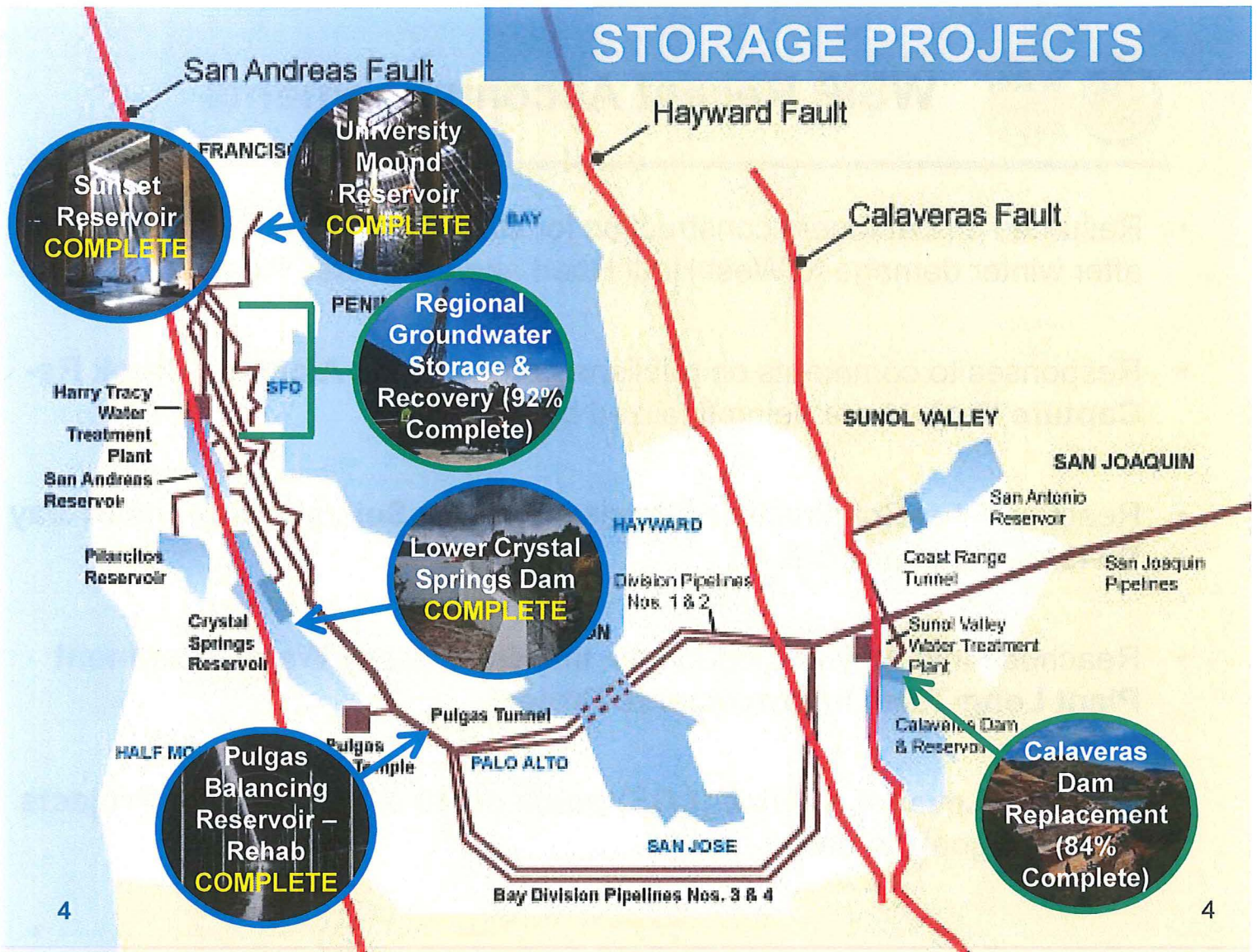




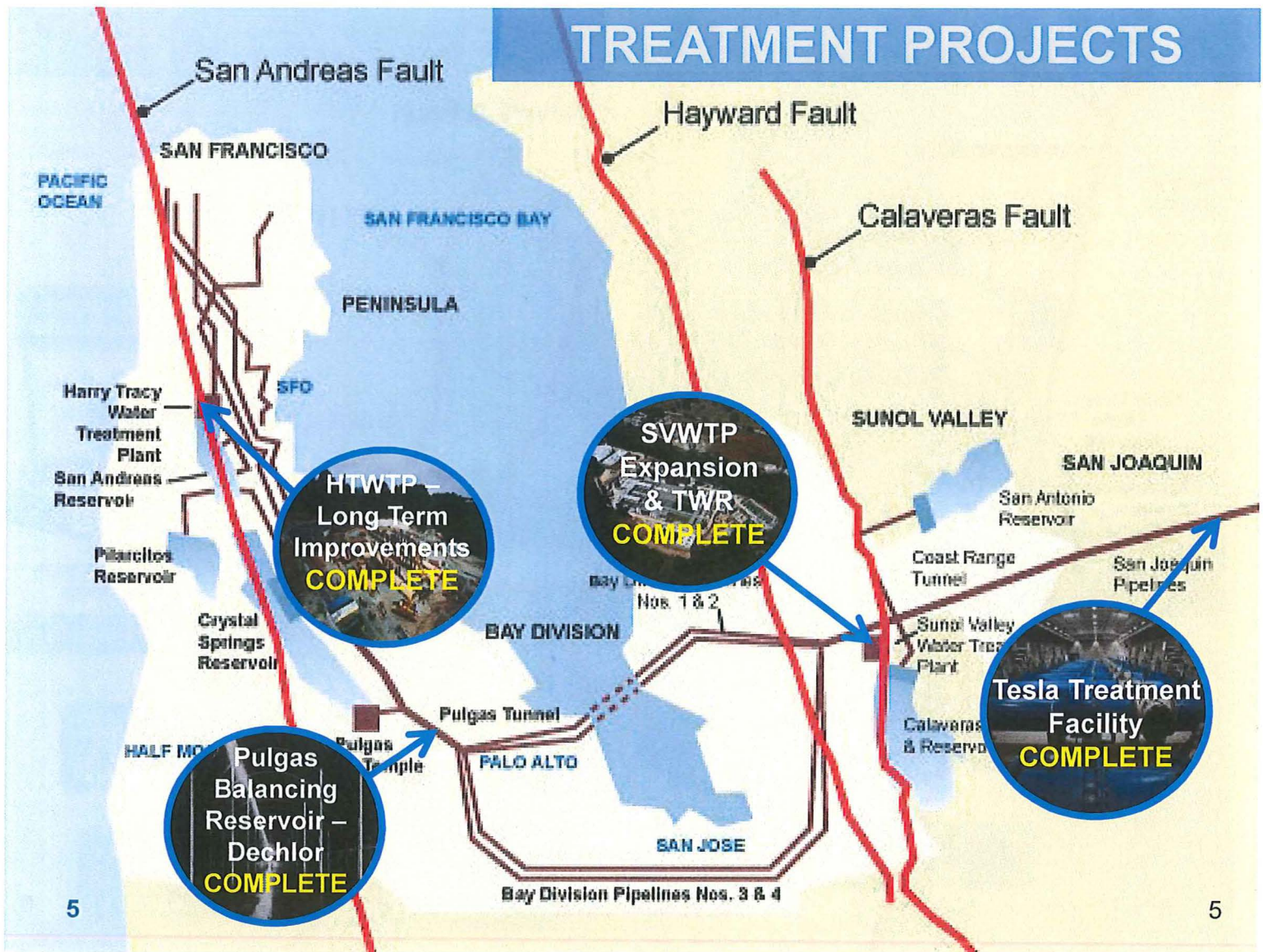
WSIP Recent Accomplishments

- Resumed embankment construction for **Calaveras Dam Replacement** after winter damage to West Haul Road and Calaveras Road
- Responses to comments on published draft EIR for **Alameda Creek Re-Capture Project** are being finalized by the team
- Reached Final Construction Completion on the **Seismic Upgrade of Bay Division Pipelines 3 & 4**
- Reached Final Project Closeout on the **Harry Tracy Water Treatment Plant Long-Term Improvements Project**
- Achieved **Level of Service (LOS)** goals on **40 of 43 Regional Projects** with LOS goals to date

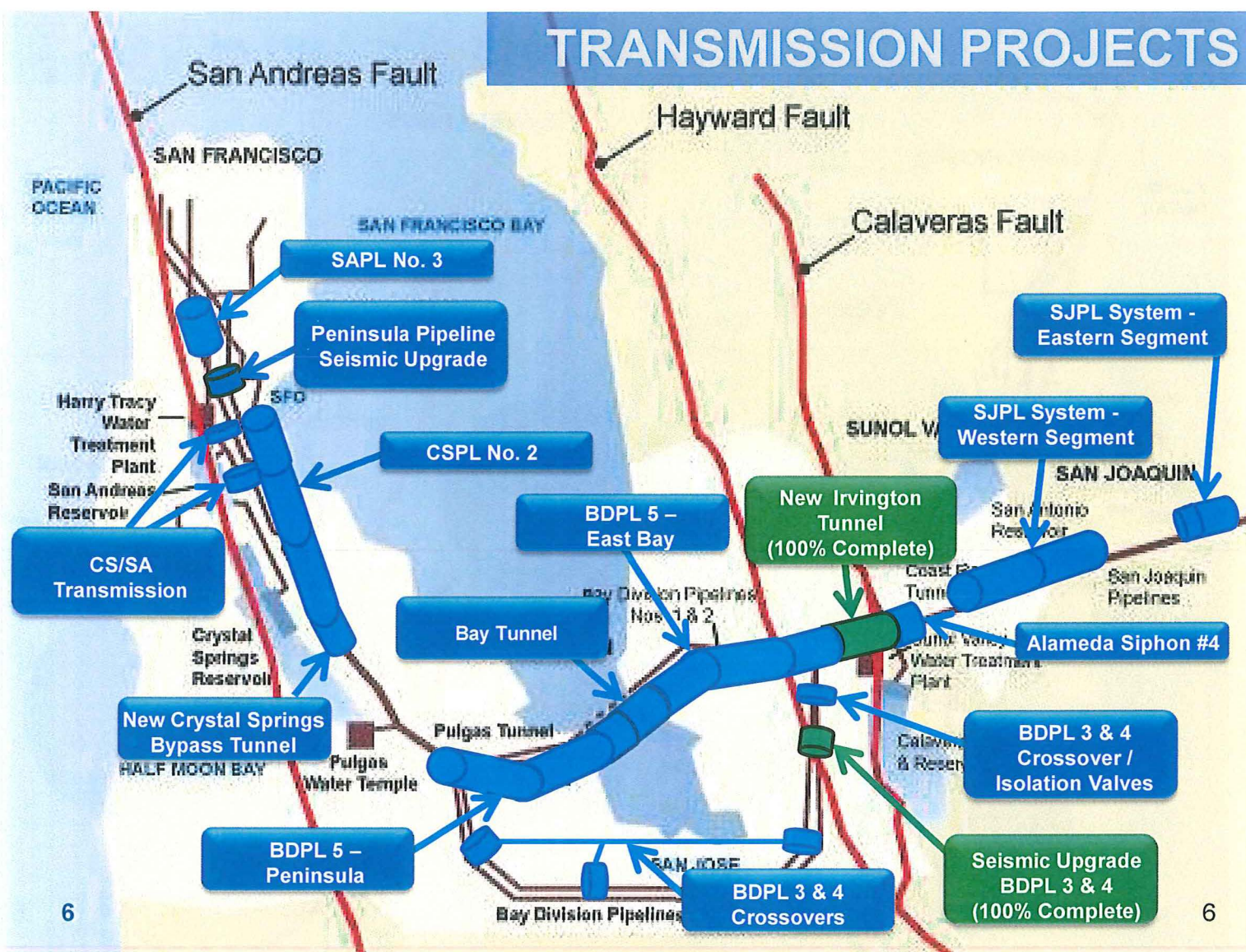
STORAGE PROJECTS



TREATMENT PROJECTS



TRANSMISSION PROJECTS





January 2017 Revised WSIP Summary

- **Schedule extension of 15 months to 3 projects (each extension is from 12/31/2016 to 3/31/2018):**
 - New Irvington Tunnel
 - Seismic Upgrade of BDPL Nos. 3 & 4
 - Security System Upgrade
- **No Revisions to Overall Program Completion Schedule or Budget**
- **Approved by the Commission February 14, 2017**



Calaveras Dam Replacement Project (CDRP)





CDRP: Start of Embankment Dam





CDRP: Storms Impact Construction





Calaveras Reservoir Outlet Releases





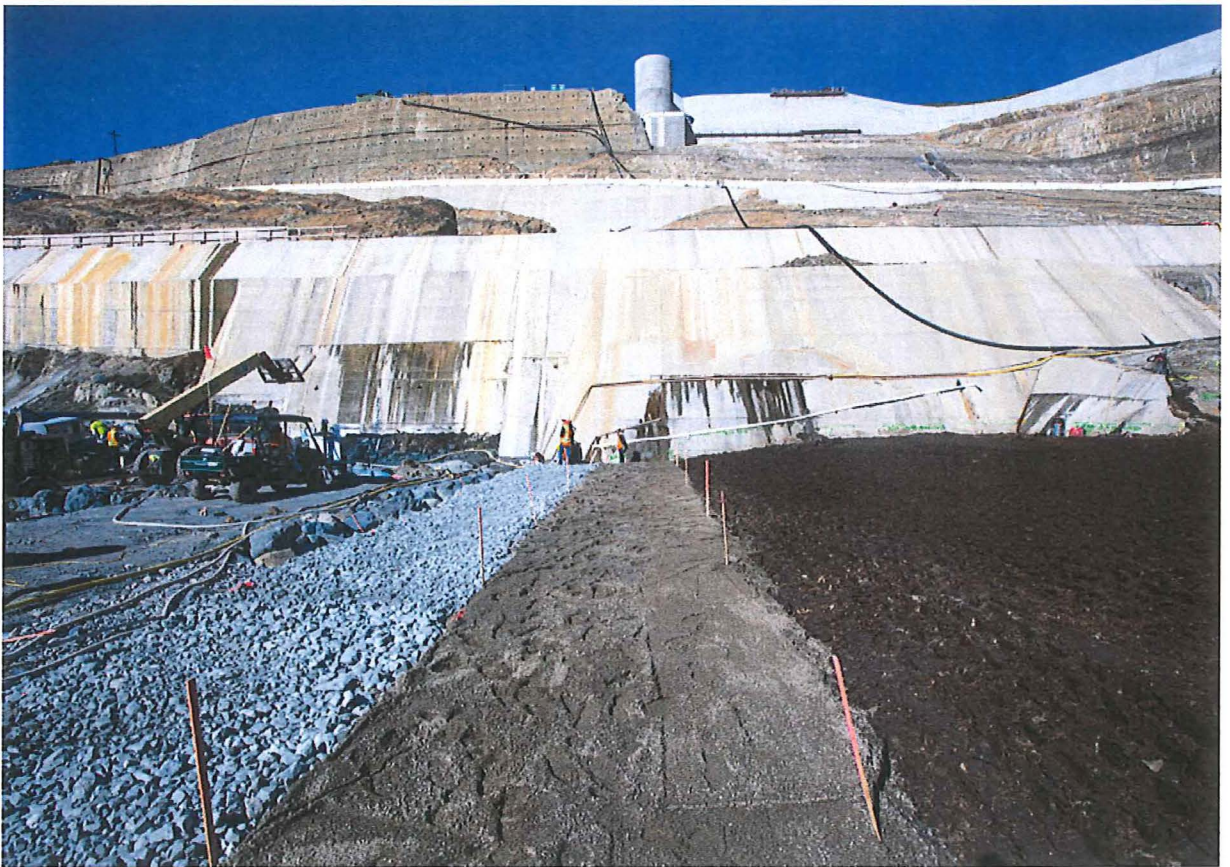
Calaveras Panoramix 3/14/2017



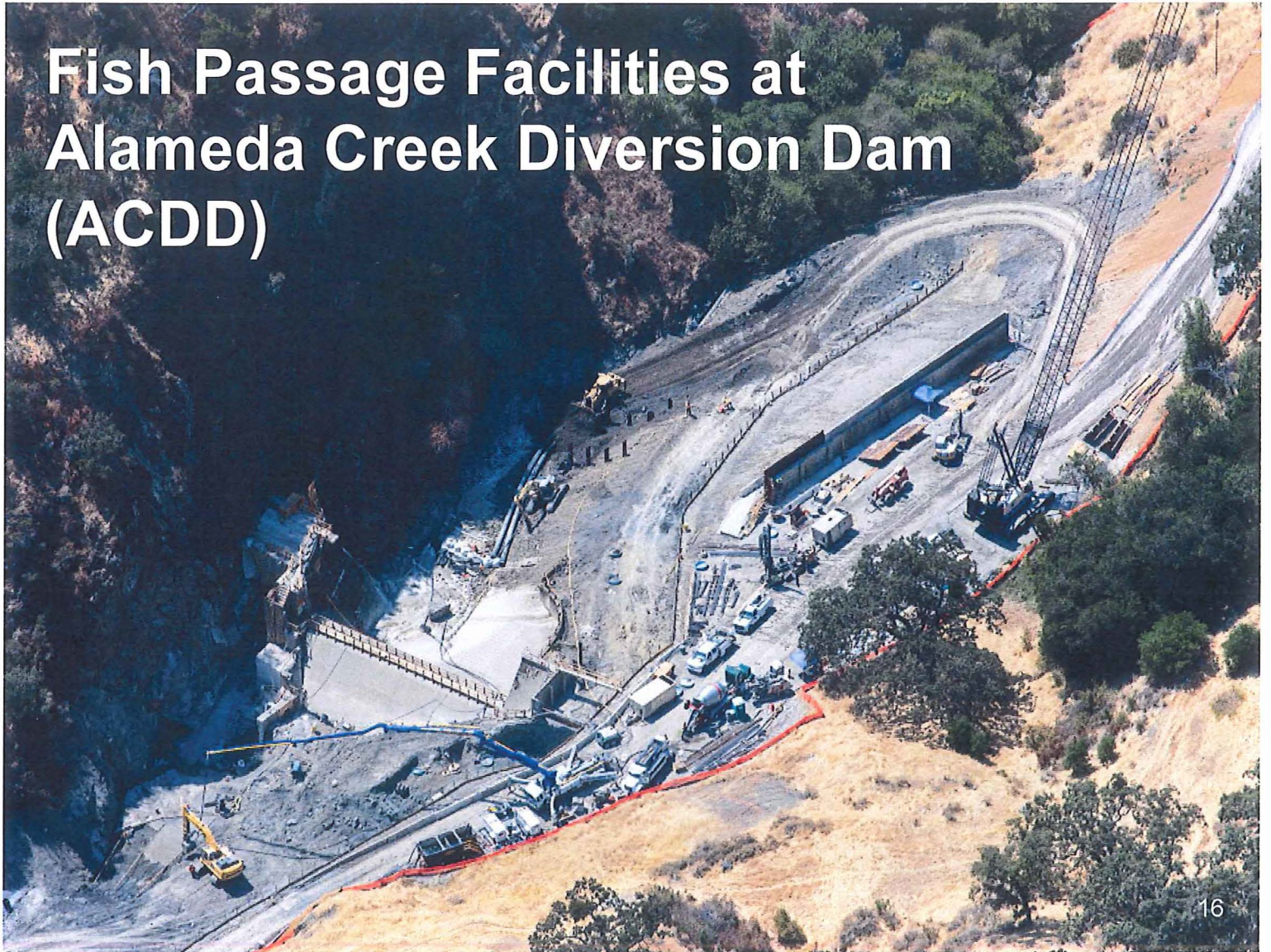


Calaveras 3/14/2017

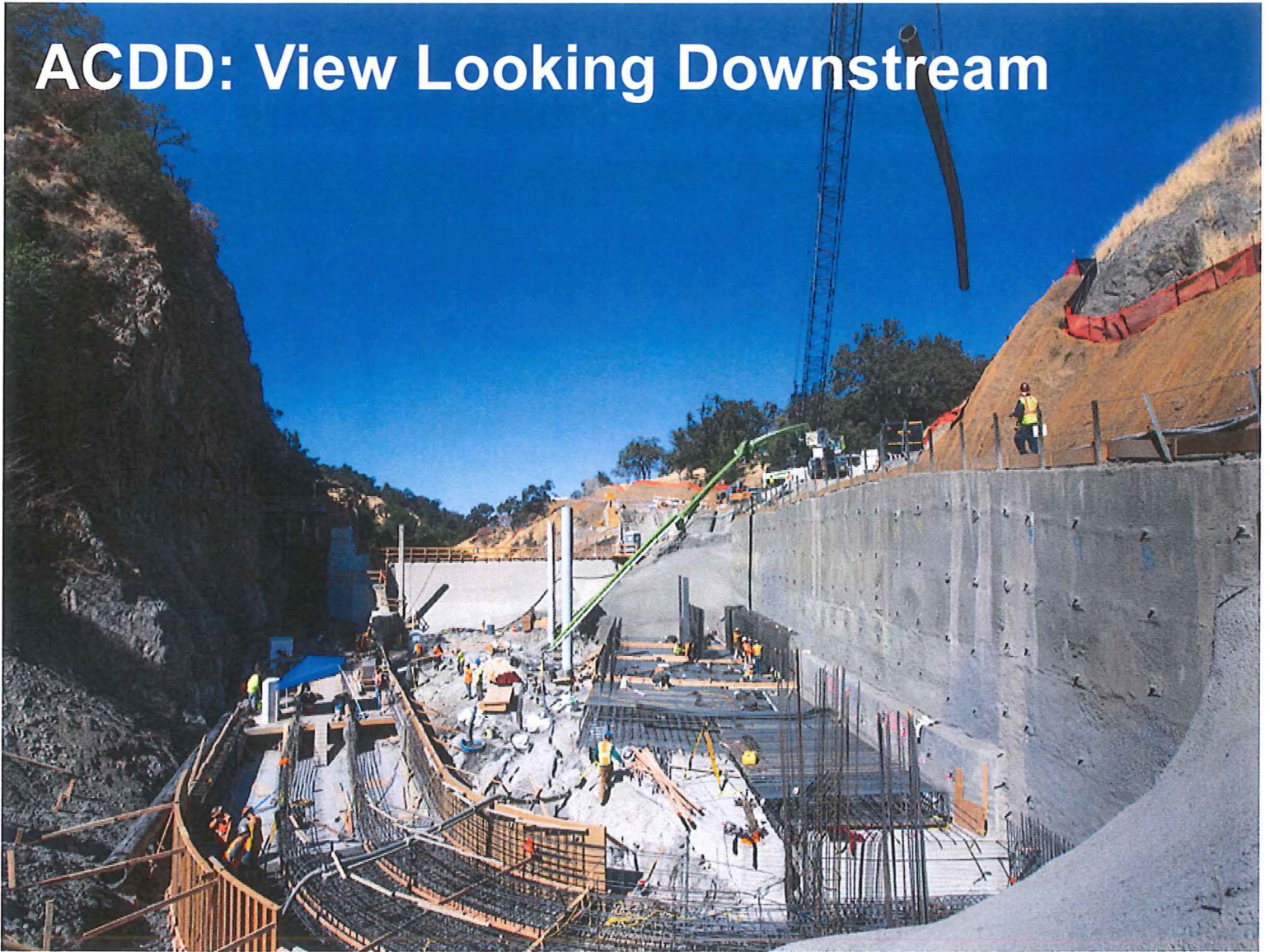




Fish Passage Facilities at Alameda Creek Diversion Dam (ACDD)



ACDD: View Looking Downstream





ACDD: High Creek Flows and Sediment Build-up Over Intake Structure





ACDD/Fish Passage 3/15/2017 – erosion issues





ACDD/Fish Passage on 3/15/2017





Fish Passage on 3/15/2017





Fish Passage on 3/15/2017





Regional Groundwater Storage and Recovery





San Francisco
Water
Power
Sewer

Bioregional Habitat Restoration (BHR): Peninsula Non-Native Vegetation Removal

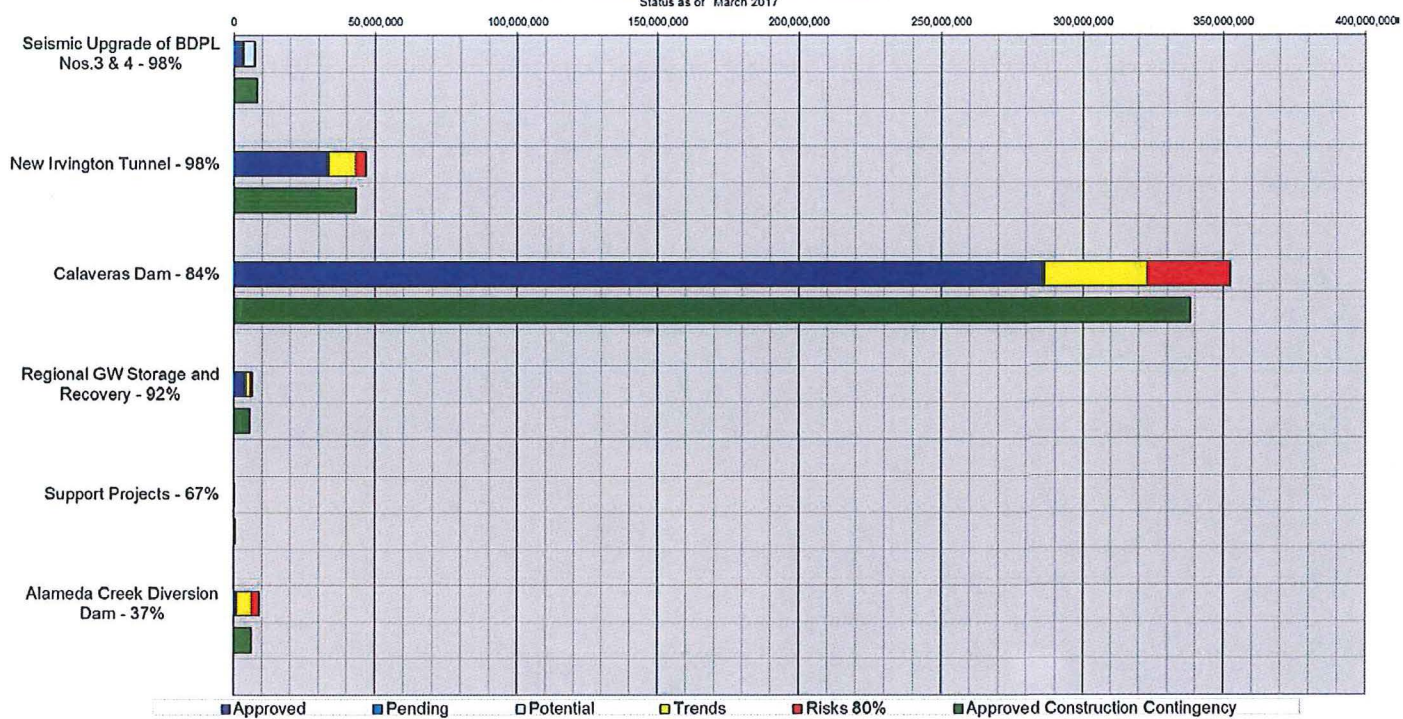




BHR: Fountain Thistle Site After Seeding

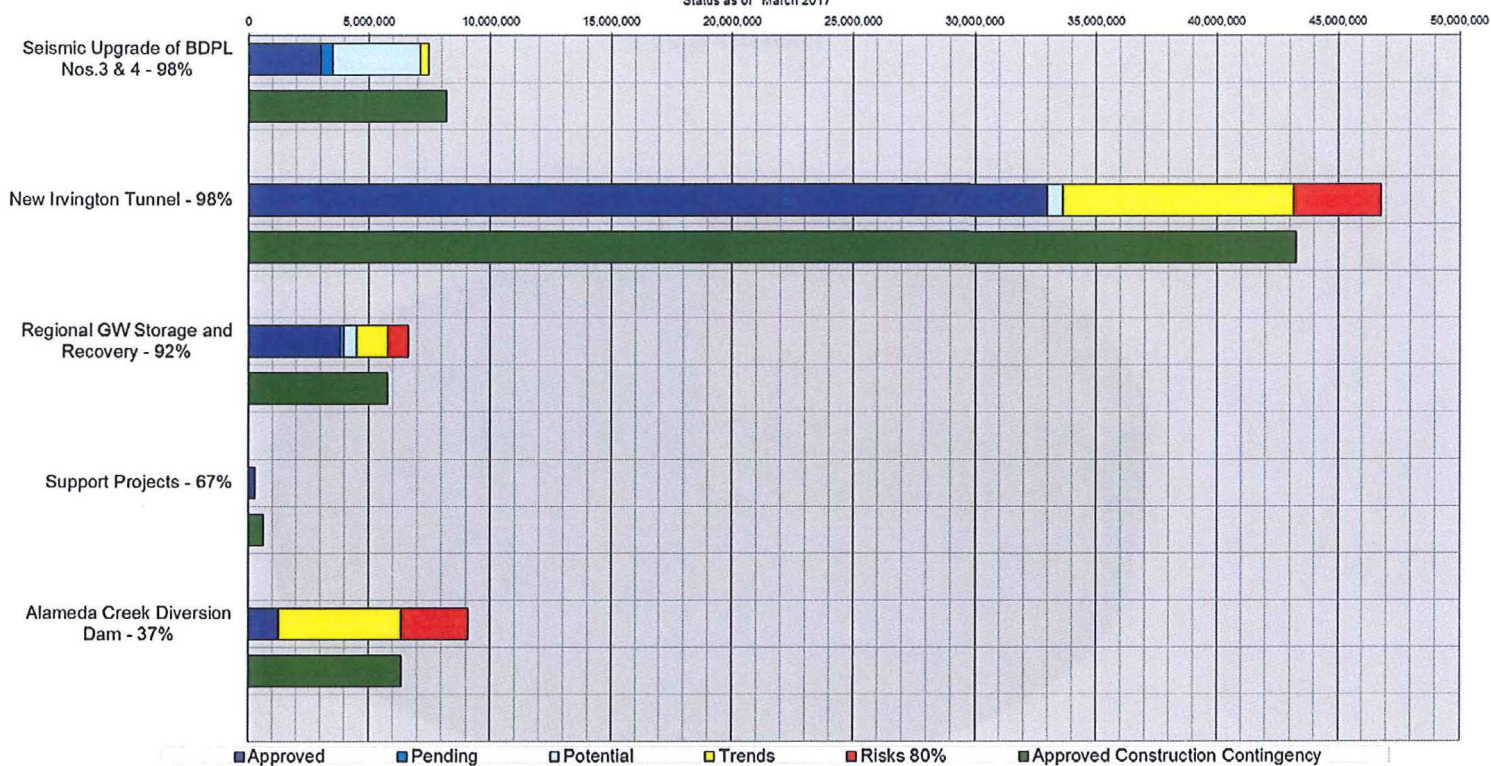


WSIP Active Construction Contracts
Approved, Pending, Potential COs, Trends, & Risks vs. Contingency
Status as of March 2017



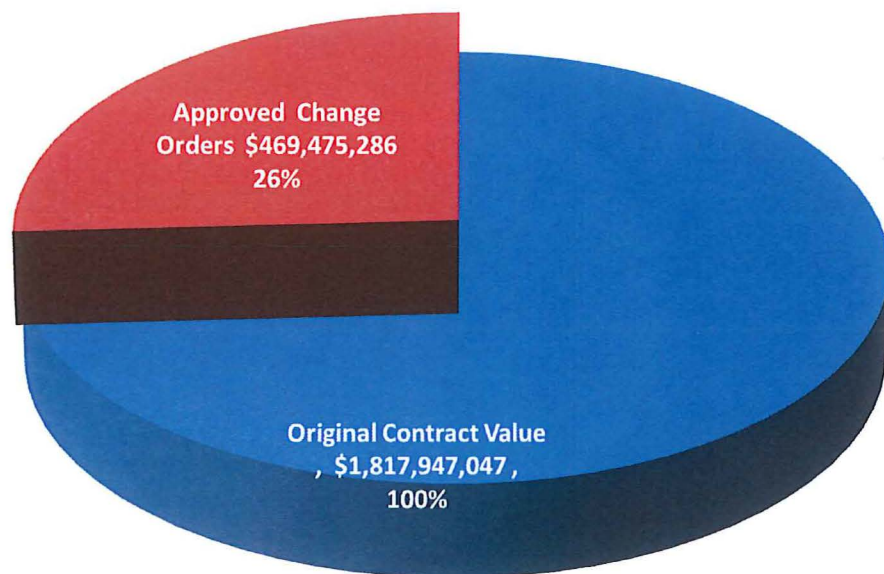
WSIP Active Construction Contracts

Approved, Pending, Potential COs, Trends, & Risks vs. Contingency
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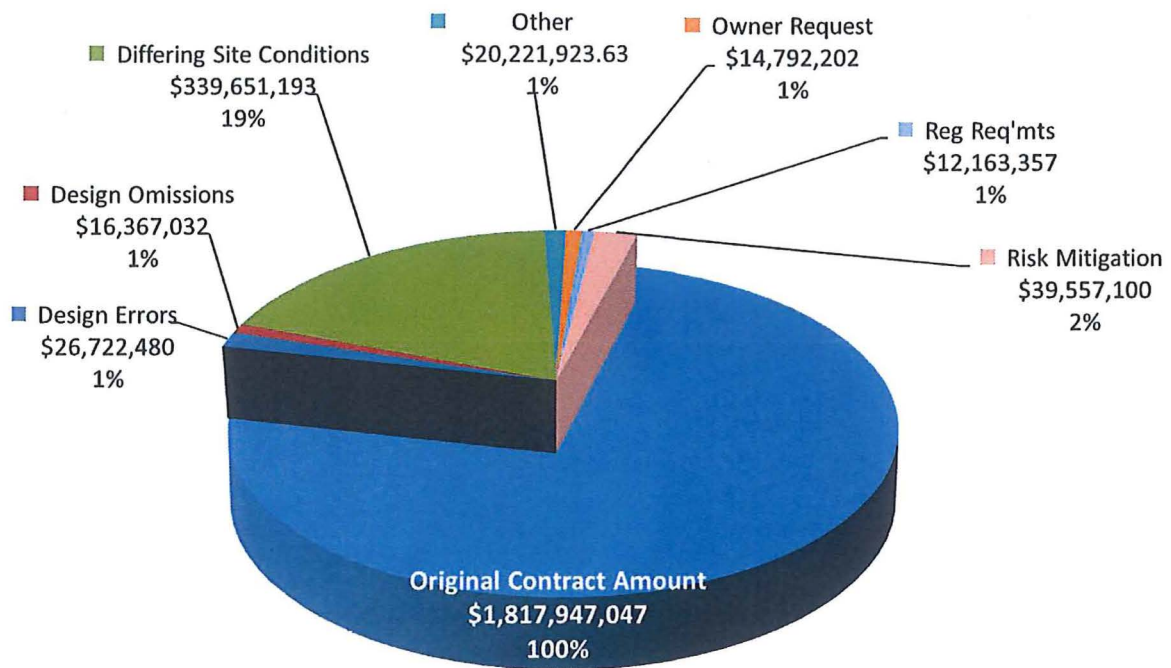
Note: CDRP data not shown

WSIP Active & Completed including BHR
Regional Construction Contracts
Percentage of Approved Changes vs. Awarded Amount
March 2017



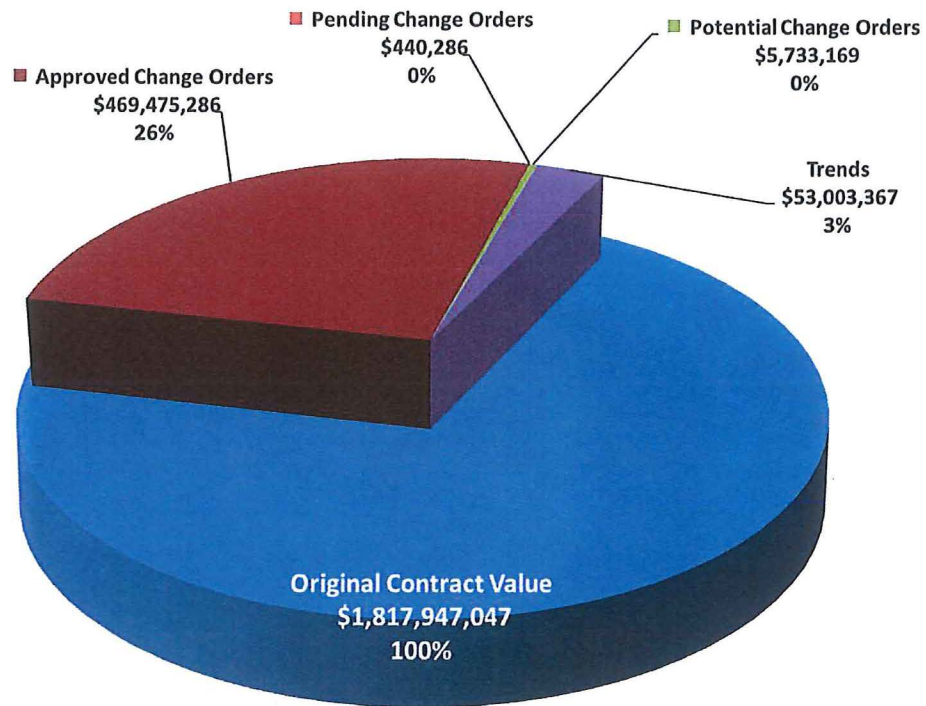
WSIP Active & Completed including BHR
Regional Construction Contracts
Change Reason vs. Awarded Amount
March 2017

Approved Change Orders = \$469.5M 26%



WSIP Active & Completed including BHR
Regional Construction Contracts
Percentage of Projected Changes vs. Awarded Amount
March 2017

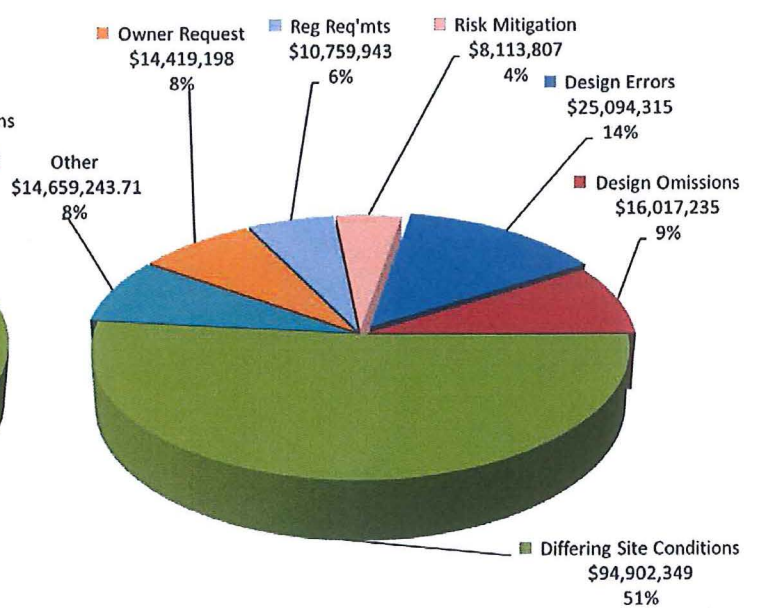
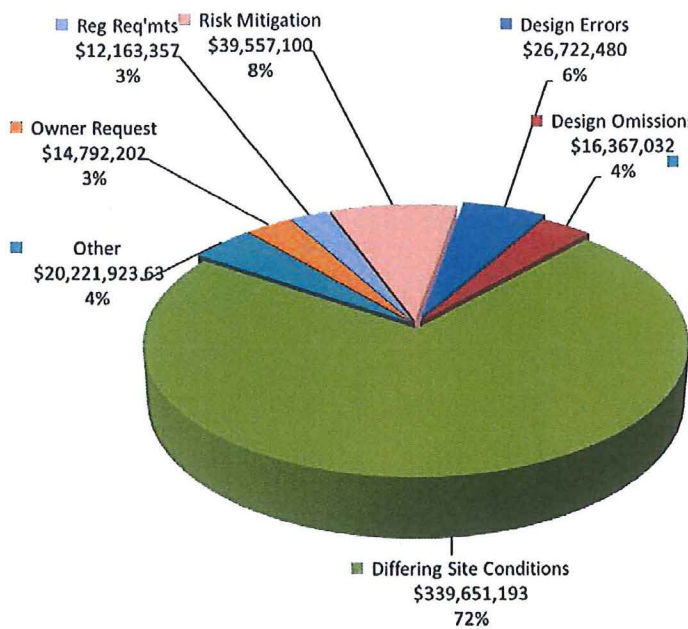
Forecasted Changes Amount = \$529M 29%



WSIP Active & Completed including BHR
Change Order Reason
 Approved Change Orders
 March 2017

Total Approved CO
\$469.5M 26%

Total less CDRP
\$184M 12%

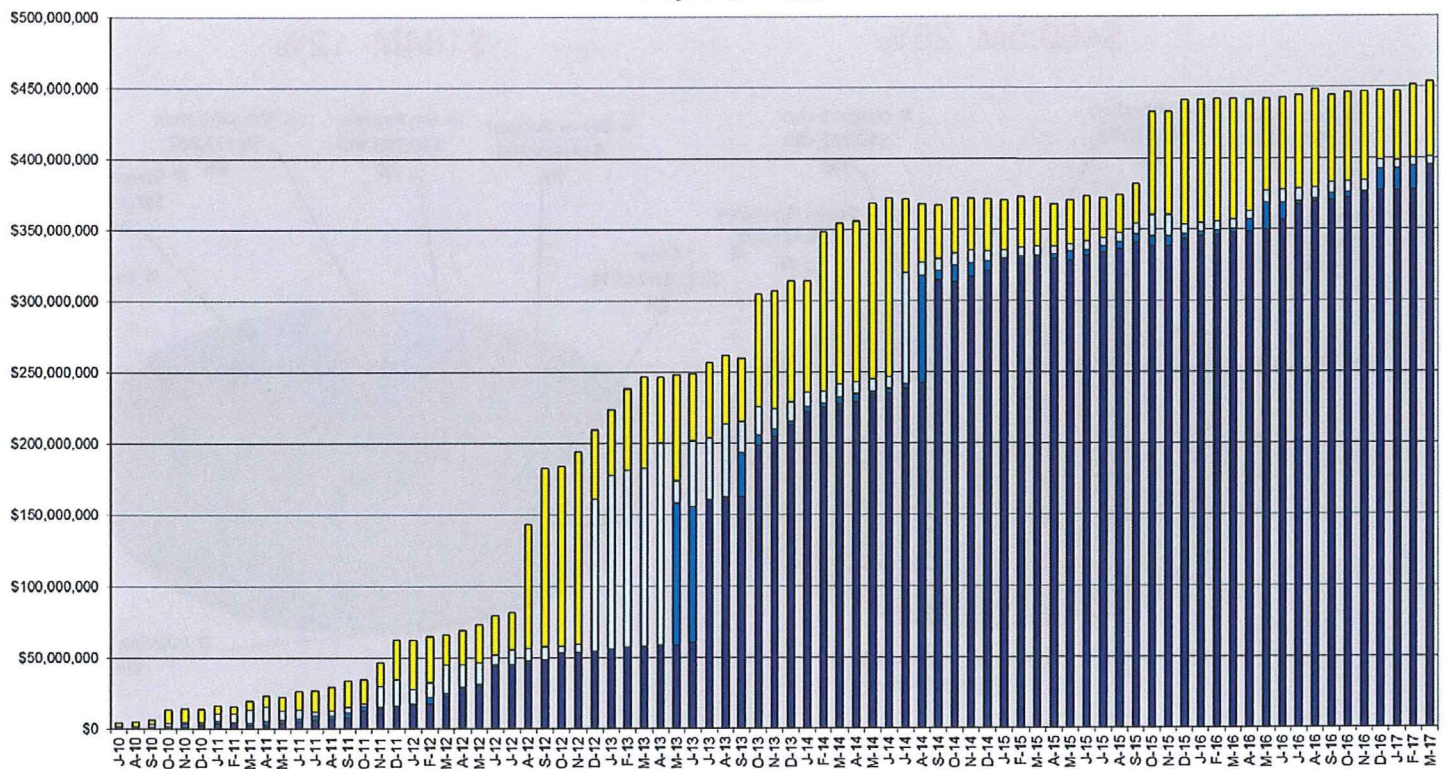


Change Order + Trends (March 2017)

December to
March var \$6M

February to
March var \$2M

Change Orders + Trends

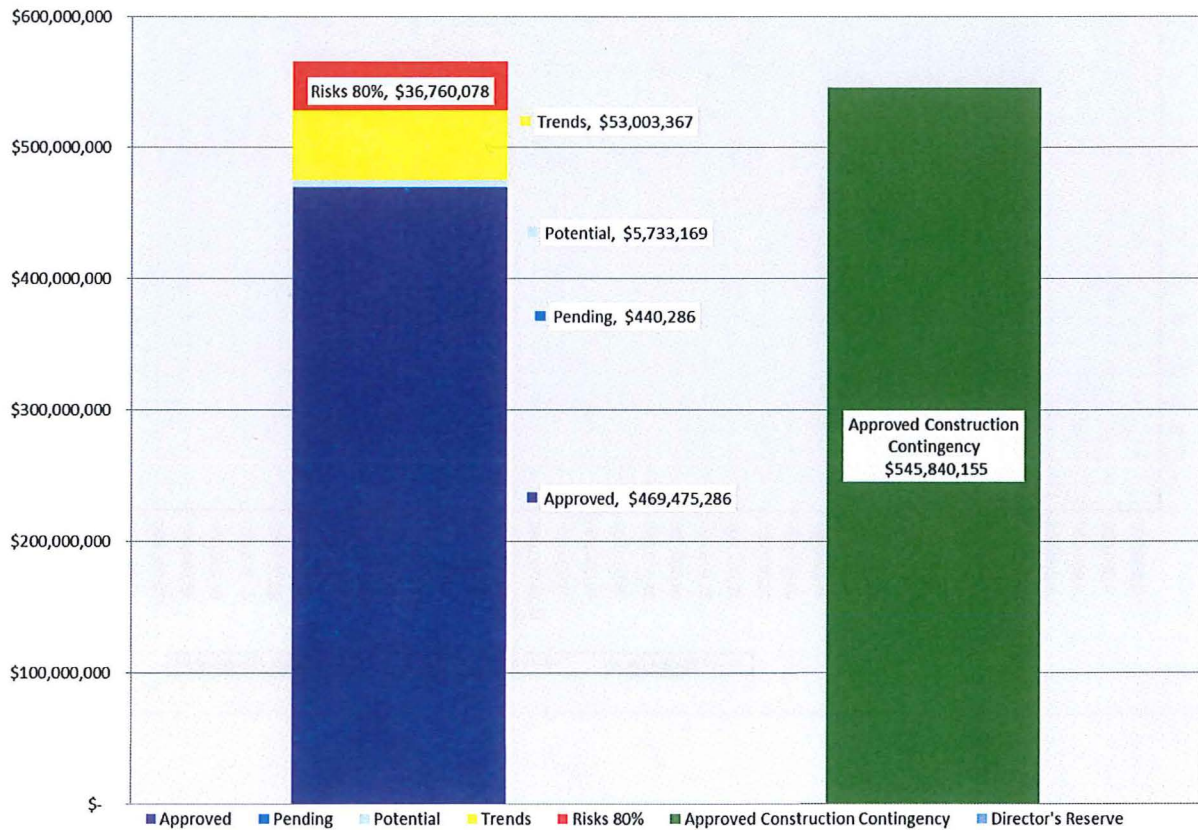


Note: Including BHR

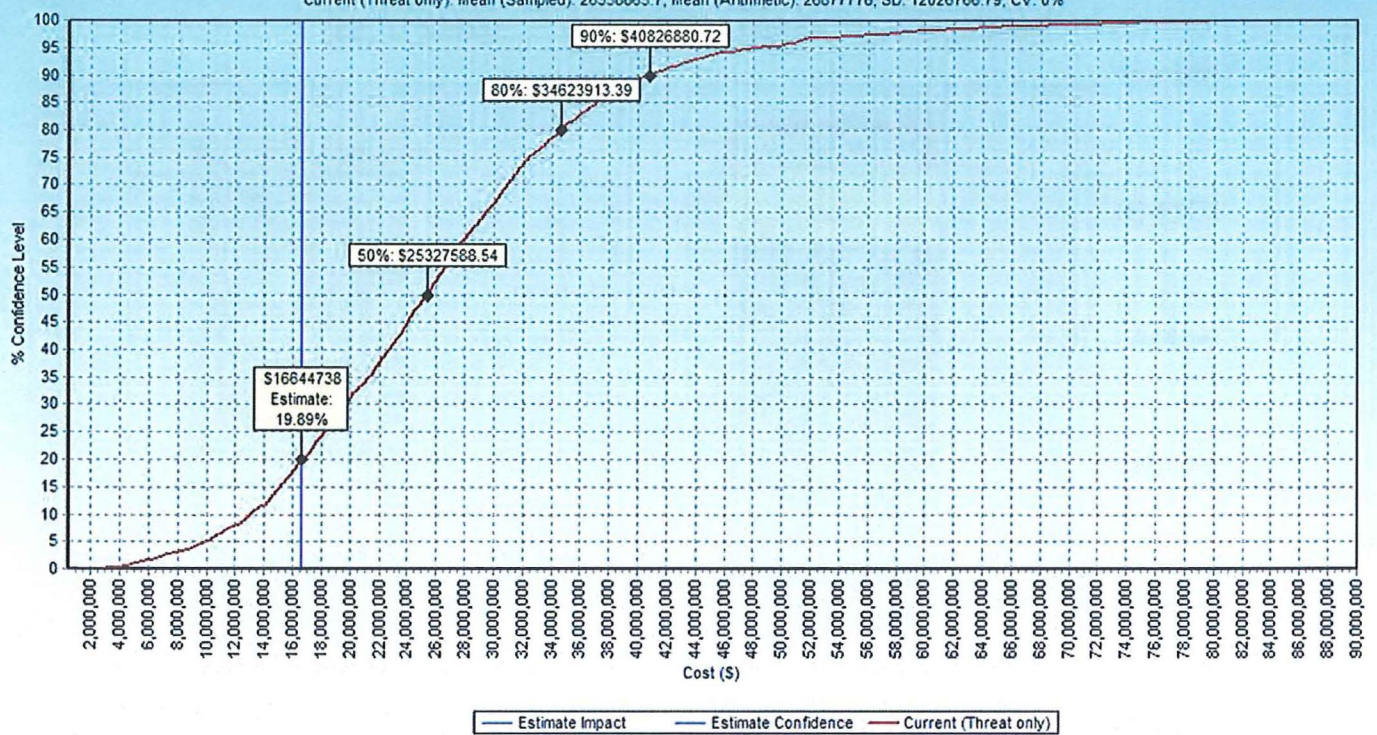
WSIP **Active & Completed** including BHR

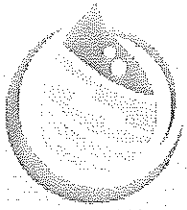
March 2017

FORECASTED CHANGES	\$528,652,107
FORECASTED CHANGES+RISK80%	\$565,412,185



Cumulative Results for Cost Impact of 'WSIP' on 10 Apr 2017
 100 Slices, 2000 Iterations, Random Seed (1491851604).
 Current (Threat only): Mean (Sampled): 26558865.7, Mean (Arithmetic): 26877778, SD: 12026766.79, CV: 0%



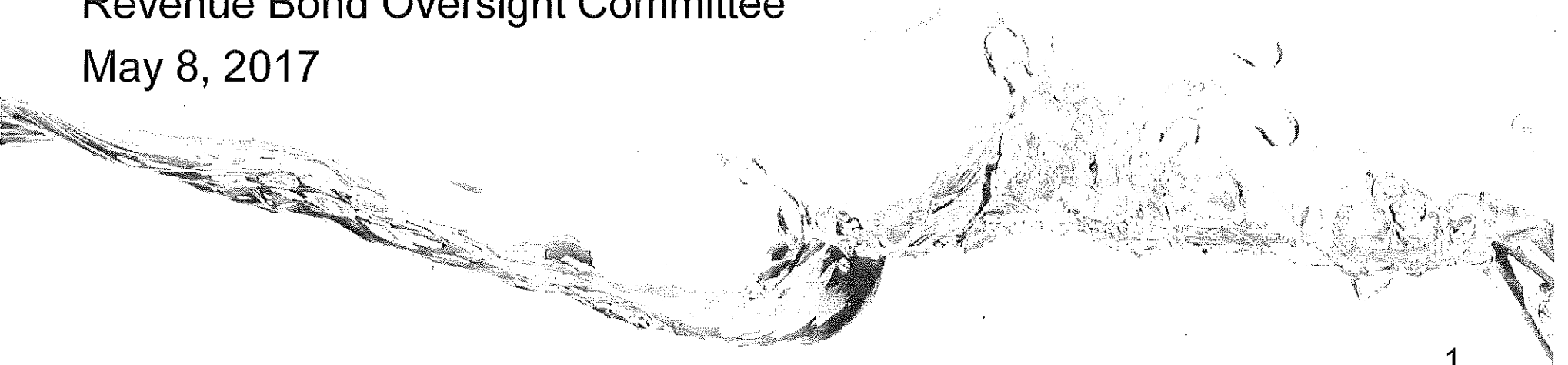


Ratemaking 101

Amy Javelosa-Rio, Rates Administrator

Revenue Bond Oversight Committee

May 8, 2017





Agenda

- Rate-Setting Background
- 2018 Water & Sewer Rate Study
 - Policy Areas
 - Rate Structure Goals
 - Key Rate Study Tasks
 - Revenue Requirement
 - Rates' Impact on Bond Ratings
 - Timeline



Rate-Setting Background

- City Charter requires an independent cost of service study for each utility at least every five years
- Rates last set for four year period (FY 2015-FY 2018)

Example rate book: <http://sfwater.org/modules/showdocument.aspx?documentid=7745>

- Rates Policy principles guide rate-setting:
 - Revenue Sufficiency
 - Transparency
 - Affordability
 - Environmental Sustainability
 - Customer Equity
 - Simplicity
 - Predictability
- Best practices inform rate-setting, including GFOA and peer agency review



2018 Water and Sewer Rate Study Underway

- Carollo Engineers selected to perform current study for the Water and Sewer Enterprises
- Governance
 - Steering Committee
 - Project Manager
 - Project Team
- Rate Fairness Board provides oversight and recommendations to the Commission
- Proposition 218
 - California ballot initiative passed in 1996 that controls cost of service ratemaking and imposes tax-related limitations on local governments



Rate Study Policy Areas

- Update Financial Policies to further financial sustainability:
 - ✓ Fund Balance Reserve Policy
 - ✓ Debt Service Coverage Policy
 - ✓ Capital Financing Policy
 - ✓ Rates and Ratepayers Assurance Policy
 - ✓ Debt Management Policy and Procedure
- Improve Revenue Stability During Drought
 - Review share of charges that are fixed v. variable
 - Create pre-existing drought rates that are implemented if certain conditions are met
- Affordability
 - Develop an affordability model to understand and mitigate burden on low-income ratepayers



Rate Structure Goals

Ratepayers

Customer
Equity

Affordability

Ease of
Understanding

SFPUC

Revenue
Sufficiency

Revenue
Stability

Implementation
Simplicity

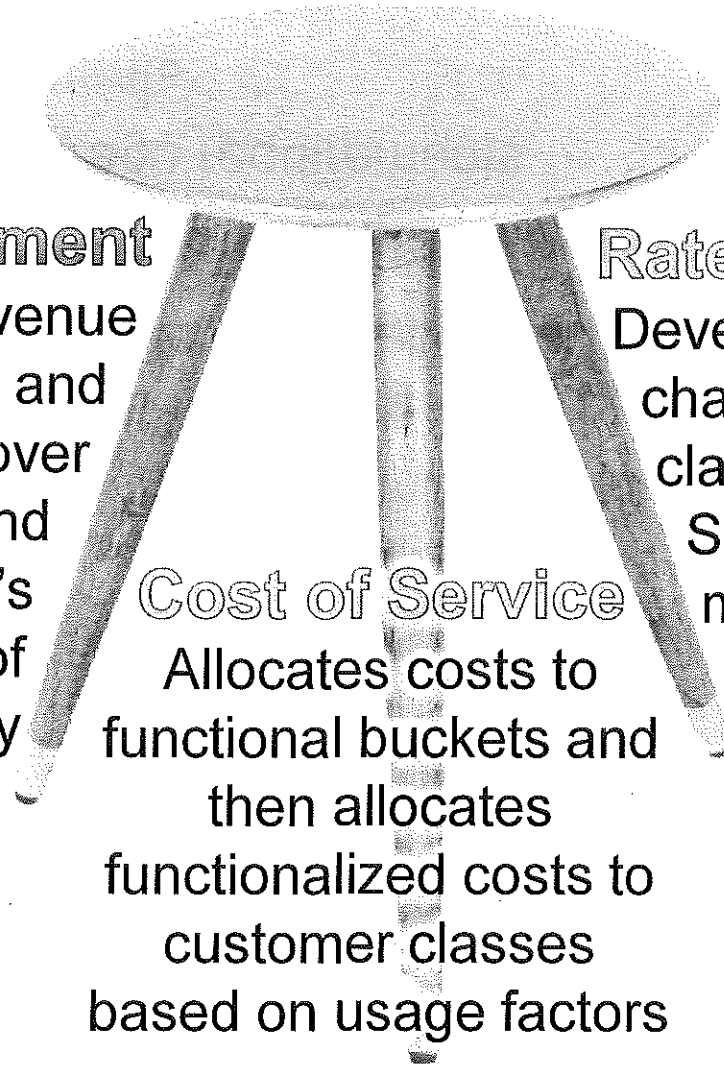
General

Sustainability
Incentives

Stakeholder
Engagement



Key Rate Study Tasks



Revenue Requirement

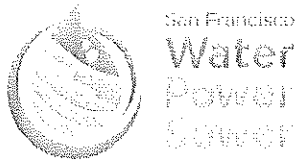
Determines the total revenue required to operate and maintain facilities, cover capital expenses, and support the SFPUC's strategic plan goal of financial sustainability

Cost of Service

Allocates costs to functional buckets and then allocates functionalized costs to customer classes based on usage factors

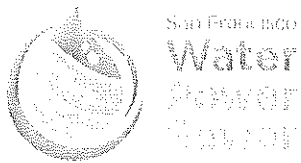
Rate Design

Develops specific rates and charges for customer classes that achieve SFPUC policy goals while meeting full cost recovery



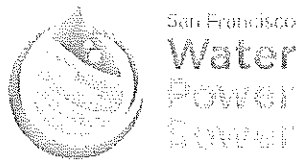
Rates' Impact on Bond Ratings

- SF Charter requires that capital financing and rates be managed to:
 - Improve or maintain bond ratings comparable to highly-rated utilities
 - Meet all bond indenture requirements and covenants
 - Provide sufficient resources, including reserves, for continued financial health consistent with good utility practice
- Rates set to ensure sufficient revenues to meet:
 - Debt Service Coverage requirements
 - Reserves requirements
- Recently-adopted financial policy targets must also be met, consistent with other highly-rated utilities



Water Enterprise 10-Year Financial Plan

(\$M)	FYE 2017	FYE 2018	FYE 2019	FYE 2020	FYE 2021	FYE 2022
Beginning Fund Balance	\$ 149.5	\$ 174.2	\$ 179.5	\$ 150.7	\$ 132.3	\$ 130.0
Sources						
Retail Water Sales	234.1	250.4	278.0	305.8	333.3	363.3
Wholesale						
Wholesale Share of Operating Costs	109.7	99.4	95.4	97.7	107.7	110.9
Wholesale Share of Capital & Debt	128.1	140.0	144.0	149.2	164.4	190.4
Wholesale Water Sales	237.8	239.4	239.4	246.9	272.1	301.3
Other Miscellaneous Income	53.0	50.4	51.1	51.3	51.9	52.3
Total Sources	524.8	\$ 540.2	\$ 568.5	\$ 604.0	\$ 657.3	\$ 716.9
Uses						
Operations & Maintenance	212.8	217.6	226.1	230.1	234.0	239.7
Hetchy Transfer	34.6	32.6	33.6	34.6	35.6	36.7
Debt Service	230.0	260.7	284.9	305.8	352.2	396.5
Revenue-Funded Projects - Retail	10.8	10.8	19.3	19.3	32.6	42.1
Revenue-Funded Projects - Wholesale	11.9	18.0	33.5	33.5	7.3	7.4
Total Uses	500.1	\$ 539.8	\$ 597.4	\$ 623.2	\$ 661.8	\$ 722.4
Net Revenues	24.7	\$ 0.4	\$ (29.0)	\$ (19.3)	\$ (4.6)	\$ (5.4)
Ending Fund Balance	174.2	\$ 174.7	\$ 150.5	\$ 131.4	\$ 127.8	\$ 124.5
Rate Increase - Retail	10.0%	7.0%	11.0%	10.0%	9.0%	9.0%
Rate Increase - Wholesale	9.3%	0.0%	0.0%	3.2%	11.3%	10.8%
Fund Balance as % of Op. Revenues	33%	33%	27%	22%	20%	18%
Fund Balance as % of Op. Expenses	70%	72%	58%	50%	48%	45%
Debt Service Coverage (Current)	1.28	1.15	1.11	1.13	1.12	1.13
Debt Service Coverage (Indenture)	1.81	1.81	1.74	1.63	1.50	1.46



Rate Study Timeline

Study Area	Timeframe	Rate Fairness Board Review	Commission Approval
Financial Policies Review	Jan – June 2017	✓	✓
Revenue Requirement	Dec 2016 – May 2017	✓	
Cost of Service	May – Sept 2017	✓	
Rate Design	Sept 2017 – Feb 2018	✓	
Community Outreach	Winter /Spring 2018	✓	
Water and Sewer Rates Adoption	Spring 2018	✓	✓



San Francisco
Water
Power
Center

Discussion

